PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

Inquiry into the 2023–24 Budget Estimates

Melbourne – Friday 2 June 2023

MEMBERS

Sarah Connolly – Chair
Nicholas McGowan – Deputy Chair
Michael Galea
Paul Hamer
Mathew Hilakari
Lauren Kathage
Bev McArthur
Danny O'Brien
Ellen Sandell

WITNESSES

Mr Tim Pallas MP, Treasurer,

Mr David Martine, Secretary,

Mr Jason Loos, Deputy Secretary, Commercial Division,

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

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

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

Mr Michael Larkin, Chief Executive Officer and Managing Director, Treasury Corporation of Victoria; and

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

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

I ask that mobile telephones please be turned to silent.

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

On behalf of the Parliament, the committee is conducting this Inquiry into the 2023–24 Budget Estimates. The committee's aim is to scrutinise public administration and finance to improve outcomes for the Victorian community.

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

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

As Chair I do expect that committee members will be respectful towards witnesses, the Victorian community joining the hearing via the live stream and other committee members.

I welcome the Treasurer of Victoria, the Honourable Tim Pallas, as well as officers from the Department of Treasury and Finance and any other officials that may be here with us today. Treasurer, I am going to invite you to make an opening statement or presentation this morning, and this will be followed by questions from the committee. You have 10 minutes from now.

Tim PALLAS: Thank you very much. Thank you, Chair and members, for being here today. I would like to acknowledge that we are meeting on the traditional lands of the Wurundjeri people, and I wish to acknowledge them as traditional owners.

This is the start of a new era, the post-COVID era, for the state and for its finances. This is a budget that looks after people and it looks after the future. This is a budget that is in two parts. We are paying off our COVID emergency debt, the credit card that we used to save lives and livelihoods, we are ensuring that while our kids might have memories of COVID, that they will not be paying for it. These measures are temporary, they are targeted and, above all, they are responsible.

That is one side of the equation. The other side is continuing to invest in jobs and the projects that build our state. We are doing what matters. We are delivering the commitments that we took to the election six months ago – every one of them. We are building the hospitals, the schools, the road and rail that Victorians need now and in the next 10, 20 and 30 years time. We are investing to keep Victoria growing fast, and we are continuing to put jobs right at the top of that list.

We will take you through some key points of the budget. Last year we took a positive plan to the Victorian people. It was a plan for better hospitals, world-class schools and the road and rail that our growing state needs. It was a plan for cleaner, cheaper renewable energy, a plan for the very best start in life for our kids and a plan to help Victorians with the rising costs of living. It was a plan to keep doing what matters. This budget funds every election commitment we made. We could do this because our economy is strong.

Victoria's economic growth in 2021–22 is the highest in the country – 25 per cent higher than the national average. The unemployment rate is below 4 per cent, and in fact to have a number in the threes in front of that and having it there for the last 12 months just has not happened in nearly the last 50 years. Since September 2020 the Victorian labour market has added almost 440,000 jobs, with four out of five of them being full-time positions, and the underemployment rate is at around a 20-year low.

The budget delivers further progress against our fiscal strategy, first announced in November 2020. The first step is to create jobs and to restore economic growth. As discussed, we are in a strong position, and we have achieved two years ahead of schedule the targets that we outlined in our 'Jobs Plan' of 400,000 jobs created by 2025. The second step in that recovery strategy is to reach an operating cash surplus. We will deliver a higher cash surplus in 2022–23 and continue to forecast operating cash surpluses across the forward estimates. The third step is to reach an operating surplus. I am pleased to say that with the budget, we forecast operating surpluses of $1 billion in 2025–26 and $1.2 billion in 2026–27. And the fourth step is to stabilise debt, and we are making progress in this budget, but we are not there yet.

With the economy strong, now is the time to repay the COVID debt that kept Victorians going during the pandemic. When the pandemic hit, the Victorian Government acted quickly and decisively to safeguard the economy and to prevent economic scarring that would have left a generation out of work. We had to borrow $31.5 billion to save jobs and save lives and to get through. We are the only government in this position. We are the only government with a plan to manage it with our COVID debt repayment plan, and we will repay this debt over the next 10 years by 2033. The plan is temporary, targeted and above all responsible. The plan is structured in a way that is responsible and proportionate to ability to pay, and the government will also do its bit.

The COVID debt levy is targeted at those with the greatest ability to pay following the pandemic. Total business profits between 2020 to 2022 were $996 billion, which is 24 per cent higher than in the preceding three years, and I would make the note that this excludes mining results. Had we included that, the profit would have been 40 per cent. Business profit margins were also higher than usual across the period. Big business has the capacity to make a modest additional contribution over the next 10 years to repaying COVID debt. That is why the first component of the COVID debt levy is on large businesses with payrolls above $10 million. Around the largest 5 per cent of Victorian employers will be affected. It will raise $3.9 billion over four years, and it will be in place for 10 years until 2033.

The chart on the left shows that over the past 10 years the average site value of residential land grew by 84 per cent. The chart on the right shows rental prices advertised rates in Melbourne. Rents have risen strongly, up by about 25 per cent over the past 12 months. The same is true in regional Victoria. Advertised rents there have risen by 37 per cent over the past three years. The higher rents are due to the law of supply and demand, and they are delivering a windfall to landlords. We think it is fair that Victorians with multiple properties make a modest contribution to repaying COVID debt. That is why the second part of the COVID debt levy is a temporary decrease in the tax-free threshold and a modest increase in land tax rates. Land tax is paid by landlords and Victorians with holiday homes and commercial and industrial properties. It is also one of the most efficient revenue bases for the state. All current land tax exemptions will continue to apply, including the principal place of residence exemption. The average increase is about $1300 or about $3.50 a day, and that is based on someone with landholdings of $650,000. The $1300 per year is compared to average appreciation in land of $40,000 a year and average appreciation in overall property value – that is, the capital improved value of the land – of about $75,000 a year for property of this value based on average growth rates over the last decade. This component is estimated to raise $4.7 billion over the budget year and forward estimates. Again, it will apply up to and including the 2033 land tax year.

When looking at the state's revenue you need to consider not only taxation but also resources, royalties, Commonwealth grants and GST distribution. Using ABS data, total revenue per capita was lower in Victoria than any other state or territory over the last decade, and a key reason why is that Victoria has long been short-changed on GST and Commonwealth grants for infrastructure and health. Since the pandemic began, Victoria has received $2.5 billion less in GST grant revenues from the Commonwealth government compared to its population share. Had Victoria received this revenue from the Commonwealth and had the former federal government not unfairly manipulated GST distribution in 2018 to sandbag Western Australia, Victoria would have had far greater budget capacity and flexibility.

The government will also do its bit in implementing a range of savings and efficiencies that will total $2.1 billion over four years. These measures will include reductions in corporate and back-office functions, reductions in labour hire and consultancy expenditure and efficiencies across the public sector. These savings will rebalance the public service back to prepandemic levels. Frontline services will not be affected.

As I said earlier, this is a budget in two parts. We are also delivering on all our election commitments and continuing to invest in services that Victorians need. I will run you through some of these investments and particularly the economic growth package. We are continuing to invest in infrastructure that a growing Victoria needs, with the government infrastructure investment averaging $19.6 billion a year over the budget and forward estimates. This includes delivering major productivity-enhancing projects such as North East Link, Metro Tunnel, the Suburban Rail Loop and the Level Crossing Removal Project. For context on cost pressures for the capital program, when you look at 130 major projects, for those with a TEI of more than $100 million the net increase is only 0.2 of 1 per cent. This demonstrates that despite some of the pressures in the construction sector and pressures on some individual major projects we are making prudent allocations and our contracting arrangements are protecting the state from exposure.

In addition to these measures the budget undertakes landmark tax reform, transitioning stamp duty to an annual property tax for commercial and industrial properties. Numerous reviews on properties have recommended that governments do this. This reform will encourage businesses to set up and expand in the best locations and promote more efficient use of commercial and industrial land. It will generate a cumulative increase in the size of the Victorian economy of $50 billion in NPV terms according to Deloitte Access Economics. Current commercial and industrial property owners will be exempt. The transition will only apply to those choosing to buy commercial or industrial property in the future. Residential properties are also not affected. Work on this reform will be finalised by the end of 2023, and the new system will start on 1 July 2024.

The budget also invests in small business growth. From 1 July 2024 we raise the payroll tax threshold from $700,000 to $900,000. The following year it will raise again to $1 million. Six thousand businesses will no longer pay a cent once the threshold reaches $1 million. More than 26,000 businesses or around 60 per cent of taxpayers will benefit in total. So this is a budget of two parts. We are paying off the COVID debt we used to save lives and livelihoods, and we are continuing to invest in jobs and projects to build our state.

The CHAIR: Thank you, Treasurer, for that presentation. Mr McGowan, you are first up. You have 21 minutes to ask the Treasurer questions.

Nicholas McGOWAN: Thank you, Treasurer, for that presentation. And thank you, everyone, for this morning. My question is to the Secretary. I am trying to understand this new schools tax. For our purposes you know I am referring to the exemption, obviously. I can refer you to page 114 of budget paper 3. I am just keen to understand whether the department provided any advice in respect to the removal of the exemption.

David MARTINE: Sorry, do you mind just repeating that? I had trouble hearing just that last bit.

Nicholas McGOWAN: I am keen to understand whether the department provided any advice in respect to removing the exemption for 110 schools from payroll tax.

David MARTINE: Look, thanks for your question. Of course our role is to provide the advice to government, which is what we did on all budgeting issues, including all of the tax initiatives, which included the removal of the exemption from payroll tax for private schools.

Nicholas McGOWAN: And what was the nature of that advice?

David MARTINE: Well, I will follow the standard tradition that we have had for many years at PAEC, and that is we do not disclose the actual advice we provide to the government of the day. But we certainly provided advice on all of the initiatives, including that one.

Nicholas McGOWAN: Can you tell me what criteria were used to target the number of schools?

David MARTINE: Well, as outlined in the budget papers, the initiative is to focus on private schools with fees above a certain threshold that will be set by the Minister for Education in consultation with the Treasurer.

Nicholas McGOWAN: Sure. And what was that threshold, sorry?

David MARTINE: That threshold is still to be advised by the Minister for Education. But we would expect to have them reasonably soon.

Nicholas McGOWAN: But presumably, because we know from what has been said that there are 110 schools, it has been worked on the basis of the assumption it is $7500. Is that not correct?

David MARTINE: Yes. You will note in the budget papers it does talk about the focus of the exemption being on roughly the top 15 per cent of private schools, so roughly about 85 per cent of private schools are not affected by the initiative. So it is at that higher end – the budget papers talk about roughly 15 per cent – and the actual dollar threshold will be determined and announced by the Minister for Education.

Nicholas McGOWAN: I am trying to understand, because if we do not know the actual threshold how can we come up with the figures that are produced in the budget itself?

David MARTINE: We obviously use a number to calculate our costings, and so the number that has been mentioned publicly of around that $7500–$8000 in terms of our costings is what drives the around 15 per cent.

Nicholas McGOWAN: Okay. And just so I can understand, it is, let's say, $7500 – does that include application fees?

David MARTINE: It includes the fees that the school charges for tuition – the total fees.

Nicholas McGOWAN: Total fees? So it would include, say for example, an application for schools – because when kids go to a non-government school they pay sometimes an application fee; it could be $100.

David MARTINE: You are talking about the application that someone might –

Nicholas McGOWAN: To attend –

David MARTINE: pay when your child is born?

Nicholas McGOWAN: Well, when they are born, or it could be paid tomorrow for the school next year. You pay an application fee to the school.

David MARTINE: I would probably have to check that, but my understanding would be no, it would not include the $100 application fee. It is focused on the tuition fees.

Nicholas McGOWAN: Okay. So what about the establishment fees, because after you pay the application fee of $100, I know with some schools – Aitken College, for example – they charge a $2000 establishment fee, which is not tuition per se.

David MARTINE: So that would be part of the announcement that the Minister for Education would make in terms of not only defining the dollar threshold but in a sense defining what would then be picked up in that threshold. So that announcement, recognising that this is to apply and so schools will obviously need the announcement to be made reasonably soon, we would be expecting would be occurring by the minister in the next short period.

Nicholas McGOWAN: Okay. I am losing you a little bit, but what about building fund contributions?

David MARTINE: Well, once again, I mean, this is about tuition fees.

Nicholas McGOWAN: But surely if you are contributing to the building fund – the very building in which we sit, we might be receiving an education – presumably that could be included.

David MARTINE: Well, as I said, the Minister for Education will be making announcements soon about the threshold – what is included in the threshold – to give the clarity for this initiative for both schools and parents of students at those schools.

Nicholas McGOWAN: And what about the library fund? Because of course books are critical to children, so you would not separate that from any definition to do with tuition, but would they be included, those fees?

David MARTINE: Well, once again, as I have just mentioned, it will be part of the announcement that the Minister for Education will make about what the threshold is and what is actually covered in terms of things like library contributions and school application fees – those sorts of things – to give the clarity.

Nicholas McGOWAN: I suppose the difficulty here is if schools simply reduce their fee on one side of the ledger but actually increase either the library fee contribution or the building fee contribution or an establishment fee – an application fee – we are going to be chasing our tails, aren't we?

David MARTINE: Well, that is a valid point. You obviously do not want to introduce a system that is easy for schools to reallocate some of the fee component to something else, so that is obviously a part of the announcement. If you look at division 5, clause 82, of the state tax amendment Bill, it does define:

> (4) For the purposes of subclause (3), the matters are the following –
>
> (a) the fees and charges imposed by the school in relation to the provision of education within that school;
>
> (b) any other financial contributions received by the school;
>
> (c) any other matter that the Minister considers appropriate.

So, as I said, the Minister for Education will give clarity about the quantum of the threshold and what is included. And subclause (5) states:

> The Minister for Education, with the written consent of the Treasurer, may withdraw a declaration by further notice published in the Government Gazette.

That is covered in clause 82 of the state taxation amendment Bill.

Nicholas McGOWAN: I think that would be useful, because obviously the $100 charge is a charge, so presumably, from what you have just read, that is included.

David MARTINE: Well, it would be important that clarity is provided. As I said, subclause (4), part (c), will be 'any other matter that the minister considers appropriate', so that is something that will be part of the announcement by the Minister for Education.

Nicholas McGOWAN: But, with respect, Secretary, you have just told me that the fee is not included but now it could be included. It sort of reminds me of the birthday cake and the GST back in the day.

David MARTINE: No, but if you look at the legislation – and as I mentioned in one of my earlier answers – the key focus of this is on school tuition fees, so it is defined as 'the fees and charges imposed by the school in relation to the provision of education within that school.'

Nicholas McGOWAN: But one would have thought the charge to enter the very school is, by its nature, one of those fees and charges.

David MARTINE: Well, if you are talking about the $100 that someone pays when their child is one year old – now, I am not the Minister for Education, I do not work in the Department of Education, but my assumption would be, under clause 4 (c), 'any other matter', I would be somewhat surprised that a $100 payment six, seven years before or 10 years before a child enters a school would be considered part of the fee and tuition.

Nicholas McGOWAN: But I think what you are referencing perhaps is even with the most elite schools, I know from my child – and forgive me, I am a state school kid, so I am not familiar with private schools or non-government schools or faith-based schools – if my child wants to go to year 7 tomorrow at private school or a non-government school I can apply today. You do not have to wait 10 years; you just pay your $100 fee and then you can be successful.

David MARTINE: It obviously depends on the nature of the school. Some schools have quite long waiting lists.

Nicholas McGOWAN: Sure. Not the school I went to, though. The other thing that confuses me somewhat – again, I am only a simple guy – as I understand, is at non-government schools the fees change. So prep is much less than it is for year 12. How do you determine what school is a $7500-fee-paying school?

David MARTINE: Well, there has been some public commentary made by government about whatever threshold is set. That would obviously need to be adjusted as time moves forward.

Nicholas McGOWAN: That is confusing me now. So it may not be set. It might just be flexible or it might just be at the whim of the minister?

David MARTINE: No, the threshold gets set. But like a whole range of parts of the tax system, they get adjusted by governments each year.

Nicholas McGOWAN: I am following you, but we are talking about half a billion dollars of revenue. That is what we are talking about – half a billion dollars for this budget. And if it is based on a threshold that we do not even know whether it is a threshold or not, then surely that could represent a half-a-billion-dollar hole in the budget.

David MARTINE: Not at all.

Nicholas McGOWAN: But you cannot tell me what the threshold is.

David MARTINE: I gave that answer a bit earlier. The government has publicly said since the budget that the threshold is aimed at targeting those top 15 – roughly about 15 per cent.

Nicholas McGOWAN: 'Roughly' – but we cannot say what the threshold is with any certainty right now.

David MARTINE: We have factored in obviously a threshold to do our costing, but as I mentioned, the Minister for Education will come out publicly with the exact threshold as per the legislation. It will focus on fees and charges and make it clear anything else that is included in that threshold.

Nicholas McGOWAN: The other thing that concerns me is there is talk of an exemption to this new application of the rule. But if it is an exemption, the assumptions do not allow for that in the budget papers.

David MARTINE: No, well, there is an exemption – that is the other 85 per cent of schools.

Nicholas McGOWAN: No, I understand that, but you are allowing this revenue from 110 schools for the near on – I am rounding up – half a billion dollars. It is $421 million, but let us round up. On that basis that does not allow for a single exemption for any school notwithstanding it talking about that in the budget and it talking about that publicly.

David MARTINE: Well, as I said, the policy is to focus on the top 15 per cent, so you have already got the bottom 85 exempted. As you mentioned, the revenue forecast for this initiative is $422 million over four years. We obviously did the costing on that particular proposal, and now the government, through the Minister for Education, will come out and then announce what the actual threshold will be for the first year, and the Minister for Education will be making that announcement every year.

Nicholas McGOWAN: If I am a school principal sitting here now and I am actually setting the fees now for next year, obviously because we have got kids getting enrolled and showing interest in the school, how do I set the fees when I am not quite sure (a) where the threshold is and (b) –

I am not quite sure you understood the previous question. For a preppie, for example, you might charge $5000 per year but for year 12 you might charge $15,000.

David MARTINE: No, I did not say they would charge 15 –

Nicholas McGOWAN: No, I am putting that to you. So what would that school be?

David MARTINE: That is why you would expect an announcement reasonably shortly on the threshold for that very reason – to enable schools and parents to plan.

Nicholas McGOWAN: No, but my question really relates to: how did you determine the revenue projections – based on what?

David MARTINE: As I mentioned earlier, we based it on the policy announcement of the top 15 per cent of schools, and so the costings –

Nicholas McGOWAN: Of schools, based on what?

David MARTINE: Based on fees.

Nicholas McGOWAN: Their revenue, their income?

David MARTINE: Based on tuition fees.

Nicholas McGOWAN: But how did you determine the tuition fees if tuition fees vary across every year level?

David MARTINE: That is right. So you take an average of the fees –

Nicholas McGOWAN: Okay. Now we are getting somewhere. So you have averaged it.

David MARTINE: and you calculate.

Nicholas McGOWAN: So someone has looked at every non-government school, looked at every fee they charge for every year level and provided an average for every school, is that correct?

David MARTINE: Sorry?

Nicholas McGOWAN: So someone in your department has looked at every non-government school and taken every fee at every level –

David MARTINE: Mr Barrett can fill in that gap on the costing.

Nicholas McGOWAN: Sure. Please.

Chris BARRETT: The method that was used for the costing is the ACARA definition, so the Australian Curriculum – sorry, I do not know what ACARA stands for exactly. But the actual definition that might be used by the Minister for Education might differ, but in terms of the modelling that we used it is the ACARA definition.

Nicholas McGOWAN: I mean, if the public are listening to this and we cannot even recall what the acronym stands for and this is a half-a-billion-dollar take from the community – because ultimately parents pay for this, right?

Chris BARRETT: Well, I do not know that it matters what the –

Nicholas McGOWAN: It would be great to have an explanation: was it a list that you received and those schools therefore are just targeted – they are the 15 per cent? I am trying to understand how we came up with this 15 per cent of so-called top-tier schools or elite schools.

Chris BARRETT: As I just answered, it is the definition by ACARA.

Nicholas McGOWAN: Explain to me what the acronym 'ACARA' is.

Chris BARRETT: I do not think it matters what the acronym is. You can go and look it up if you want.

Nicholas McGOWAN: With respect, taxpayers are paying a lot of money for education – they are putting their hands in their own pockets – and you want to sit here and you want to tell me that you do not even know what that means.

David MARTINE: What Mr Barrett is explaining is the methodology we use, and obviously, like any costing, we get relevant information from relevant departments to help us do a costing. Of course we based a costing on the policy intent that the government made a decision on, which was to focus on the top 15 per cent of schools. That is what the $422 million costing is based on.

Nicholas McGOWAN: I need to remind you both that we are relying on the civil servants of this state to provide the most robust advice to government to ensure that any policies that are implemented actually serve the public's interest. You are sitting here and you cannot even tell me what the acronym stands for, and we are talking about thousands of dollars being ripped out of the system from every parent. Do you know what the acronym stands for, Secretary?

Chris BARRETT: I can tell you what the acronym stands for. I am not in the education department, but it is the Australian Curriculum, Assessment and Reporting Authority. I do not think that that is what matters; it is a very well understood measure in the education portfolio.

Nicholas McGOWAN: What I am trying to understand for all the parents who have been asked to pay for this is how you came out with the determination that these 115 schools would be targeted by this tax.

David MARTINE: I think we are confusing different concepts here. The decision the government has made is to remove the payroll tax exemption not for every private school but for the top 15 per cent of private schools. That is the decision that the government has made, and that is as articulated in the budget papers. The costing in the budget papers of $422 million reflects that policy decision that the government has made.

Nicholas McGOWAN: There is also some discussion about indexation – so indexation based on what, CPI?

David MARTINE: As I said, the Minister for Education each year will make a decision on what the threshold is.

Nicholas McGOWAN: So the minister could double it next year.

David MARTINE: Sorry?

Nicholas McGOWAN: The minister could double the threshold next year.

David MARTINE: It is not set in legislation that it is going to be X forever –

Nicholas McGOWAN: Yes, so the minister could double it.

David MARTINE: That is right. The government, through the minister, could adjust the threshold further than indexation each year. They are choices that future governments will make.

Nicholas McGOWAN: And how are the hundreds of schools supposed to plan for their future when they do not even know what their exposure will be to this tax?

David MARTINE: That is why I said earlier in one of my answers that my expectation would be that the Minister for Education would be making an announcement shortly on what the threshold is – for that very reason, to help schools plan.

Nicholas McGOWAN: Danny, do you have a question?

Danny O'BRIEN: Just listening to this, Secretary, I am wondering why the minister has not already made that announcement. You have made assumptions about 15 per cent. You have got dollars in the budget forecast. Why didn't the minister just come out on the day of the budget and say, 'These are the criteria'?

David MARTINE: There is still a period between now and the actual implementation. Personally, I do not find it unusual that a week or so after the budget the government, through the minister, has not come out and announced it.

Danny O'BRIEN: But you can understand, given the confusion we have got here today on literally what the threshold is that defines what a high-fee-paying school is, we cannot be certain what that is at the moment. We have had a week of confusion for these schools. They do not know whether they are in. They do not know whether the threshold will be set on what a year 12 student pays or what a year 5 student pays. Perhaps it is a question for the Treasurer: why didn't the minister come out on the day of the budget and say, 'These are the criteria'?

Tim PALLAS: Great. So you are asking me a question? I feel like I have been gainfully employed again. Can I make the point that when the government made the announcement, we made it clear that this was aimed at no more than 110 schools and that around about 85 per cent of the non-government schools would be excluded. You have got the benchmark, as it were, the base. Where we actually landed with regard to those 110 is 'Is it less than that? But it won't be more than that.' The reason why it will not be more than that is because we have effectively identified what constitutes sufficient revenue and what we see as being appropriate, fair criteria, based on those schools' fees, to raise the revenue that is identified in the forward estimates.

Danny O'BRIEN: But do those schools know who they are, and if not, do they know what the criteria are so that they can identify whether they are going to be targeted by this or not?

Tim PALLAS: There would no doubt be an appreciation of where they sit in the league table in terms of fees that they set, but importantly, we do not want to jump in at this stage, bearing in mind that these arrangements do not come into place until 1 July 2024. Most principals of course will start to set their fee structures towards the end of this education year. I accept that, but it does give us the opportunity to have some engagement, for the minister to appreciate the raft of fee and fee-like charges, to try and give some clarity at the point that we expressly identify exactly what the rate is and what is in and what is out.

Mr McGowan, I think, quite rightly identified, as did the Secretary, that the provision of education at the school is essentially the criteria that is legislative – that is, what do you have to pay in order to get an education at that school – and that is essentially what the Act is pre-empted upon. That is what we are looking at – what is in – so that we can give clarity to every school principal before they have to set budgets, before the end effectively of this school year and hopefully long in advance of that so that we can give the community the clarity. But equally, I think us rushing into this could well deny the opportunity for those schools to give us an appreciation of the fee structures that they have in place and that they require students to pay for the purposes of attending the schools.

Nicholas McGOWAN: Treasurer, can I just confirm then, because I know you understand this as well: obviously at prep year you might be paying tuition fees at $2000. By the time you get to year 12 it might be in fact $7500, it might be $1000. Was it actually done on the basis of the average across every year level?

Tim PALLAS: I think, yes, it was done essentially as the average fee that is paid across the school year. Essentially, and looking back historically, for example, if I could take you to a number that was set –

The CHAIR: Excuse me, Treasurer, we will stop there. We are going to go on to Mr Galea for the next 21 minutes.

Michael GALEA: Thank you, Chair. Good morning, Treasurer and officials. Treasurer, I would like to start by referring to the overview budget paper, which as I understand outlines your priorities for this budget. In a broad sense could you please run us through your underpinning philosophy and your approach to the budget – in other words, what is the government trying to achieve with this budget?

Tim PALLAS: Thanks, Mr Galea, and can I indicate that the budget is a budget that has been built and structured for the times and challenges that we as a community confront. Every budget is a plethora of choices that governments have to make, and those choices often reflect the nature of the economic times but hopefully that our opportunities are identified as well as the challenges that we confront and that we grasp those opportunities. As I outlined in the budget overview, there has been a spike in inflation around the world and central banks have responded by raising interest rates. Everyone with a mortgage is feeling the pinch and would understand the nature of the challenges that confront the state at a macro-economic level. During the pandemic the government used its strong balance sheet to protect household budgets and businesses. We did that to protect our state from the challenges that they were confronting, and it was because we prioritised their wellbeing over the fiscal challenges that we would necessarily confront by making those choices. It was about who we put first and foremost in our assessment of need. We did this to protect our state from the worst health and economic shock that our state has experienced since the Second World War, but global and indeed domestic conditions have changed. We now confront our situation squarely and repay the impact of the spending that kept Victoria moving during the pandemic.

There were two things that were going on during the pandemic: first and foremost, how do we keep the community whole, how do we protect and resource the wellbeing of the community? In many ways that was the pandemic debt that we incurred. There was also a general recognition that the borrow-to-build strategies – the Big Build strategies that we put in place – were a necessary part of an investment strategy that grew the opportunity of the state out of the adversity that we confronted.

This budget includes a COVID debt repayment plan because we are being honest and up-front with Victorians and providing a solution to the problem. Often we see that people can become so obsessed with a problem that they never see a way through. This is the only government in the nation that has not only provided a fiscal repair strategy, which we identified in the November 2020 budget, but we have stuck to that strategy, and here today – being able to demonstrate that we have made very substantial progress towards it – we are able now to talk about the sorts of challenges that we need to confront around our COVID debt repayment plan. That plan establishes a temporary 10-year levy on investment shareholders and big business. Both landholders and big business received substantial government assistance during the pandemic, with average profits and land sales increasing quite substantially over that time. So this is also a budget that plans for hospitals and delivers the health care that keeps us well, and it furthers our commitment to building Victoria's mental health system.

So the spend and the investment in the wellbeing of the Victorian community continues at pace. It delivers the schools and the early learning that sets our kids up for success and, might I say also, supercharges our economy by increasing participation rates in the labour market and identifying early problems that may be encountered with young people as they start to engage in the education system. It delivers the well-paid jobs and training opportunities that underpin our prosperity, and the new State Electricity Commission will of course help build a more sustainable future. It delivers the services that support those in our community who need a helping hand.

The government has always had a very clear and focused view on the wellbeing of the Victorian people, particularly those who need support. We have been through quite an existential and threatening event, one that has been traumatic for the community; we would have to acknowledge that. But we also need to recognise that we are not entirely through it yet in the sense that there will be long-tail problems associated with the wellbeing of certain sections of the community, and that is an obligation that this government takes quite seriously.

I think the important point is the SEC, from our perspective, is also a key feature of this budget because it helps to deliver a more sustainable future. It delivers the investment and support in investment that our community desperately needs to make that renewable transition, and it continues to deliver in this budget on our transport infrastructure that drives forward our state. This is a reform budget too. It is important to see that there are so many elements of this budget at play here, but one thing has never been forgotten: our need to grow the economy of the state and to recognise that small business is a key driver of that.

I am excited about our nation-leading reforms in swapping stamp duty for land tax for industrial and commercial properties. I am excited about what we are doing to increase the payroll tax free threshold to relieve thousands of small businesses of payroll tax. Our economy is performing well. Our unemployment rate has been below 4 per cent, as I said, for most of the past year, which really has not happened for nearly 50 years. So at its heart it is a budget that provides a responsible plan that puts Victorians on a sustainable path to grasp the opportunities that are ahead. From our perspective, it has always been recognising that there are challenges and confronting those challenges, not denying the materiality of the challenge that they present but also seeing those challenges as opportunities for the state, and grasping those opportunities ahead to return the state to its rightful position as the economic, the cultural and the infrastructure engine room of the nation. We are well and truly on our way, if we are not there already. Victoria has the most transparent budget in the nation, I would also make the point. It is the only budget in Australia that opens its books to the Auditor-General for review before it is tabled. We are investing in reforms, we are supporting Victorians, and importantly, we are delivering on every one of our election commitments.

Michael GALEA: Thank you, Treasurer. I would like to refer you now to budget paper 2, specifically page 3 of chapter 1, which talks about the government's fiscal strategy. I understand that this was introduced in a previous budget. Could you please expand on what this strategy is and explain how the government is progressing and measuring itself against that plan?

Tim PALLAS: Absolutely. Thanks for the question. You are correct that the strategy was introduced in a previous budget. It was introduced perhaps at the economic nadir of the event that was associated with the pandemic. The strategy was first outlined in November 2020 and in the 2021 budget, and the government has returned to reporting progress against it in each of our three budgets. So this is something that we have taken very seriously, and we have been anxious to ensure that we consistently come back to the challenges that we confronted during that period. And importantly, I thought it would be valuable to just take you through the journey that we have been on.

The government developed that fiscal strategy to manage the extreme circumstances that the state was confronting when we were at the height of the pandemic. We acted quickly, we acted decisively to protect Victorians and of course to protect the state's economy. One of the key things that I think is really interesting to consider is to go back and look at where we were in November 2020. I mean, the circumstances that we confronted back then were such that we had to provide a Treasurer's advance to me for the first, say, six months. We would normally have budgeted in May 2020, but of course with the COVID event we needed to focus our efforts on keeping the community safe and supporting businesses and community groups.

But when we did provide the budget, we also provided a pathway through. If I could take you to some of the projections in that budget, the November 2020 budget, just to show you exactly how far the journey has been. In the November 2020 budget, we anticipated net debt to GSP to be 28.9 per cent in the coming financial year – this budgeted financial year. Of course in this budget it is 6.3 percentage points better than we anticipated it to be. Net debt we anticipated to be $154.8 billion in this budgeted year. It is $135.4 billion, so it is nearly $20 billion better than we anticipated. Our operating deficits were supposed to be $49 billion. In fact in the 2023–24 budget they are $2.9 billion. That is more than a $45 billion improvement. Our operating result, $5.9 billion, is now a $4 billion deficit, more than a 30 per cent lower deficit. And our cumulative cash results, a $30.2 billion deficit, are an $18.1 billion deficit now, nearly a $15 billion turnaround.

In practical terms, what we can see is – and I go back to my budget speech – it is often easy to forget, and when this budget was framed at the height of the pandemic, people probably, I hope, have forgotten some of the more adverse consequences of the difficulties that we all encountered as a community. But we produced documents and data that identified what was to Treasury's best estimate where we were likely to be, and we are now profoundly in a better, stronger position than we anticipated. We spent around $40 billion to deliver the necessary health response, to keep workers in jobs and businesses afloat and to assist households. We also provided rent relief so Victorians could keep a roof over their head. We supported people to test and to isolate. We relieved stress on businesses with direct financial support. So the fiscal strategy involved that four-step plan that I constantly keep coming back to. The reason for that is if you develop a plan and you do not intend keeping to it, it is not really so much a plan as a holding pattern, and a holding pattern does not take you anywhere. It just effectively has you going around in circles. Our plan was serious then, and it has been strategically applied and constantly reported against. So step one of that plan is create jobs, reduce unemployment and restore economic growth, step two is returning to an operating cash surplus, step three is returning to operating surpluses and step four is stabilising debt levels. So this budget strengthens progress against our fiscal strategy and these four steps.

We have been reporting against them each and every year since that strategy was developed. We are the only government in the nation to have a fiscal repair strategy and the only government that has reported against it and held itself to account to the plan that we put in place to keep the community safe and to make the choices under a structure and guidelines that would have given the community the opportunity to interrogate whether they liked the choices we were making and whether they thought it was realistic that we would be able to achieve the outcomes that we set, and indeed we have been able to demonstrate that we have been making progress against them. So what that tells me is that plan not only works but it builds a sense of community purpose and cohesion.

Our first step of course is create jobs and restore economic growth. I consider this one a tick in the box, something that we have achieved. The unemployment rate is now below 4 per cent, and since September 2020, to put this into some context, the Victorian labour market has added almost 440,000 jobs. That is one in eight jobs in the Victorian economy that exist today that did not exist 2½ years ago. That is phenomenal. We have put on more jobs in this state – not only in percentage terms, not only in per capita terms – in absolute terms than any other jurisdiction in the nation. In fact if you look at New South Wales, we have put on 109,000 more jobs than the state of New South Wales despite the fact that their population is substantially larger than ours. Our economic growth has increased by 25 per cent – more than the national average.

The second step is of course returning to an operating cash surplus. An operating cash surplus means that we are generating sufficient cash inflows to exceed our cash outflows on operating activities. We will deliver higher cash surpluses in 2022–23 of around $2.9 billion, and we will continue to forecast operating cash surpluses in each year of the forward estimates. Of course operating cash surpluses is vitally important because they mean that you are not paying your current outlays with debt, in effect, so getting there is vitally important.

The third step is to reach an operating surplus – a little bit harder because about 90 per cent of the difference between operating cash and operating surplus is needing to account for the depreciation of a very substantial asset base in the state – whereby government would generate enough revenue to not only cover its cash expense but the replacement costs of existing assets by way of depreciation expenses. In each year prior to the pandemic the Andrews Labor government averaged net operating surpluses of $2.2 billion per year. If I could just reinforce that point: before the pandemic hit we were delivering operating surpluses of $2.2 billion a year. I used to be able to boast – I cannot do it anymore – that I was the Treasurer that delivered the highest average surpluses the state had ever seen. Believe me, we know how to manage budgets and to get to operating surplus. And we are showing a very clear, deliberate pathway back. They were achieved of course, our operating surpluses, while we were building road, rail, trams, trains, the schools and the hospitals that matter to Victorians. So I am pleased to say that the budget that we are forecasting is forecasting delivering an operating surplus of $1 billion in 2025–26 and increasing it to $1.2 billion in 2026–27, the final year of the estimates.

The fourth step is to stabilise net debt as a percentage of gross state product over the medium term. The budget in 2021 forecast net debt as a percentage of GSP to hit 28.9 per cent by 2023–24 compared to the 22.6 per cent outlined in this budget – as I said, a very dramatic, clear, demonstrable improvement in our material circumstances as we have been moving through. We are making further progress in this budget. Net debt is now expected to be $3.7 billion lower in June 2026 compared with the pre-election budget update. Net debt to GSP also stabilises in the final two years of the forward estimates, increasing from 24.4 per cent in 2025–26 by only 0.1 per cent to 24.5 per cent in 2026–27. So our plan is working. We are not quite there yet in terms of stabilising debt, but can I assure you we have been able to show the Victorian people, hold ourselves to account step by step as we have been working through our strategy – and because we have been prepared to be up-front, honest and transparent about that strategy I believe that Victorians can have confidence that this government is acting not only in their best interests but with a very clear focus on the future and the opportunities that the future holds.

Michael GALEA: Thank you, Treasurer. If I can take you up on the point you raised about returning to surplus, referring to the same page of budget paper 2, can you please explain to the committee how the planned return to surplus is consistent with the government's broader fiscal strategy?

Tim PALLAS: Yes. I think before the pandemic it is pretty clear that Victoria's economic performance led the nation – and it is no accident that Victoria's economy was strong. It is because we invested in the things that grow an economy and provide opportunity to the whole community. Before the pandemic we were borrowing to build. Not only were we up-front about it, we took it to an election in 2018 and sought a mandate to do it – and we did it within our means. Without the pandemic we would have had surpluses every single year. It is in our DNA; it is what we have been doing every year. But one thing that is an even more central focus of our activity is to rate the needs and the desires, the requirements to keep the community whole above our fiscal position. So for each full financial year of the Andrews Labor government prior to the pandemic there was $2.2 billion on average of surplus. We delivered those consistent operating surpluses whilst we built the infrastructure that would ensure that the community could grow.

As a result of the state's strong financial management, we had sound public finances coming into the pandemic. That provided significant scope for the state to be able to support Victorians when they needed it most. We were in a strong position to face this once-in-a-century crisis. In 2020 of course there was our four-step fiscal strategy, which outlined our way forward as a government. We needed necessarily to demonstrate that we were in the business of dealing with the challenges associated with our debt. Our operating result – I think it is a result of $1.2 billion in 2026–27 – represents an improvement of $15.2 billion in the operating results since 2021–22. That is a remarkable achievement, and that sets us up with a capacity to continue to draw down the debt as a percentage of our economy. And debt as a percentage of our economy is vitally important, because our economy will grow – $500 billion at the moment, $700 billion by the end of the forward estimates, $1 trillion by 2033.

Michael GALEA: Thank you, Treasurer.

The CHAIR: Thank you, Treasurer. Your time is up, Mr Galea. We will go to Mrs McArthur. You have 21 minutes from now.

Bev McARTHUR: Thank you, Chair. Secretary, can we just go back and confirm the details of how you calculated this tax on students and teaching? So it was done on the average based on every year's school fee. Can you confirm that?

David MARTINE: Thanks for your question. Perhaps just going back on the discussion we had, essentially when we do a costing, we cost what the government's decision is. So the decision that the government has made with respect to this particular initiative is well articulated in budget paper 3, page 115, and just to the point on costing, budget paper 3, page 115, says:

> Approximately 110 schools, or around the top 15 per cent by fee level, will lose their exemption.

So the costing in the budget papers, which is the $422 million referenced earlier, is based on that policy intent.

In terms of then working out the number of schools that fall into that category, it is essentially based on the total number of fees charged divided by the student numbers to work out the average, but essentially the costing is based on the list of schools and the top roughly 110 is where the costing line is at the moment. As I have mentioned in some of my earlier answers, the Minister for Education will then come out, as outlined in budget paper 3, page 115, which also makes that point as well, that:

> The Minister for Education will determine, with the consent of the Treasurer, the non-government schools that will continue to be exempt from payroll tax.

Bev McARTHUR: So, maybe, Mr Barrett – you are the responsible person for this area, I am gathering – you could perhaps help me here, because I have got a school that obviously on first glance would be above your $7500 threshold. Its first student fees would be $8320, but for two students it would be $14,560 and for three students it would be $18,720 – that is a 50 per cent reduction on the third student. So, how do you calculate that average for the student, if it was for one student but it is different for two and it is different for three? How do you work that out?

Chris BARRETT: Well, Mrs McArthur, I just refer you back to the legislation in the Bill that is here and the Secretary mentioned earlier, division 5, clause 82, subclause (3):

> The Minister for Education, with the written consent of the Treasurer and having regard to the matters specified in subclause (4) –

which I will get to –

> may declare a school for the purposes of this Division by notice published in the Government Gazette.

And then the subclause (4) says:

> For the purposes of subclause (3), the matters are the following –
>
> (a) the fees and charges imposed by the school in relation to the provision of education within that school;
>
> (b) any other financial contributions received by the school;
>
> (c) any other matter that the Minister considers appropriate.

Bev McARTHUR: So with this school, for example, it would be considered above the threshold then, because it is $8320.

Chris BARRETT: That is a matter for the minister.

Bev McARTHUR: Well, how do parents and teachers and schools work this out if it is going to be subjectively based on how the minister decides to work it out?

Chris BARRETT: That is what it says in the budget papers, that is what it says in the legislation – the minister will decide.

David MARTINE: And then the minister will come out with the determination of the actual schools, and as I mentioned, the budget papers talk about approximately 110, which is roughly about 15 per cent.

Chris BARRETT: And I might add that the minister cannot do that until the legislation passes.

Bev McARTHUR: So can you also tell me if your department has been requested to look at alternative threshold levels for non-government schools in this tax?

Chris BARRETT: That would be a matter of advice to government.

Bev McARTHUR: So can you confirm whether any request has been made to increase the threshold to $10,000?

Chris BARRETT: I am not going into it, advice to government.

David MARTINE: As I think I answered – I think it was the very first question actually – I mean, as a Treasury we have provided advice on all of the initiatives in the budget through the budget process, so that is not an unusual thing for us to have been doing through the course of framing the budget – providing advice on all of the budget initiatives.

Bev McARTHUR: So have you been asked to increase the threshold?

David MARTINE: We do not make decisions on thresholds, as –

Bev McARTHUR: But you are the people providing advice. If you had been asked to increase the threshold, what would your advice be to the government?

David MARTINE: As I think I answered to my very first question, the longstanding tradition of this committee is that we do not provide the details of the actual advice we provide government.

Bev McARTHUR: Okay. So can you just tell me, given that this is a tax on teaching and therefore a tax on teachers, exactly how many teachers do you think might lose their jobs as a result of this tax? Have you worked that out?

David MARTINE: Perhaps I might make an important point that has not been mentioned yet, but all public schools pay payroll tax. Competitive neutrality is actually a very important principle. So where our government business is actually operating in a market, it is very important that it is operating in a competitive, neutral way and taxes are being applied. This tax –

Nicholas McGOWAN: That is why they are exempt, though. They are exempt for that very reason, because the government give them that money. As we all well know and the Treasurer knows, the government fund the public schools. That is the whole purpose here. That is the very basis for the exemption in the first place.

David MARTINE: In a sense, that is why –

Nicholas McGOWAN: So you cannot sit here and claim that this is some equalisation and this is all about fairness. That is a nonsense.

David MARTINE: No, you are right. That is why they are public schools – because they are funded by government.

Nicholas McGOWAN: We support all our children. That is the premise of this. We support all our children regardless of what school they go to. But to sit here and imply that somehow non-government schools have done the wrong thing, as I have heard countless times in the last two weeks, is just nonsense.

Mathew HILAKARI: Chair, this is free-flowing debate. Maybe –

The CHAIR: Mr McGowan, if you could please just ask a question – or Mrs McArthur – and allow Mr Martine, who is trying to answer your question, the courtesy of being able to answer your question instead of asking question upon question and putting more questions to him.

Bev McARTHUR: Thank you, Chair. Secretary, can you confirm then that these schools that will be taxed will be actually paying three taxes? Because they will be paying the mental health levy and the COVID levy as well as the payroll tax that they will now be paying. So it is a triple tax really, isn't it?

David MARTINE: No. When you remove the exemption, like removing any exemption, you then pay what is required under the law in terms of the removal of that exemption. So in this case, removing the exemption for those particular schools, they will then pay payroll tax in accordance with the legislation.

Bev McARTHUR: And mental health tax and the COVID levy. Good.

David MARTINE: Well, it will depend on the total payroll of those particular schools as to whether the mental health levy component is paid, for example.

Bev McARTHUR: Okay. Secretary, the budget increases payroll tax on Victorian businesses. Did the department provide advice on economic impacts of increased payroll tax prior to it being included in the budget?

David MARTINE: Well, as I have mentioned a few times, of course we provide quite detailed advice and information to government through its decision-making process.

Bev McARTHUR: Did you estimate how many jobs will be lost as a consequence of increasing payroll tax?

David MARTINE: Well, our economic forecast is outlined in budget paper 2, chapter 2, where we forecast the unemployment rate – which is currently sitting at 3.9 per cent – and we forecast out across the forward estimates. The whole point of those forecasts is to incorporate all government decisions. So when we formulate those forecasts, not only are we looking at what is happening in the private sector, we also look at what is happening in the public sector and we also look at what the impacts may be on all of the budget initiatives that are outlined in budget paper 3, which would include both the expenditure side and the tax side.

Bev McARTHUR: Great. Thank you, Secretary. So was increased payroll tax a factor considered with the department's estimate of rising unemployment in Victoria over the next four years?

David MARTINE: Our economic forecasts on rising unemployment, as I mentioned, take into account everything. In terms of your specific question about do we think the payroll component of the COVID debt levy will increase unemployment, my answer to that would be no.

Bev McARTHUR: No.

David MARTINE: Because there is an important point here about tax incidence. When you are taxing businesses there are various variables. You know, there are business profits that you need to think through. So one just should not necessarily assume that payroll tax is something that impacts on employees.

Bev McARTHUR: Really?

David MARTINE: Correct.

Bev McARTHUR: So a business that might come into the payroll tax threshold area would not be making a commercial decision to actually reduce their staff levels to fall below the payroll tax threshold? You would not think that would occur?

David MARTINE: In a general sense there are a lot more broader factors that a business takes into account in terms of the number of employees.

Bev McARTHUR: Yes, the cost to their bottom line they take into account, and payroll tax is clearly one of them.

David MARTINE: Absolutely.

Bev McARTHUR: It is a tax on employment, so if you are considering whether you put on more staff then clearly your payroll tax is going to affect it.

David MARTINE: Along with: when you put on more staff, you have got a whole range of other costs as well. You have got to pay their wages. You may have additional accommodation expenses – a whole range of other expenses. And they are the judgements that business makes.

Bev McARTHUR: Yes, a COVID levy and everything else – yes, exactly. Secretary, how much investment does the department estimate will be lost in Victoria over the next decade as a consequence of increasing payroll tax?

David MARTINE: Once again, I will refer back to our economic forecasts in chapter 2. And there is an important point, I guess, here in terms of how we construct our forecasts on the economy, because you need to take into account everything that the government is doing – not just new initiatives but all of the existing government spending and revenue estimates across the four years. So you cannot really sit back and say, 'Okay, this particular initiative out of the 200-odd initiatives has this particular effect.' When you do an economic forecast, you have got to take the whole of the budget into account.

Bev McARTHUR: Secretary, can I ask: how many Victorian companies will be liable for increased payroll tax this year, and how many companies will be liable by 2032?

David MARTINE: If you are referring to the payroll component of the COVID debt levy, that is around 11,000 businesses above the $10 million threshold.

Bev McARTHUR: So how many companies will be liable by 2032?

David MARTINE: I would need to –

Bev McARTHUR: Take that on notice?

David MARTINE: I would probably need to take that on notice.

Bev McARTHUR: By the end of the session, perhaps, you will be able to get that information?

David MARTINE: Yes, we will see whether we can provide that. Roughly, at the moment, it is about 5 per cent of employers that would be subject to the payroll tax component of the COVID debt levy, which is around 11,000 businesses.

Bev McARTHUR: Okay. Will the increased payroll tax revenue affect Victoria's GST share?

David MARTINE: Not in a material way.

Bev McARTHUR: Okay. Treasurer – sorry, I know you want to do some work, Treasurer, so I am helping you out here.

Tim PALLAS: Thank you very much.

Bev McARTHUR: Treasurer, the $1.7 billion Myki public transport ticketing contract, which was awarded – is that reflected in the budget?

Tim PALLAS: I think we struck commercial arrangements before the budget was settled, so it should be. I will have to take that on notice, and I will get back to you with the arrangements.

Bev McARTHUR: I would be very grateful, Treasurer, to know where it is referred to. Treasurer, budget paper 4, page 185, is an existing capital project worth $543 million for public transport ticketing asset renewal. Given it is an existing project, is this in addition to or part of the $1.7 billion contract?

David MARTINE: Is that page one hundred and –

Bev McARTHUR: 185 – I think this could be the soft copy number, is it? Anyway, if it is not, it is 184 or 186, because the soft copy seems to be different to the hard copy.

Tim PALLAS: It probably is best that you direct the specifics of any particular capital project to the relevant minister, but –

Bev McARTHUR: It is surely part of the budget.

Tim PALLAS: Member, I cannot see where that particular entry is. Can you direct me to whereabouts on the page it sits?

Bev McARTHUR: Page 185 – is that where we have got it? Budget paper 4.

Tim PALLAS: I have got 'train maintenance'. I have got 'Suburban Rail Loop'. I have got 'Sunshine master plan', 'V/Line train fleet', 'radio system upgrade', 'infrastructure upgrades', 'V/Line fleet sustainability' and the 'Western Rail Plan'. They are the only entries.

Danny O'BRIEN: Page 184, Treasurer, and just for the record, there is a discrepancy of a couple of pages between the PDF online and the hard copy. I am not sure how that happened, but that is the issue. It is at the top – the third one down on page 184.

Tim PALLAS: Great. Thanks. The footnote –

Bev McARTHUR: The question was: given it is an existing project, is this in addition to or part of the $1.7 billion contract?

Tim PALLAS: I might throw to Mr Loos, if he is able to shed any light on that. My general assessment would be that that is part of the broader project.

Jason LOOS: Yes. Can we confirm that and take that on notice?

Bev McARTHUR: Yes.

Jason LOOS: Thanks.

Bev McARTHUR: Good. That is fine. I will throw to Mr O'Brien.

Danny O'BRIEN: Just as part of that, Mr Loos, perhaps as you are checking that, if it is not part of the existing project, or not part of the $1.7 billion, what ticketing asset renewal will take place as part of this project?

Jason LOOS: As part of this one?

Danny O'BRIEN: Yes, as part of the new $1.7 billion contract that has been let.

Jason LOOS: The new contract will look at upgrading the ticketing system.

Danny O'BRIEN: Yes. The question is: there is $1.7 billion being paid to the new company; is there 400-odd on top of that?

Jason LOOS: Yes. That is what I will confirm.

Danny O'BRIEN: You will check that?

Jason LOOS: Yes. That is a part of that information.

Danny O'BRIEN: Thank you.

Tim PALLAS: And perhaps to give you some greater clarity, I can confirm that the amounts contained in that budget paper are in fact a part of the $1.7 billion for the entire project.

Danny O'BRIEN: Okay, so it is $1.7 billion in total, including the money that is already in the budget.

Tim PALLAS: Including those moneys.

Danny O'BRIEN: Okay. Thank you, Treasurer. Can I just move on to North East Link. You have both in your presentation and in BP2, page 5, the budget fiscal aggregates, and there is a note that says that government infrastructure investment:

> Includes the estimated private sector construction-related expenditure associated with the North East Link held in the public non-financial corporations … sector.

Can I start with the first question: what does North East Link now cost in total?

Tim PALLAS: First and foremost, I think we probably need to recognise that it is a vitally important project. We are going to continue to report on these costs as contracts are put to the market and as they are awarded. Like all of our projects that we manage, those commitments will be reported in our budget papers following contract award. You would probably not want anything other than that unless you were concerned to compromise the state's capacity to get the best possible value.

Danny O'BRIEN: But in terms of compromising that, Treasurer, the budget papers have previously had figures for the North East Link. The Premier has gone out and announced it was a $16 billion project. Has the private sector component been contracted?

Tim PALLAS: The project will soon be out to market for some of the other key elements. We have obviously contracted the tunnel component of the project, but we have got some other key elements that we are putting out into the market for the North East Link, which includes that Eastern Freeway section, the completion of the M80 ring-road and the new and upgraded walking and cycling paths. The cost of those additional elements, which are more than what was initially proposed for the North East Link – they are additional components – will be subject to a competitive market process to get the best value for Victorians. Quite frankly, we do not want to compromise our negotiating position in a competitive market environment, but we will report on the costs once that tender process has concluded.

Danny O'BRIEN: Can I get back to the question, then: has any of the private sector component been contracted yet for North East Link?

Tim PALLAS: I will throw to Mr Loos, but yes, the primary package has, which is the tunnel section.

Danny O'BRIEN: So if you know the primary package – this is fundamental in that table as to whether the budget estimates are right for the surplus for government infrastructure investment as well. How do we know how much it is?

David MARTINE: If I could perhaps just jump in, I have not got the actual page reference, but in budget paper 4 there are two references to North East Link. The primary package is in chapter 3, and that is under the heading 'State Tolling Corporation'. It has got the total TEI of $14 billion. Then there is another reference to the North East Link under the Department of Transport and Planning in chapter 2. That is the component that has been adjusted to be confirmed –

Danny O'BRIEN: That is the additional bits.

David MARTINE: which is the extra bits. That is subject to the Commonwealth review.

The CHAIR: Excuse me, gentlemen. Your time has expired. We will now go on to Ms Kathage.

Lauren KATHAGE: Thank you, Chair. I want to take us to page 2 of budget paper 2. It has got a bit of a description about the jobs plan. Are you able to expand on that a bit more – its target, what initiatives were being pursued to reach that?

Tim PALLAS: Certainly. Thanks for the question. As you would appreciate, the government is very much focused on job creation, and I think we can in many respects demonstrate that that focus has yielded its rewards. We have been able to demonstrate the greatest jobs growth that the nation has seen, not just in percentage terms but in absolute terms, since September 2020. As we began our recovery from COVID we knew that front and centre in those efforts must be getting more Victorians back to work and into work, ensuring not only a job but the certainty and security that comes from employment for not only them but also their family. That is why the 2020–21 budget delivered a targeted set of initiatives – an economy-wide effort, as it was – that form the Victorian jobs plan. Our jobs plan was dedicated to getting more Victorians back to work while at the same time building an economy that is fairer and more inclusive for everyone.

Our efforts were defined under the plan very clearly in four simple points: Victorians at work – getting Victorians back to work; building opportunity – building our state as we rebuild our economy; supporting industry and growth – support for industries and leveraging our strength; and finally, supporting every corner of our state and ensuring no community and no Victorian is left behind. Now, that plan set what we believed at the time was an ambitious target to create 400,000 new jobs by 2025, half of them by 2022. I will make the point that many were sceptical about whether or not we could get there. In fact the latest jobs figures show that Victoria smashed that target. In fact the 2025 target of 400,000 jobs has been surpassed two whole years ahead of schedule. So since the economic low point of the pandemic, which was September 2020, employment in Victoria has increased by close to 440,000 jobs, which equates to more than a third of total employment growth in Australia over that time, which is quite incredible when you think about it – a quarter of the nation's population, a little bit more, but a third of the employment growth in the nation. That compares to 330,000 jobs that have been created in the entirety of the state of New South Wales. That is 109,000 fewer jobs that we created in this state over the same period of time.

In guiding Victoria's recovery the jobs plan sought to play to our state's strength, and that was about generating growth in established and innovative industries. It focused our effort on those who were most affected by the pandemic. We knew that women were going to encounter the greatest difficulty, both in terms of the material circumstances that they confront by the nature of the employment that they are involved in, but also because it is a fact of life that they are the principal caregivers in so many families and so many extended families, and as a consequence they found the pandemic particularly difficult. We recognised that young people, because of their predominance in more insecure forms of work, were likely to be adversely affected, as were older Victorians and Victorians who had effectively been seen as being those who needed necessarily to isolate more and who were seen as having the greatest challenge from the pandemic.

Finally, our strategy was to adopt a two-for-one approach: invest in the services and the support our state needs while also creating thousands of jobs. Because we understood then, as we do now, that by investing in Victoria we are investing in the Victorian people, we are also growing the economy and we are growing the opportunity. Our jobs plan really was aimed at tackling economic and social recovery by putting Victorians at its heart. The first and foremost consideration of any government has to be the welfare of its people, and that is why our fiscal and our budgetary considerations were always, at the height of the pandemic, considered subservient to the interest and wellbeing of the community at large. It, of course, was a strategy aimed to build our state as we rebuilt our economy.

In terms of specific initiatives in the jobs plan and how we supported workers, well, we invested a billion dollars in TAFE and training basically to give Victorians the skills that they needed to get back to work, including providing up to 80,000 new training places over four years. There was a groundbreaking $64 million digital skills and jobs program for Victorians who were looking for work to acquire the skills and transition into new careers in digital roles, including supporting women; and there was an $836 million new jobs tax credit, which was aimed at encouraging small- and medium-size businesses to increase employment by rehiring staff and restoring staff hours or supporting new jobs as they recover from the effects of the pandemic.

As you can see, the biggest investment we made was backing the Victorian people, investing in their skills and their capacities to participate in the high-paid, high-skilled jobs of a reformed and improved economy. The jobs plan included the projects that will help our state rebuild and grow the economy – initiatives like the $6 billion Big Housing Build package we put in place, including $5.3 billion aimed at building 12,000 new social and affordable dwellings and $678 million that we put aside to make housing more accessible and affordable for Victorians. We kickstarted work on the Suburban Rail Loop. We put $1.9 billion into upgrading 162 schools, building one new school and four additional stages at recently built schools, and $100 million into continuing the revival of Victoria's TAFE system, recognising that the funding and the redevelopment of the Chisholm Institute, the Frankston campus and the redevelopment of Melbourne Polytechnic's Collingwood campus was all part of opening up the doors of TAFE, revitalising our TAFE system and making it a substantial contributor to the skilling of our workforce. $55 million was put through the building works stimulus for a maintenance boost right across our TAFE system, driving cheaper, cleaner sources of energy. We are providing stamp duty waivers of up to 50 per cent for residential property transactions up to $1 million and a low tax discount for build-to-rent projects to support our construction industry. I am pleased to see that Victoria's leadership in the build-to-rent sector is well and truly being recognised today in our media.

There are systemic reforms to the planning system and the streamlining of our environmental protections and the statutory approval processes to unlock investment and to support economic recovery and of course regulatory reforms that reduce the cost of doing business. We understand that if we help business grow, if we give them the skilled workforce that they need in a changing and challenging economic environment, then they will do better for it and our economy will do better for it and, might I say, in the long term the fiscal position of the state will do better for it because growth helps deal with the issues associated with debt.

The jobs plan also supported industry sectors in recovery and leverages strength for the future initiatives that have been included – the $2 billion Breakthrough Victoria Fund that we established to drive investment in research and innovation and new, great breakthroughs over the next 10 years. Might I say, Victoria is demonstrating its dynamism in the entrepreneurial spaces, in the areas where we pick and support industries that are key contributors to taking advantage of the great research that we have and commercialising it. The establishment of Digital Future Now was a comprehensive $626 million package to support Victoria’s transition to the digital economy, removing more black spots, connecting digital communities and allowing of course unemployed Victorians to take digital skills training.

Might I say this is one of the areas where I think we have far and away exceeded the rest of the nation. By putting together this digital package, by recognising that there are still black spots that need to be addressed across the state, we are about providing equality of opportunity right across the state. We are seen without a doubt by telco providers as the most proactive and the most effective jurisdiction in being able to provide for the elimination of black spots and better connected communities, and with better connected communities we get better economic outcomes. But it is a question of equality right across the state as well. So we sat down not with the federal government who decided to slowly but surely roll out year by year small and underwhelming efforts around telecommunications relays or the continued roll out of broadband – we sat down with the telcos and the NBN and we said, ‘We now have a package and we want you to put Victoria first in terms of our capacity to put money on the table, partner with you and get this job done.’ And that is exactly what they have done. That is why Victoria, I think, can have some great confidence that we are clubhouse leaders in this area of activity, and that has great economic advantages.

Lauren KATHAGE: Thank you, Treasurer. Yes, the program you refer to directly benefits the people of Donnybrook in my electorate, so I am very glad for that. Further along in budget paper 2, table 2.1 has got some key statistics there which describe the state of Victoria’s labour market. Can you talk to those statistics, the current state of our market and how we are focusing on Victorian jobs?

Tim PALLAS: Sure. It is probably a recurrent theme – you are hearing it a bit from me – but the government has always been focused on creating jobs because we see that as a good indication of economic opportunity not just for individuals and their families and the communities that they work within but also for the broader economy and the fiscal position of the state.

The two statistics in this table that are most relevant are our employment growth – how many jobs we are creating – and the unemployment rate. As with any Treasurer, one of the key focuses that I put my mind towards is ensuring that the vast majority of people who want to work can find a job. Labour market conditions have been strong over the past year. Demand for labour is very strong and the supply of labour has increased following the reopening of national borders. In fact, rather perversely, in some areas of the economy and economic activity we are seeing a shortage of workers, and that is to some extent also constraining economic opportunities.

I do not foresee that that will necessarily be maintained for much longer now that our borders are opening and we are seeing a very substantial return both of tourism and of students. But employment growth has been built on our strong economic fundamentals and it has been aided by a recovery in population growth, in migration flows, which increased following the pandemic. Employment has grown by almost 440,000 people since the trough in 2020. It is now over 3.6 million people employed right across the state. Employment growth has also been quite interestingly in full-time positions, so four in five of the jobs, or 80 per cent of the jobs, out of those 440,000 jobs are full-time jobs. Employment is estimated to grow by about 3.5 per cent during the 2022–23 year, following growth of 3.9 per cent in the 2021–22 year. The share of working-age Victorians in employment has also risen to around a record high level. Employment growth has been broad-based, with all groups of the Victorian community and Victorian workforce benefiting from the strong economy. The share of working-age women in employment is around a record high, and youth unemployment, at 8.3 per cent in this year to April 2023, is the lowest on record.

The strength of the labour market has also meant that we have been able to ensure that Victorians who would like to work, who would like to get more hours, are getting the opportunity to do so. The unemployment rate is at a historic level, as I have mentioned previously. It has recently fallen below 4 per cent for the first time since 1974. The underemployment rate, which captures those who have jobs but would like more hours in terms of those jobs, is around the lowest it has been in 20 years, so if people want more work, they appear to be able to pick it up.

Chart 2.6 on page 30 of budget paper 2 I think also is a telling one regarding how strong the demand for labour actually is in the economy at the moment. It shows the total number of job vacancies in the economy going back almost four decades to 1987. What you can see is that the number of unfilled jobs in the economy, even after coming off a little over the last little while, is still around double what it was. So that also, with the historic low unemployment rates, points to a labour market that is still very tight. Probably the greater concern is for employers not being able to get the skill they want, rather than workers not being able to get the jobs that they want and deserve. There are many challenges, I think, facing economies all around the world at the moment, but I am very pleased to see, and to report to the committee, that there has never been a better time to find a job in the state of Victoria.

Lauren KATHAGE: Thank you, Treasurer. Further back up in the same budget paper, pages 19 and 20, there is a section that talks about investments in rural and regional Victoria. Are you able to expand on those investments that are being made in rural and regional Victoria and explain what is happening with the employment that you have spoken about, employment and unemployment, in regional Victoria over the past couple of years?

Tim PALLAS: Well, it is a phenomenal story to talk about what is going on in our regions at the moment. They really are performing exceptionally well. The Minister for Regional Development might be best placed to answer this question, but I could not resist the opportunity to give you some of the details on this initiative and give you a broad overview and talk to some of the broader employment experiences that we are picking up in regional Victoria the moment.

In terms of jobs numbers, it is pretty exciting to see regional Victoria is continuing its nation leading position around jobs growth, with thousands of people finding work right across the state last month. The most recent ABS stats in this area, published on Thursday last week, reflect strong growth. We know there were 12,000 new jobs created in regional Victoria in April – almost double as many jobs, might I say, as any other state – which brings the total number of people working in the regions to more than 848,000 jobs. That is on the back of some good figures in March too, where the Victorian economy really did continue to surpass any other state, outstripping the next closest state by a factor of eight. Regional unemployment in Victoria is now at a low of 3.4 per cent, with more people in jobs in regional Victoria than ever.

Regional employment in Victoria under this government has grown by more than 190,000, or 27 per cent. That is the highest percentage increase among any state. So, quite frankly, that is huge. That is 190,000 more people able to participate, to provide for their families and of course to invest and participate in their communities in a much more substantial way. Under the last coalition government full-time employment in the regions actually went backwards by almost 14,000 jobs, so historically regional Victoria has never done better.

I suppose one of the things that I would attribute some of those outstanding figures to is the fact that the government has reduced payroll tax in regional Victoria to a quarter of the metropolitan rate. It is quite phenomenal that the headline rate is 1.2 per cent – just over. And if you look at the fact that we also marry that with a 50 per cent reduction in the cost of commercial and industrial properties’ stamp duty, that has a dramatic effect upon the way that those communities are operating. If we look at how we have grown employment right across the state, in this budget we have invested more than $5 billion in regional Victoria. This builds on more than $36 billion that the government had funded previously, announced by the government since November 2014. To put that into some sort of context, that $41 billion of collective effort is about 2½ times more every year on average, each and every year, over our time in government than the previous government put into regional Victoria – a 250 per cent larger investment. So if you want to know why the regions are booming at the moment, it is because this government is investing in them, and investing in them in comparative terms that have no comparison. To be clear, this year –

The CHAIR: Thank you, Treasurer. If I can stop you there, we are now going to take a short break and adjourn the hearing for 9 minutes and resume again at 10:15 am.

Thank you. The committee will now resume its consideration of the Treasury portfolio. Mr O'Brien, I am going to hand to you for the next 21 minutes.

Danny O'BRIEN: Thank you, Chair, and good morning, all. Could I just go back to North East Link. I note, well, two things, I guess. First, Treasurer, you have said, as I understand, in the previous answer to me that in the primary package the tunnelling was awarded, and we heard from the minister last year that that was $11.1 billion. The secondary packages are still out to tender or about to go to tender. That was the answer I got last year from the minister for public transport infrastructure. Is it literally a year and we still have not got anywhere on those secondary packages?

Tim PALLAS: Well, we are making progress. I think I will throw to Mr Loos to just take you through where we are at in terms of the processes for tendering around those secondary packages.

Danny O'BRIEN: Briefly if we could, Mr Loos.

Jason LOOS: Yes. No problems. The secondary packages are being procured as alliances, which includes the upgrade of the M80 ring-road and the Eastern Freeway component, and we are well progressed – the last 12 months have been progressing those packages.

Danny O'BRIEN: Right. Is there a time line on when they are actually going to be concluded?

Jason LOOS: Within the next 12 months in terms of –

Danny O'BRIEN: Oh, I would hope so! I hope I am not asking the same question this time next year.

David MARTINE: Sorry, Mr O'Brien, if I could just quickly add: the reference to the primary package $11.1 billion is on page 180 of budget paper 4. It appears under the title 'State Tolling Corporation'. So it makes reference to the total TEI. And then, as outlined on page 86 of budget paper 4, it makes reference to the remainder of North East Link, which is a TBC because, as you are no doubt aware, the Commonwealth announced in their budget a review of the infrastructure program over three months. So we are waiting on the outcome of that particular review.

Danny O'BRIEN: That is exactly where I was going next. Thank you, Secretary. What does that mean? I mean, I understood that the Commonwealth review was not investigating projects that were already underway. This is clearly a project that is already underway. We have been hearing about it for years, but we still have not got the final packages done. Is there a threat to the Commonwealth funding for that project?

David MARTINE: Well, their announcement was to undertake a fundamental review of their whole program. I think from memory they indicated it was a three-month review. So as a result of that, there are a number of projects in budget paper 4 that are pending the outcome of that review. So we have not had a lot of information or detail from the Commonwealth yet on their particular review, how they are planning to proceed or what is within scope. They have been a little bit, I guess, vague at the moment on the actual detail on that.

Danny O'BRIEN: Okay. Treasurer, could I ask the question, then – that footnote on page 86 does say the project includes a share of $1.75 billion of Commonwealth government funding. Have you had conversations with your federal counterparts to ensure that that funding is secure?

Tim PALLAS: What we have been assured, and I believe that the Prime Minister has made this point clear, is that the allocations that the Commonwealth have made with regard to the projects to the states collectively are secure and the states can keep those sums effectively in net on their balance sheets.

Danny O'BRIEN: So the $1.75 billion will be delivered by the Commonwealth.

Tim PALLAS: No. The point I am making is that the Commonwealth have to go through their processes, and we have got to respect that. They have said that the money allocated to each and every state is secure and can remain on their balance sheets. We would anticipate, because this project is, you know, substantially underway and given that we believe that it has been well and truly progressed through appropriate mechanisms, that it will continue to receive funding, but we have got to respect the Commonwealth's processes, and we will.

David MARTINE: And I guess the other important point there is that in the Commonwealth budget they did not adjust their payments to the states for infrastructure. So they announced they are doing a review, but they kept the funding for the states as articulated in the budget papers the same.

Danny O'BRIEN: So the upshot is that the $1.75 billion for North East Link – the Commonwealth review could say, 'Well, we actually want that to go to Geelong rail or airport rail.' It could go somewhere else.

Tim PALLAS: Well, conceptually it could, but in practical terms it is unlikely that a project as well progressed –

Danny O'BRIEN: Okay. Can I just repeat the question, Treasurer: have you actually had conversations with your counterparts to ensure that that funding is secured for North East Link?

Tim PALLAS: I have left those direct discussions to the Premier with the Prime Minister and the transport infrastructure minister with her respective opposite. To the extent that I have had discussions with the federal Treasurer, and communications, it has been about the overall impact upon the budget.

Danny O'BRIEN: Right. Can I just clarify: I thought you said earlier, Treasurer, that the initial works was $14.2 billion in North East Link. It might have been the Secretary, sorry.

David MARTINE: Going back to page 180, which makes reference to the $11.1 billion contract with the Spark consortium to develop the primary package, it makes reference to the TEI of $14 billion, but that is in relation to the primary package. Then the other component –

Danny O'BRIEN: Which the minister said last year was $11.1 billion.

David MARTINE: Yes. So the primary package is $14.0 billion. There is a contract at the moment for $11.1 billion. And then the other reference is – as you recall, you cited page 86, which is a 'tbc' pending the outcome of the Commonwealth review.

Danny O'BRIEN: Okay. Can I just quickly go back to the schools issue. Mr Barrett, you seem to know a bit about it. Do you have a spreadsheet with the list of 110 schools that will be forced to pay the new tax?

Chris BARRETT: As I mentioned before, Mr O'Brien, the list was compiled from that ACARA data.

Danny O'BRIEN: Do you have a spreadsheet that you could provide to the committee that actually –

David MARTINE: That is really pre-empting the Minister for Education's determination that these are the schools that will lose the exemption, because they will be named. So the minister will come out with the actual list.

Danny O'BRIEN: So the minister will have it. So you have predicated all the costings on a list and on criteria that we do not know what they are.

Chris BARRETT: Well, you have to have a basis for the costing, Mr O'Brien. We formed the basis for the costing –

Danny O'BRIEN: Yes. We just do not know who they are. You have got it; you just are not going to release it until the minister is ready.

David MARTINE: But as I mentioned earlier, as outlined in budget paper 3, our job is to cost government decisions, and the decision as outlined in budget paper 3 was to remove the exemption for around 110 schools. So the costing is based on –

Danny O'BRIEN: Right. But we cannot have a list of that 110.

David MARTINE: That is up to the Minister for Education in consultation with the Treasurer.

Chris BARRETT: And, Secretary, there is an important additional point, which is the minister under this legislation needs to wait for the passage of the legislation to publish that. It is a subordinate –

Danny O'BRIEN: Well, I mean that is quite absurd, with respect, because we have got an entire budget that relies on the passage of legislation.

Chris BARRETT: But that is the legislation.

Danny O'BRIEN: Anyway, I shall move on. Treasurer, the budget narrative, clearly, that you had in your budget speech and in the presentation this morning is all about paying down debt, but the net debt in this state is in fact going to go from $165 billion at the last update to $171.1 billion. How is that a plan to pay down debt? It is still rising.

Tim PALLAS: Well, the narrative is actually a reflection not only of the government's effort and endeavour but also the things that we see are vitally important for the community. What we do know – as a government that delivered surpluses and essentially invested in building our economy – is we borrowed to build before the pandemic came and we had a clear strategy and intention to continue to do that. However, $31.5 billion worth of specifically allocated and identified government debt was incurred in order to –

Danny O'BRIEN: I understand all that, Treasurer. That has been outlined. The question is: if you are dealing with debt, how is it that it is still going up?

Tim PALLAS: Look, we make no apology for the fact that we continue as a government to invest very substantially in growing the infrastructure and the services that the community needs. I did explain in the budget that our intention was to grow the economy and therefore by comparative terms the size of debt would reduce. So we are not quite there yet, but as you can see from the debt-to-GSP numbers, we are very close.

Danny O'BRIEN: A very nice segue to my next question, which is: the budget forecast that debt-to-GSP will increase to 24.5 per cent in the out years – so, 24.5 per cent of the state's GSP will be state debt. Is that the peak?

Tim PALLAS: Well, we will have to see, but certainly the government has made it clear – and you will have to wait for future budgets to see exactly where this –

Danny O'BRIEN: You have forecast many things. You have got the debt repayment plan for 10 years, so all the new measures to pay down the debt are over 10 years and supposedly temporary. Do you expect that the budget debt is actually going to peak at the end of the forward estimates?

Tim PALLAS: Our intention is to report on our progress in terms of meeting our debt obligations each and every year. I think it would be not only pre-emptive but also unwise to predict what might come beyond the forward estimates. Look at the distance that we have travelled since the November 2020 budget. There has been dramatic improvement in our material circumstances, in our debt position – 28 to 29 per cent debt-to-GSP was anticipated back then. It is now considerably lower than it was then. But to be clear, the government's intention is to move to a position where we can stabilise and then bring down debt as a percentage of gross state product. That is part of our four-step fiscal plan. That is what we are pursuing in an unwavering and focused manner.

Danny O'BRIEN: Okay. Obviously, we have got the future fund, and there are references to this being done effectively to reassure the ratings agencies. Secretary, have you been advised of any pending updates to our credit rating from S&P or Moody's?

David MARTINE: As you are probably aware, both S&P and Moody's put out statements on budget day. The normal practice is we then sit down with each of the rating agencies in the coming weeks and spend the day with them going through it in a lot of detail. Then they go through their own internal processes as part of their ratings assessment, and then they generally put out a formal rating assessment – they tend to vary each year, but often it is around August.

Danny O'BRIEN: Okay. What impact would a further downgrade of the state's credit rating have on net debt and the annual interest payments?

David MARTINE: That is always an interesting question, the impact of ratings on our interest costs, because we, as you are aware, are currently rated AA. New South Wales are rated AA+ with S&P and AAA with Moody's. Despite that differential, though, for example, on 19 May a 10-year New South Wales Treasury Corp bond was priced at 4.31 per cent and a 10-year TCV bond was priced at 4.31. The important point here is that the market determines it, not the rating agencies, and in this case the market has determined that despite the differential in ratings they are prepared to price them the same. Yes, that has drifted out a couple of basis points since.

Danny O'BRIEN: I understand that that is now. The question was: have you modelled what it would cost if we get downgraded again? Because that then takes us further away from New South Wales and others, which may well have a further impact on the market.

David MARTINE: What you see in the budget papers is effectively the current debt profile, remembering that all of our debt is fixed. TCV tend to aim for around that on average eight- to 10-year bond issuance. Some are obviously much longer; there are some shorter ones. Each year you have got a combination of both new issuance and then some refinancing. Generally maybe 6¾ to 10 per cent of your portfolio gets refinanced each year.

Danny O'BRIEN: Okay. Treasurer, on that, the forecast for net debt and our interest payments going forward is that it will end up being $22 million a day on current interest rates. I have been lobbying for a rebuild of Sale College in my electorate. That would be done in three days of debt repayments. Do you understand the impact on services and infrastructure for Victoria of the size of the debt that we have now accrued?

Tim PALLAS: I appreciate that the –

Danny O'BRIEN: I should add, sorry, that Sale College was not funded in the budget, along with a lot of other ones, but that is the point.

Tim PALLAS: The good news is we are spending 2½ times the amount on regional Victoria that the previous coalition government did year on year.

Danny O'BRIEN: We will come to that. You have cut agriculture and regional development by 20 and 80 per cent respectively, but let us come to that when we get to those portfolios.

Tim PALLAS: You can look at the weeds, but you have got to look at the overall picture. I know that trying to effectively criticise government for the things that you would like to see done in your electorates is a legitimate part of your job, but we have to balance the interests of every Victorian and make sure that everybody gets a fair share. Sorry, you were taking me back to the debt repayment schedules, and if I could just make the point that as a government we have seen as a consequence of the Reserve Bank progressively increasing the cash rate – I think 11 out of 12 months we have seen the cash rate rise. Let us hope we are getting to the peak of those adjustments in the cash rate. You would appreciate that is putting pressure on everybody. It is putting pressure on families with mortgages, it is putting pressure on business and it puts pressure on government balance sheets as well.

Danny O'BRIEN: If we go back to 2018 when we had 6 per cent of GSP as our state debt, you committed to increase it to 12 per cent. We are now heading to 24.5 per cent and that will be costing us $22 million a day. The cost and what we cannot then invest in Victoria in both services and things like Sale College – which I might add are not the weeds, they are really important for places like Sale – is absolutely coming at a cost to all Victorians.

Tim PALLAS: The point I would make here is that there has to be an opportunity cost to the decisions that we make as a community and as a government, and I believe that this government has acted in the interests and the wellbeing of the community. We have made a very clear and distinct effort in this budget to say there are two types of debt that we encountered during the budget – well, throughout the pandemic period. The pandemic debt, which served its purpose, it kept the community whole, but it is $31.5 billion worth of effectively nothing that has prospective economic value to the state. It served its purpose. We need to down pay effectively the equivalent of that debt, but we are investing to build the economy going forward.

Danny O'BRIEN: Thank you, Treasurer. Mr McGowan has a quick question.

Nicholas McGOWAN: Secretary, I just want to confirm because I am somewhat alarmed at what I have heard today in regard to the North East Link. So last year it was $11.1 billion. We have confirmed today that the primary contract, that is for the tunnelling, is $14 billion. That is correct, right?

David MARTINE: No. That is not correct. Page 180 of budget paper 4 makes reference to the $11.1 billion contract with the Spark consortium to deliver the primary package. That has not changed. The contract is still $11.1 billion.

Nicholas McGOWAN: What is the $14 billion then?

David MARTINE: The $14 billion is the total TEI, and I will get Mr Loos to explain what else is part of the primary package. But effectively that is the total TEI for the primary package, but the actual contract is still $11.1 billion. That has not changed.

Jason LOOS: The original funding for the whole is the $15.4 billion and the tender process for the tunnels package. That part is complete. We have updated that TEI. That is what is being reflected for the primary package, the $11 billion. Then the secondary package, which is now subject to the Commonwealth government discussions in terms of funding, is the stuff that is still being procured.

Nicholas McGOWAN: What is your forecast for that?

Jason LOOS: We are in that development phase, so we are not –

Nicholas McGOWAN: Roughly?

Jason LOOS: No, that is why we have 'TBC' there for that.

Danny O'BRIEN: Just a quick question, Secretary, with respect to the future fund. We have received the $8 billion from the VicRoads deal, if that is correct. That has actually been paid to the state of Victoria?

David MARTINE: Yes.

Danny O'BRIEN: Is that now offsetting the state's debt? So when we say in future 'it is in the out years', it is $171 billion –

David MARTINE: Yes, so it is a part of net debt – a part of the net debt calculation. Net debt basically is your gross debt less essentially financial assets. So that is sitting there as a financial asset, so it is part of the net debt.

Danny O'BRIEN: Without that privatisation, the out year net debt would be $179 billion?

David MARTINE: If that transaction did not occur, yes.

Danny O'BRIEN: Righto. Can I just ask the Treasurer: I know this is a different portfolio, but the question relates to the sick pay guarantee for casual workers. Where I am going to go with this is the impact on the budget bottom line. It is a two-year program, $245 million announced last year. In last year's budget there is an $80 million allocation for this year, 2023–24, but there is nothing in the forwards after that. What happens then? Does the program finish or do you introduce some new tax?

Tim PALLAS: Well, it is undertaking a trial. I suppose I am gratified that you are interested in asking me questions about the IR portfolio. But in terms of the financial effects going forward, the trial has to determine exactly where we go from here. I think there are tens of thousands of Victorian workers who are reaping the benefits of access to these payments. The reason we put these payments in place was to make sure that workers in insecure situations were not compromising the community.

Danny O'BRIEN: I understand all that. I am wanting to know what is going to happen going forward, because we have got a lot of assumptions made on the surplus in the out years. But if something like that, which I am sure the government believes is absolutely crucial and must continue, is not funded beyond this year, what happens then?

Tim PALLAS: We are undergoing the work around the trial, and the trial has been progressively expanded as we see appropriate categories of employment coming in.

Danny O'BRIEN: Will you rule out a new, additional tax on businesses to pay for it?

Tim PALLAS: No. We indicated at the time that we announced this package that were it to go beyond the trial stage, the government would look to see whether business should make additional payments to indeed continue to fund that trial.

Danny O'BRIEN: So another tax.

The CHAIR: Excuse me, Mr O'Brien, your time has expired. We are going to go onto Mr Hilakari.

Mathew HILAKARI: Thank you, Treasurer and officials. I appreciate the time that you are giving up today. A lot of the focus of the budget has been on the fiscal strategy. Treasurer, I am actually more interested in focusing on the economic growth that this budget provides, particularly initiatives that support business and the private sector to thrive. I would like to take you to budget paper 2, chapter 3, page 43, which briefly outlines the government's effort to grow the economy. Could you outline the strategy for further growing the economy in a bit more detail?

Tim PALLAS: Certainly, and thanks very much for the question, because quite frankly growing the economy is a vital part of the government's strategies around dealing with not just the difficulties that communities have to face as a consequence of the pandemic but seizing the opportunities that the circumstances of the time present. This is the kind of thing that marks proactive governments – the policy interventions that they make and that they implement to make the state more competitive.

Victorian businesses, big and small, should be immensely proud of their achievements during the last three or four years, and I mean that quite genuinely. We have seen this community come together with a clear focus on the sense of cohesion and effort that needs to be done to keep us all whole and to take the opportunities of the economic cycle. I think it takes an enormous amount of effort from an enormous number of businesses and workers to achieve the sort of economic outcome that we have been able to achieve in this state. The real GSP per person is expected to be 5 per cent higher in 2022–23 than it was in the 2018–19 financial year, the last full year before the COVID-19 pandemic. That is a phenomenal growth in economic output per capita. When it comes down to it, what this growth means is more jobs for Victorians.

As Treasurer, I routinely work with the Department of Treasury and Finance to appraise the business environment and the settings that we put in place to examine the ways that government can support businesses to reach their maximum growth potential, be that through direct industry development measures or, for that matter, enhancing taxation settings, and of course through improving our regulatory system. As you would know, the times have been tough, and the Andrews government poured immense effort into ensuring that Victorian businesses could survive. In fact we did this through tax refunds. We did it through waivers and deferrals; through investing in our economic infrastructure, like our broadband network; and by providing $11 billion of direct support to businesses that were struggling through the pandemic, particularly to give them the opportunity to seize the economic opportunities as they presented.

Victoria's economic recovery has been nothing short of phenomenal, and I am pleased to say that the 2023–24 budget really includes a range of initiatives that are designed to support the ongoing growth and development of our economy. In the 2023–24 budget the government is investing in innovation and industry growth. We are also investing in skills, better regulation and land use planning and a much more efficient tax system. These actions will help sustain economic growth. They will also support the Victorian households and businesses in the face of what is clearly a cost-of-living pressure situation.

Of course the new investments in this budget are just part really of the bigger picture and the consistent effort that we have been applying consistently over a number of years. We are getting on and delivering our signature jobs plan initiatives for the benefit of Victorian businesses and, might I say, also for the economy. Just to give you an example: the landmark $2 billion Breakthrough Victoria Fund, which continues to be available to Victorian investors that have the desire and the know-how to create game-changing products and services. They might well lack the capital to be able seize the opportunities as they present, but they certainly understand the nature of the product and the research that they have deployed and the opportunity that that innovation can bring. Just to give you an example, in December last year Breakthrough Victoria announced an investment into Victoria's ag tech sector, Smart Paddock. Its founder Darren Wolchyn invented the world's first reusable digital eartag for livestock, which allows farmers to access real-time health and location data of livestock on their mobile devices. So thanks to the capital that Darren was able to access via Breakthrough Victoria, the big business idea is really becoming a reality and one that will benefit all Victorian families. It will grow our economy, and it will put us at the forefront of innovation and the capacity to utilise that innovation. Taking it beyond just a good idea that somebody thought up, it is something that is being deployed to the material benefits of the economy.

Another key jobs plan initiative that was designed to boost the state's economic productivity was the $550 million Connecting Victoria program. We decided that our businesses did not have to wait for the Morrison government to address poor mobile coverage and the slow rollout of high-speed broadband across the state, so we stepped in to fix it. That, as I have said previously, has been an outstanding success story. In terms of mobile coverage, just to give you an appreciation, connectivity for Victorians was achieved in more than 1200 suburbs and towns, which makes a real difference to the lives of Victorians and, I should note in particular, regional Victorians. Also in partnership with the NBN, with Opticomm and with Swoop the government is delivering faster broadband to more than 130,000 businesses and households over the next three years.

Really, these are just a few examples of interventions that government make to grow the economy. You grow the economy, you seize the opportunities of the future. If effectively you focus on the problems that confront us at the moment without keeping an eye on what the opportunities for the future are, then we let our doubts and our fears consume us. As a government we have been much more prepared to look at growing the skill base and the opportunities for every worker in this state and every citizen in this state and making sure that businesses are well supported by a government that has their interests at heart.

Mathew HILAKARI: Just where you finished off, government regulations are where I would like to take you next and the investment that the government is making into that. Is this covered in the $45 million investment into 'Making Victoria an Easy Place to do Business,' with reference to BP3, chapter 1, page 109? And if so, could you start to outline to the committee the sorts of investment this fund will deliver?

Tim PALLAS: Well, I know that the Assistant Treasurer is particularly focused on this, and I am sure he will seize the opportunity to talk to you about the reforms that simplify, that streamline and that digitise our regulatory requirements and our approvals process, because it is all about making Victoria an even better place to do business. Better regulation, quite frankly, reduces the time and the cost that businesses and their employees spend on permissions, on approvals and on compliance. So in this budget the government is continuing to make it easier to do business by providing $45 million for a whole-of-government work program across regulators and councils to reform regulation for the benefit of Victorian businesses and customers. That work builds on the success of the Business Acceleration Fund, which was estimated to have delivered over $200 million in savings annually in reduced regulatory burden to businesses, basically by speeding up around 220,000 approvals related to licences, permits and other certifications and saving almost 300,000 days worth of administration. So improvements of this nature really do span a broad array of government activity. To give you a sense of the kind of areas where the acceleration fund is being used to enhance that and improve the digital experience for workers screening, for online working with children checks and NDIS screenings, these improvements flow to a whole range of businesses, not-for-profit and education providers, with expected productivity benefits of about $178 million over a three-year period, improving the experience of course of 390,000 users and making employees available to start work sooner. So a very clear and distinct productive benefit.

Of course nobody likes to see the heavy hand of regulation getting in the way of people getting to work and indeed of businesses being able to employ people as seamlessly and efficiently as they can. So these are very substantial innovations, inventions that will I think ensure that the community appreciates that the government understands that, despite a tight fiscal environment, investing in these improvements now ultimately unlocks economic opportunity for thousands of businesses, both now and into the future. Once these reforms are made they will have an ongoing advantage to the community, and that is exactly what the reform work is all about: making Victoria the best place to do business.

Mathew HILAKARI: Thank you. And just on employment, I am really pleased to take you to budget paper 3, page 70, the Made in Victoria initiatives. Can you explain why there is such a strong focus on manufacturing in this budget?

Tim PALLAS: Yes. I think this is important because of the journey that we have been on through the pandemic. I think increasingly the community has become conscious of the fact that we do need supply chain security. Much of the inflationary event that we are experiencing at the moment in no small part is due to events beyond our border, whether it be the Russia–Ukraine conflict or whether it be – or should I call it the Russia invasion of Ukraine – indeed the supply chain problems, particularly emanating out of China as they have come out of lockdown. But those problems are being experienced, to a lesser extent, right around the world. So we need to recognise that the way that we have traded in the past is not necessarily the way that we can assume that we will get the resources and support to continue to provide the economy and the community with the critical supplies that they need. The Manufacturing and Industry Sovereignty Fund will be established in this budget, $20 million, which will support the development, the expansion and the retention of sovereign manufacturing capability in Victoria.

We have also put $15 million aside for a fund that I have great interest in. I know that the minister for industry will take responsibility for it, but I will keep a very close watching eye because I am quite excited about the Research and Development Infrastructure Fund, which will be designed in partnership with industry to encourage and to support private sector businesses to invest in R and D and to support continued innovation and productivity growth. We know that whilst we have got good research, we have not necessarily demonstrated a consistent and continuing level of investment at a business or might I say even at a governmental level, at an economy-wide level, in R and D. Without that investment, without using funds like this to leverage that investment, I think we do our economy a massive disservice.

There is also a $4 million investment for supporting Victoria's defence manufacturing initiative to best position Victoria and our world-class advanced manufacturing businesses to secure the benefit from major Commonwealth defence projects. Initiatives like this will further boost the government's work to achieve the *Made in Victoria 2030* strategy, which of course Minister Carroll is leading, and he released that strategy last year. The importance of having a world-class, adaptive and resilient advanced manufacturing sector I think was really brought home when those global supply chains were disrupted so swiftly during the global pandemic. And increasingly as a community I think the reality is that Victoria has a proud history of leading from the front when it comes to advanced manufacturing in this nation, and we are absolutely committed to building on that record, and not just building on it but accelerating it, to take advantage of our natural advantages. As the world moves, I think, into a new definition by localised zero emissions and more advanced manufacturing, these investments are about ensuring Victoria is going to continue to lead the way.

And in instances where we need new manufacturing capabilities to emerge, we are not afraid to go out and to get them. And a classic illustration of that was our mRNA achievements. I really do want to pay tribute to mRNA Victoria and the team at DJSIR and its predecessors. When we announced this, I think it was in the May 2021 budget, it was like seagulls all flocking for chips. Every other state – every other state – put their hand up and said, 'Yes, well, we want one of those too.' But we went out and we put a strategic plan together. We demonstrated that we had the capability, such that we are probably now regarded as the third location in the world for biosciences and bioscience research – behind Boston, definitely, but closing in closely. I think we are very, very close to London, but we are seen as the third location in the world. And we effectively accentuated the positive. We took the opportunity to ensure that the skills and the capacity that we had – and a demonstration of how effective and compelling our case was is that even the Morrison government agreed that we had to set up an mRNA manufacturing capability in Victoria, and it is happening.

I expect to see next year, down at Monash, Moderna producing pharmaceutical product, mRNA product, for the nation and for our region. And that is vitally important for keeping us safe, but also to recognising we are going to create a culture of innovation and we will be able to use that manufacturing capability. But that is not all. We did not just stop there. We went out and we used our efforts to attract BioNTech. Now we have got a memorandum of understanding with them, and we are working towards having them invest here – the people who invented the mRNA technology and license it to Pfizer.

So what I am saying here is that the government is looking very strategically about what the compositional nature of our economy will look like into the future and what sovereign provision of materials we need to keep the community safe and to give them the enhanced employment, the jobs that are well paid, into the future. And we are making that investment not just by leading-edge identification of the industries of the future but investing in the skills of the future through our free TAFE courses and of course the expansion of free TAFE that we put in place in this budget.

So due to our commitment to supporting health manufacturing, we are building a very rare ecosystem. The BioNTech team, when they came to Melbourne and I took them around, stood at the head of Elizabeth Street in the Melbourne University facilities and they looked down and they said, ‘We don’t think we have seen a culture of innovation comparable to this since Harvard in the 1980s.’ And look, that is an incredible and compelling story for this state. It is because we do not take for it granted. We have always had to work harder because we know that the greatest asset that this state has is its people, and investing in their sovereign manufacturing capability and the ability of the state to be able to take the opportunities based on the skill and the innovation of our people is something that this government should be encouraging.

So we are really proud of the traction that we getting here, but we also recognise there is still a lot of work to be done. That is why this budget will provide an extra $12 million to mRNA Victoria to continue their critical work. Of course while supporting health and medical manufacturing is an area of particular interest to me, we are also very focused on areas like zero and low-emission technologies, advanced technologies in defence and advanced materials manufacturing, where we have some critical advantages as a state. We have made some outstanding innovations in manufacturing processes, whether it be in our carbon production or whether it be in titanium manufacturing. Victoria is well equipped to take advantage of new opportunities thanks to our highly skilled workforce; our globally connected supply chains; our engineering expertise, something that we continue to invest in in an ongoing sense; or our leading education, something that we value every day – it is not just a number plate, it is an investment that we put into this community in an ongoing and regular basis; and our world-class innovation precincts. A lot of people talk about the need to innovate for communities to take advantage of critical research – you have got to go one step below that: you have got to look at the quality of the education system that you put in place and the culture of preparedness to take a risk, to research and to be prepared to understand that your government supports the efforts that businesses such as those put in place every day. Research and development capability is critically important to our future.

Mathew HILAKARI: I would like to give you another 20-odd minutes on this one, because you have got clear passion for it. Is that possible? No, okay. I might ask about early intervention investment. Treasurer, I know your passion for early intervention – we have discussed it many times. I might take it to budget paper –

The CHAIR: Apologies, Mr Hilakari, your time is up. We are going to go on to Ms Sandell. You have 21 minutes.

Ellen SANDELL: Thank you, Chair. Good morning, Treasurer. Treasurer, I would like to ask about public service job cuts. Your COVID debt repayment plan budget information paper states it is 3000 to 4000 jobs that will be lost from the current levels. That is around, as I understand it, 7 per cent of the VPS workforce. Given that some departments are already struggling to meet the needs of Victorians, and you talked in your presentation about long-tail problems of COVID, can we really expect this will have no impact on service delivery?

Tim PALLAS: I think it is true that in this budget you see $2.1 billion worth of savings that the government has put in place. I think it would be quite frankly disingenuous for any government to say to the community – we have got a job to do here, and that job requires a strategy around our pandemic debt repayment plan – that the load should only be borne by certain sections of the economy. Government not being prepared to demonstrate that it too is making efficiencies around the way that it delivers services and services the vitally important job that it as a government gets in terms of policy development would be disingenuous and quite frankly unfair. So as a government –

Ellen SANDELL: We would expect some cuts to frontline service delivery due to those job cuts, wouldn’t we?

Tim PALLAS: No, we do not anticipate there will be, and if I could take you through the rationale behind that. I think people probably need an appreciation of what the size of the jobs that could be affected is likely to be, and we think it is 3000 to 4000 in the Victorian public service. In the Victorian public sector we anticipate that job numbers will actually grow by around 2000 because it is in the public sector that you have a principal focus on service delivery – not exclusively, but principally. We still have workers who deliver sharp-end services in the Victorian public service, such as child protection services. They will obviously be protected from any adverse cuts in efficiencies that will effectively do our share of the load when it comes to managing our responsibilities in the debt repayment plan. But if I could essentially give you an appreciation of the effort that we are putting in place, we recognise that there has been a long-term and ongoing effort within our public service, whether it be base reviews – there has been a long tail of efficiencies that the government has put in place over the last couple of years, and it will need necessarily to continue because as a government we believe that it is important for us to look at the quality of the services and the efficiency of the delivery of the services and how we can find ways to much more efficiently deal with implementing the changes that we see are vitally important. The public service works in a complex and, might I say, challenging environment, and quite frankly it has done an amazing job throughout the pandemic –

Ellen SANDELL: Sorry to interrupt, Treasurer. You have said that will be no cuts to frontline workers. Is there an official definition of that, and is there a list of roles that will be protected from those cuts?

Tim PALLAS: Well, we have made it clear that the responsibility for managing this is with the employers of public servants, and that is the secretaries of departments. What the government has done is give an overlay of what we see as being necessarily an important area of activity, that they should be focusing on their efficiencies first and foremost.

Ellen SANDELL: So then maybe a question to the Secretary: do you have a list of roles that will be cut from your department?

David MARTINE: The general definition of 'frontline' is the obvious roles: teachers, nurses, police, those sorts of functions. But as you would have seen in the budget papers, the articulation of these savings is very much around back-office support-type functions. The focus of all the secretaries in implementing the savings the government has agreed has been very much on those sorts of functions. It is those functions that are the traditional back-office support-type functions that –

Ellen SANDELL: So then do you expect, if we are cutting a lot of back-office staff, that frontline workers will be expected to do more back-office functions?

David MARTINE: I would not have thought so. There is always scope within those functions to look for better ways of working and efficiencies et cetera. As the Treasurer indicated and as you indicated in your question, there is sort of a figure of 3000 to 4000 FTEs in the Victorian public service, but the expectation is very much focusing on those back-office support functions.

Ellen SANDELL: Okay. Thank you. I will move onto another topic. Treasurer, you talked in your presentation about this being a budget that looks after the future. It is obviously a budget that does include a number of cuts. It includes a number of cuts to programs in the environment and climate change areas. For example, we are seeing a 22 per cent cut. If we look at budget paper 3, page 145, we are seeing a 22 per cent cut to the environment and biodiversity section of DEECA – the Department of Energy, Environment and Climate Action. Treasurer, the latest state of the environment report showed all our biodiversity indicators – every single one of them – are poor and declining. We have also seen revealed that we have over 2000 threatened species and ecosystems in Victoria, which has been a sharp increase on previous years. How do we think this government is going to arrest the decline of our biodiversity crisis if we are seeing a 22 per cent cut to that area in the budget?

Tim PALLAS: I thank you very much for the opportunity to turn my mind to this issue, because I did see some commentary from the Greens about the so-called cut to DEECA. Can I be very clear. There are two principal areas where the reduction in allocations occurred. One was the almost $2 billion that the state put in place effectively to deal with flood-affected communities. Of course you put the money in to DEECA –

Ellen SANDELL: That is not what I am referring to. I am referring specifically to 22 per cent cuts to specifically the biodiversity section, which does not include flood and it does not include the power saving bonus – any of that.

Tim PALLAS: Okay. Can you take –

Ellen SANDELL: Budget paper 3, page 145. It is called 'Environment and biodiversity'. There is a 22 per cent cut on the previous year.

Tim PALLAS: I will have to take the issue on notice, but I would make the point that you would appreciate that there is a specific commitment from the government, around some $200 million, that we are putting into forestry to assist with the transition out of forestry in an accelerated sense. That is on top of something like $700 million that we have already put into this industry to support it. That will, as part of that contribution – which might not be included here – include efforts around better forestry management, better servicing and provision for our forest reserve going forward. It may well be that what we have got here is a disparity between budget items where one allocation has been put under the heading of forestry and forestry transition but it will have a dramatic benefit upon biodiversity, and I am sure you would be the first to acknowledge that.

Ellen SANDELL: I appreciate that, but biodiversity exists beyond forests as well. There are many threatened ecosystems in Victoria.

David MARTINE: And perhaps if I could just add, at the bottom of page 152, which talks about that particular output, the last sentence there – there is an explanation at a high level:

> *The lower 2023–24 target predominantly relates to the funding profile of a number of initiatives including the Bushfire Response and Recovery: Supporting economic growth and biodiversity and the Core Environmental Programs initiatives.*

Ellen SANDELL: That is right. The way that I read that is that we have seen cuts to 'supporting economic growth and biodiversity' and cuts to core environmental programs.

David MARTINE: As the Treasurer mentioned, we can take that on notice. That could relate to, you know, one-off programs that naturally come to an end, so when they come to an end in the next year's funding it looks like it is a cut, but it is not.

Ellen SANDELL: But the biodiversity crisis has not gotten any better.

Tim PALLAS: Well, that is true, Member, but the basic problem here is that this particular program that you are drawing my attention to is a lapsing initiative which was related to the 2020 bushfires, and having dealt with that issue, that is the cause of that decline in that specific program. We are all entitled to argue 'Well, there are other areas that investment should be made in,' and I have directed you to the effort that we are putting in in the forestry area, but it is a little I think disingenuous to say you have got a particular program for a particular purpose, a particular event, that has done its job, and that constitutes a cut.

Ellen SANDELL: I do not think that is what that is referring to, but I will move on. Talking about crises that we are facing in Victoria, obviously housing is a huge crisis that we are facing at the moment. The budget allocates only an extra $112 million to new initiatives for homelessness and housing stress. That is budget paper 3, page 40. $112 million for new initiatives around housing and homelessness, but then it allocates four times that amount to racing, so we are looking at $112 million for new housing programs yet $442 million for racing. Is supporting the horse and greyhound racing industries really more important than people who are living in their cars and on the streets right now?

Tim PALLAS: Absolutely this government has been putting very substantial amounts of funding into homelessness and housing issues pretty consistently now for some time. In fact I can recall the last two budgets that I produced talking about record contributions to homelessness. But this budget invests $275.9 million in addressing homelessness and to make critical improvements to public housing in the state of Victoria. To give you an appreciation of those investments, we are putting $141 million – $141.4 million in fact – into installing air conditioners in Victoria's public housing high-rise towers, just as we promised. That will improve materially the circumstances of some 13,000 Victorians across those 40 high-rise towers. There is $67.6 million to deliver a Housing First response, which basically includes multidisciplinary support for individuals experiencing rough sleeping right across some five supported housing facilities. There is $40.5 million to continue programs that support people who are homeless and at risk of homelessness. There is $26.5 million to support key local initiatives increasing access to housing and homelessness supports for people across Victoria, including Salvation Army, Magpie Nest and Hope Street First Response youth services. The continuing effort that we have put in place in this area is really a demonstration of the values and the priorities of this government. We recognise that if you want to look at where the greatest disadvantage in this community is most manifest, it is in homelessness, and we will continue to make very substantial investments in this area going forward.

Ellen SANDELL: Thank you. You mentioned in your presentation that rents are up in Victoria 25 per cent, and we saw the RBA just recently say that there is really no end in sight in terms of rent increases. We are expecting at least another 10 per cent on average nationally next year, probably more in Victoria, so we do have this whole generation of Victorians now who are unable to buy a house but are also spending 30, 40, 50 per cent of their income on rents, with many people just one rent rise away from homelessness. There is nothing new in this budget. There is nothing around renting. There is nothing specifically to assist renters. Will the government commit to a rent freeze so that we can wait for wages growth to catch up with rents?

Tim PALLAS: Thanks very much, and I do recognise that this is an issue that I think is becoming increasingly a matter of public concern. It is a matter that the government takes very seriously and, as the Premier has indicated, we will be having more to say about this in the latter half of this year. This is a very, very complex area of public policy.

I note that you recognise the comments of the RBA. It was only two days ago that the governor of the Reserve Bank, when asked what the consequence was of peaking prices around rent and access to housing, said it was an effect or a function of the laws of supply and demand at work. It is, and we cannot deny the fundamental gravity of that problem. We do not have enough supply of housing into the market and we have an ever-increasing demand, particularly now that we have seen our borders open and our population numbers start to move up.

What we do know is if you look at regional Victoria, over three years there was a 37 per cent increase in rental prices. If you look at metropolitan Melbourne, the advertised average price increase over the last 12 months is 25 per cent, so these are very substantial increases. The government does not see any value in trying to effectively deflate the market to a point where all you do is get a spring back and a very substantial one. We saw that in practical terms when the rent freeze that we put in place was lifted. Perhaps the numbers that we are seeing at the moment in metropolitan Melbourne are in many cases just a reflection of that bounce back, so we need an enduring solution to this.

Part of it is around supply and demand, but part of it is about what constitutes a fair return for investment and where do we get to in terms of being able to have a conversation with the community about a compact. How do we get to a point where we can demonstrate to the community that the government is making an effort and to investors that we are doing what we can to take the weight of burden of investment away, off their backs, so that we can get more supply in the market? What role should the government play in terms of getting more supply into the market? And similarly, as part of a broader and grand compact, how do we get to a point where as a community we accept there has to be some moderation in the level of rent increases that are being experienced at the moment?

Ellen SANDELL: I appreciate that, thank you. If the government is ruling out a rent freeze but you talk about wanting an enduring solution, what about rent caps? Has the government considered rent caps going forward? They work in other jurisdictions.

Tim PALLAS: Well, we have said that everything is on the table, and we mean it.

Ellen SANDELL: Okay. Thank you. You talk a bit about supply. My understanding is that there is no increase in the vacancy tax in this budget. The vacancy tax essentially is a voluntary tax which is only applied when people self-declare that their property is vacant. Do you have any figures on how many properties are lying vacant across Melbourne and across Victoria every night? Would you consider something such as the Vancouver model where we have other ways of applying the vacancy tax that are not just voluntary?

Tim PALLAS: I would not want to go into too much of how we double-check the self-declarations, but we do check. I also say I do not want to deny you the opportunity of telling the world what these numbers are, because I have only recently signed off on a question on notice to me from the Greens which gives you those numbers.

Ellen SANDELL: I appreciate that, thank you. I did have a question for the CEO of the VFMC. I understood she would be here. Is that no longer the case? Oh, thank you. I will ask my question as you are taking your place, sorry. The VFMC manages over $71 billion for 31 Victorian public authorities and related organisations, and it will be, as I understand it, the investment vehicle for the Victorian government’s future fund. Has there been any analysis done of the investments in fossil fuel assets that are held by the VFMC?

Kate GALVIN: Hello, I am Kate Galvin. I am the CEO of VFMC, and thank you for your question. The VFMC is a national and international multi-asset-class institutional investor, and we do invest in fossil fuels. We have a longstanding and contemporary approach in place regarding all of our investments, which is known as our investment stewardship policy, and we have been doing this for more than 15 years. So yes, we have looked at the fossil fuels that we invest in. But we aim to be a very responsible steward of our investment capital, and our policy has four anchors to it – we look at active ownership, ESG integration, thematic projects and collaboration and information sharing – and it applies across all of our asset classes, so we take a very responsible approach to our investment.

Ellen SANDELL: Thank you. Given the recent IPCC report, do you not think it would be responsible now to divest from fossil fuel assets?

Kate GALVIN: We look at every investment from a responsible perspective. We are facing a really big transition around climate and energy, and there are pathways that need to be funded. Some investment in fossil fuels to help fund these pathways, we think, is a wise investment.

Ellen SANDELL: Okay. Thank you. Back to the Treasurer. Thank you for your time, Ms Galvin. On the Hydrogen Energy Supply Chain project the Treasurer earlier this year announced a $2.3 billion deal with the Japanese government and Kawasaki industries to turn brown coal into hydrogen for export to Japan. I could not see anything specific related to this project in the budget. What support is the Victorian government providing to this project currently?

Tim PALLAS: I think it would be very, very premature to describe this as a deal.

Ellen SANDELL: You announced it as a deal though.

Tim PALLAS: No, we did not. We announced it as the Japanese government and the Japanese manufacturers identifying that the HESC project was their preferred candidate for the Green Innovation Fund that the Japanese government had put in place. We indicated that we were prepared to continue to work with the Japanese government and our Japanese partners around the issues. But believe me there is a lot of due diligence that Japanese manufacturers are doing and that the Australian and Victorian governments need to do before we get to a point of clarity about this project. I say that for very good reason. We need to satisfy ourselves about the technical feasibility of this project, the environmental feasibility of the project –

The CHAIR: If I can stop you there. The time has expired for Ms Sandell. We will go on to Mr Hamer. Thank you.

Paul HAMER: Thank you, Chair. Thank you, Treasurer and department officials. I would also like to take you back to the early intervention initiative, which is appendix C of budget paper 3, page 407, which lists a range of early intervention investments. I would just be interested in knowing a little bit more detail about those and how that is going to benefit Victorians.

Tim PALLAS: I am really proud of this initiative, and as Treasurer I do not think I have spoken more highly or effusively about the great work that the Department of Treasury and Finance have done in being able to land what is a world-first policy. The early intervention investment framework, affectionately known as EIIF, basically embeds actions that offer life-changing results. It is smart policy, it saves money and it helps people before they reach crisis. The fundamental principle here – the old adage we all know: a stitch in time saves nine – is that getting involved in problems as they emerge avoids the longer, more substantial costs of having to deal with acute presentations further down the track. We all know that it makes sense, but it also makes good investment sense as well. This year we will be investing more than $677 million, our largest package on record, which will return $1 billion worth of benefits over the next decade. Year by year our cutting-edge early intervention investment framework is growing and is saving money for Victorians, but of course, most importantly, what it is doing is changing lives.

Certainly there are, as the list on table C.1 shows, 22 EIIF initiatives in this budget, which include expanding the forensic community mental health workforce to support adults with serious mental health needs who are in contact or at risk of coming into contact with the justice system; delivering a housing-first response, along with multidisciplinary support, for young people leaving residential care – another vitally important project, which is all about making sure that they not only become happy and contributing members of our community but they avoid some of the more likely life case scenarios that they are on a trajectory towards if the state walks away from its responsibilities. With those likely and adverse outcomes comes considerable cost both to the state, to the Commonwealth and, might I say, to the community at large. So we are identifying and supporting early school leavers who are lost or disengaged from the education and training system by enhancing pathways to complete year 12 and also by supporting data infrastructure. There are 22 initiatives broken down across a variety of departments – the Department of Education and Training, the Department of Families, Fairness and Housing, the Department of Health, the Department of Justice and Community Safety as well as the Department of Government Services – so you can see it is a world-first approach to budgeting that benefits us right across government.

Paul HAMER: Thank you, Treasurer. If I can take you to page 108 of budget paper 3, there is $1 million in output initiatives for gender responsive budgeting. I was just wondering if you could take us through what that is and what the value of the gender responsive budgeting gender impact assessments is to this budget.

Tim PALLAS: Absolutely. Gender responsive budgeting is a vital part of the government’s effort to recognise that when it comes to making decisions and determinations about what constitutes a more inclusive, fair and equitable society and one that also recognises that women in our community have often suffered from unintended consequences of decisions when their interests have not been front and centre of the decision-making process of government and in 2021 we became the first state in the nation to implement gender responsive budgeting. One of the core components to help the government implement this legislation is the use of what we describe as gender impact assessments. Those assessments assess and influence program design to ensure that the government is supporting equal access to opportunities and to the resources of the state. It is important because many of the policies and program responses that we put in place are different based on the gender or identity of the person accessing government services. The assessments provide refined information about impacts of gender so that decision-makers and government are better enabled to more clearly target investment and make more informed budget decisions. Every decision we make in the context of this budget has associated with it an assessment around gender impact, so it creates fairer outcomes for all members of our communities. When our cabinet committees particularly look at the structure and the frame of the budget, it is contextualised in the sense that we have to have front and centre of our focus and decision-making the impact that these matters have upon gender and fair opportunities across the community. There is a bit of history to these. The gender impact assessments were created to give us a more sophisticated tool to measure how government policy programs and services will impact different people in our community.

If you look at the last budget that we produced, we had the example of the Head Start program, which is a statewide support system to provide pathways for students to undertake school-based apprenticeships and traineeships. The TEI for this bid recognises that boys and girls have different experiences in apprenticeship and traineeship systems. Women and girls are less likely to access vocational pathways, and when and if they do it is often into lower paying industries. This understanding meant that the Head Start program could seek to increase awareness of higher paid male challenging norms. A conscious effort is being taken so that gender inequality is not further entrenched by the continuation of the status quo and steps can be taken to ensure that we are working towards more positive outcomes for both boys and girls.

So that responsive budgeting process allows us to better tailor our investments to deliver our programs, our services and our infrastructure to the community’s needs, but we are also legislating to require gender impact assessments. So we are now measuring gender impacts as part of the budget process across health, across education, across transport and across jobs. We know that government policies and investments can advance gender equality and can improve lives, so GIA can help access and influence program design to ensure that the government is supporting equal access to opportunities and resources. How we deal with day-to-day experiences of women of colour can be very different, and that can mean that governments need to look at providing different services to ensure that those services are accessible to the cohorts and those policies are targeting those cohorts more effectively.

We are also in the business of delivering training in gender impact assessments to almost 400 staff directly across the Victorian public service and even more as a result of train the trainer programs. This is about making sure that we inculcate the responsibilities of gender impact assessment on every decision that government makes, and we make sure that we have the skills and the capabilities to advise government to make us cognisant of the impact of those decisions and to make sure there are no perverse or unanticipated outcomes of decisions we make that work to the disadvantage particularly of women in our community.

Paul HAMER: Thanks, Treasurer. Can I take you to the measures addressing cost-of-living pressures. Obviously it is acknowledged in the budget that families and businesses are facing some increased cost pressures. I was just wondering if you could outline what the initiatives are in this budget to alleviate some of those pressures.

Tim PALLAS: Certainly. From a government perspective there is no more driving responsibility of any government than to ensure the wellbeing of its community, and cost of living is making it harder for families at the moment to make ends meet. That is why the government is aiming to expand its support for households with initiatives like free kinder; the $250 power saving bonus – that is the fourth tranche of the power saving bonus; free TAFE; and capped V/Line fares. Right across the state parents of our littlest Victorians can now enrol their three- and four-year-olds in free kinder. Up to 140,000 children will benefit from free kinder this year, creating opportunities right across the community. Those opportunities of course translate also into opportunities for their families. Free kinder support for families at a time when cost-of-living pressures are really a significant challenge makes sure that families get up to $2500 per child per year and are better off. In terms of taking those responsibilities and payments for those services by making them free, it has ensured not only that the children get access to the support and educational offerings that they need and deserve but also that their parents are not fitted up with the financial burden of it.

It is also about making sure that children in those formative early years get the socialisation skills, the play-based learning and the development head start that will shape their life opportunities throughout their whole life. It is called Best Start, Best Life for a reason, because that is exactly what it is delivering. This is a $9 billion reform. This is nation-shaping reform under the leadership of the Premier with other state leaders, particularly New South Wales. But we are a long way in front on this in no small measure because we recognise that this is not just a cost-of-living effort. This is a change that will shape the nation and the future and one that is nation leading, one that will mean that we have an economy and a community with people that will get the skills necessary, the competence and the confidence to play their part when it comes the time. And for older kids we have got the Get Active Kids voucher program to reduce cost-of-living pressures for Victorian families. It also provides eligible kids under 18 with vouchers of up to $200 to play sport, covering costs such as uniforms, equipment and registration.

We are also making sure that essentials like health care are affordable to all Victorians. When budgets are tight at home, no Victorian should have to choose between putting food on the table and getting the health care that they need. We know that due to almost a decade of neglect by the former coalition government federally, Australia's primary health care system is broken. Under the coalition we saw a downward trend in GP bulk-billing rates, with the average out-of-pocket expenses increasing to more than $40 per visit. Rather than being a spectator to the decline of Australia's universal healthcare system, our government stepped up. And it is probably not one of those areas that you would normally expect a state government to see a responsibility for, but we could not simply sit by and watch families being deserted from the health care that they need.

We committed to establishing 25 priority primary care centres to care for Victorians for free. More than 50,000 patients as a consequence have been seen by our priority primary care centres for common presentations that they used to visit GPs for – presentations like lacerations, abdominal pain, infections and the like. So not only are our priority primary care centres delivering better health outcomes for Victorians, but they are also reducing demand on our emergency departments, and that is where the state sees an improvement and hopefully the community will see in the long term an improvement in presentations to our emergency departments. This is putting people into the facilities that will provide the appropriate triaged and required care, appropriate to the circumstances that they confront, and making sure that that care is provided in an efficient and effective and sensitive way. And to make sure that we have got the workforce required to meet those PPCCs, we are offering free TAFE and more healthcare workers right across the state. Our government is delivering more free TAFE courses to Victoria's in-demand industries, so this is a win-win. Effectively, we recognise where industries have problems, and we are making investments to ensure that those industries get the workers that they need and that the workforce have got a clear appreciation of where the jobs of the future are – jobs that they can have an expectation that they will get – and that they will get a substantial reward for their skills.

More importantly, we are freeing up the way that people can undertake training, such that we will be able to see older workers who have already undertaken skills be able to take lateral enhancement through TAFE courses. The diploma of emergency health care course qualifies students to work in non-emergency patient transporters as ambulance transport attendees, patient transport officers and ambulance community officers as well as providing a pathway into university paramedicine courses. We know that our health care system needs more staff to get patients the care that they need and that these new TAFE courses will not only help them get a career in a cost-efficient way that will help the community but take some of the cost of the education processes off their back and into a career that will be fulfilling for them and enhancing for our community.

The other courses that we are adding to the free TAFE course list are the certificate III in production horticulture; the graduate certificate in client assessment and case management, which upskills health and community services workers in the family violence field; and the diploma of interpreting in Auslan. Free TAFE has saved students more than $297 million in fees since our government introduced it in 2019, removing the barrier to training for a great new career for more than 122,000 Victorians, so it is proving its worth. It is taking the cost of education off these individuals, and it is now seeing the enrolments grow in our most in-demand industries, particularly the 2021 commencements, growing by 56 per cent in the diploma of nursing, 80 per cent in the certificate IV in disability and more than 130 per cent in early childhood courses to support our Best Start, Best Life reforms, marrying good policy with a commitment to ensuring that we have the workforce that can resource that good policy and encouraging people to take the opportunity by taking the cost out of the education journey that they need to necessarily go on, skilling up our young people for the future both as educators and nurses and indeed as students, making sure that they get the opportunity through Best Start, Best Life to be true participants, properly educated and set on the right course. Since 2014 we have made a record $3.5 billion investment to rebuild the broken TAFE sector and support universities, higher education, to give every Victorian access to quality education and rewarding careers paths, and this budget continues that important work.

Paul HAMER: Thank you, Treasurer. Still on the cost-of-living pressures, one of the most well received initiatives has been the power saving bonus. It has been very well received in the Box Hill electorate. I was wondering if you could just outline to the committee a bit more about that and then what other measures the government is taking to help drive down energy costs for households and businesses.

Tim PALLAS: You are right to say, Mr Hamer, that this is a very, very popular scheme. It is so popular that every member of the state Parliament, regardless of their political divide, is out there extolling its virtues to their communities. I assume that they are giving appropriate regard to the initiative and innovation of the Andrews Labor government while they are doing it. Since 24 March more than 1.2 million Victorian families have applied for the new round of the power saving bonus and more than 1 million Victorian households have already received that $250 in their pockets. That is on the top of the 1.85 million Victorians who received the bonus in the last round. That is $500 of direct bill support for Victorian households since July last year. Of course we know that right across this great state Victorian households are taking up the power saving bonus in droves. Whether it be in regional Victoria or in metro Melbourne they are applying for the power saving bonus, and it is very, very easy. Not only can you apply for the power saving bonus but also you can compare your price online. That puts a bit more market rigour in the offerings that our retailers are putting into the market, and hopefully it gives people an insight into how their current deal compares to what they might be able to get were they to switch. A bit of competitive zeal I think is vitally important, and it is a good policy innovation, as well as quite clearly and unashamedly helping families with the peaking price of power at the moment. Households can call the Victorian Energy Compare helpline, 1800 000 832, to apply over the phone or to get connected by an outreach partner in their community.

The CHAIR: Thank you, Treasurer. Mr Hamer, your time is up.

Treasurer and department officials, thank you very much for appearing before the committee today. The committee will follow up on any questions taken on notice in writing, and responses are required within five working days of the committee’s request.

The committee will now take a 20-minute break before beginning its consideration of the trade and investment portfolio at noon sharp.

I declare this hearing adjourned.

Witnesses withdrew.