

TRANSCRIPT

LEGISLATIVE ASSEMBLY ECONOMY AND INFRASTRUCTURE COMMITTEE

Inquiry into Commonwealth support for Victoria

Melbourne—Wednesday, 15 December 2021

MEMBERS

Mr John Eren—Chair

Mr Gary Blackwood—Deputy Chair

Ms Juliana Addison

Ms Christine Couzens

Ms Steph Ryan

Ms Kat Theophanous

Mr Nick Wakeling

WITNESS (*via videoconference*)

Mr Ryan Batchelor, Executive Director, The McKell Institute Victoria.

The CHAIR: Before we commence, I want to start by acknowledging the traditional owners of the various lands on which we are all gathered today. I acknowledge that in this virtual environment we are gathering on many different lands and I pay my respects to their elders past, present and emerging.

Thank you, Ryan, for being with us this morning for this very important inquiry that we are conducting. Before you commence your presentation, can I just welcome you on behalf of the Committee. We have got three of the members here—Nick, Kat and Gary—and staff, obviously, with Kerryn, Janelle and Marianna.

This is the Legislative Assembly Economy and Infrastructure Committee's Inquiry into Commonwealth support for Victoria. Can I just remind members and you, Ryan, that all mobile telephones should now be turned to silent.

All evidence taken by this Committee is protected by parliamentary privilege. Therefore you are protected against any action for what you say here today, but if you repeat the same things outside this hearing, including on social media, those comments may not be protected by this privilege.

All evidence given today is being recorded by Hansard. You will be provided with a proof version of the transcript for you to check. Transcripts will ultimately be made public and posted on the Committee's website. Could I please remind members and witnesses to mute their microphones when not speaking, to minimise interference.

I now invite you, Ryan, to make your brief 10-minute opening statement to the Committee, which will be followed by questions from the Committee itself. Thank you very much for being here today.

Mr BATCHELOR: Thanks very much, John, and Committee members. Thanks for taking the time to hear a submission from The McKell Institute. I thought I would just give you a brief outline of who we are and what we do and then take you through the submission which we have made to the Committee on Commonwealth support to Victoria.

The McKell Institute is an independent, not-for-profit research institute founded in Sydney about 10 years ago. It opened up a Victorian office in 2018, and I have been the Executive Director here in Victoria since the end of last year. Part of our remit is to look at issues of national significance—policy issues right across the sort of economic, employment, work, health, social care spectrum. In particular my remit is to look at how matters affect Victoria, with a particular focus on policy issues that affect the Victorian economy, that affect people in Victoria. So in doing my job, I am trying to look at how Victoria is faring compared to the rest of the nation. We have a report, which we released just today, on mental health services that Victorians have used during the pandemic. That is just to give you an indication of the kind of work that we do.

The submission that we made to the Inquiry focuses largely on infrastructure investment. I know the Committee has a particular interest and has heard a lot of evidence and received a lot of submissions in relation to the goods and services tax and its distribution. We have not made a submission on that, partly because it is a field that is being well covered by others and we felt that particularly on this question of infrastructure investment there was some important information that the Committee needed to hear. So that is just to give you a sense of why this submission is focused on infrastructure investment.

What we have done—and this comes out of work that we had done prior to the Committee's convening this Inquiry—is looked at how infrastructure investment from the Commonwealth Government compares with the infrastructure investment being made here in Victoria and what the relative effects of that level of investment were and the consequences of those levels of investment for the Victorian economy. I do not need to explain to the Committee why infrastructure investment is important—it creates jobs and it creates lasting pieces of capital which provide both economic and social benefits to the state. We recently published a significant report in August, called *Bridge over troubled water*, which looked at the role that Victoria's infrastructure pipeline played during the COVID-19 recession. Obviously the pandemic caused Australia's worst recession in 30 years, and so we had a look at what was the impact of Victorian infrastructure spending on the state's economy during that pandemic, and I will come back to that.

As part of that work we did a bit of a deep dive into exactly where funding for infrastructure was coming to into Victoria. We looked at what the Victorian Government was spending and what the Commonwealth Government was spending, and we looked at it from multiple sources. There are essentially two main sources

you can find that will give you good clean data on infrastructure investment. One is the Commonwealth budget papers. So we did some analysis of how much money was being allocated to Victoria in the Commonwealth budget papers compared to Victoria's population share. We found that in the last budget, so for the financial year ending 30 June 2021, Victoria received about 18.3 per cent of total infrastructure payments being made by the Commonwealth, whereas as our population share was 25.9 per cent. So there is a 7.65 per cent gap between the amount of infrastructure being invested in Victoria by the Commonwealth and our population share. We calculated that if Victoria had received its fair share of Commonwealth infrastructure investment in that 12-month period there would have been an additional \$745 million being invested in our state. So they are the headline numbers for the last financial year.

We also then did a bit of a deep dive into some of the particular programs, because obviously the way the Commonwealth spends infrastructure money—you know, some on roads, some on rail—really does vary across the board. So we had a look at some particular programs just to highlight some of the inequities that exist in some of the Commonwealth infrastructure programs that the Commonwealth administered. We found that just 2.6 per cent of funding from the program called 'roads of strategic importance' comes to Victoria, which is obviously well below our population share. We also receive only 5 per cent of funding from the heavy vehicles safety and productivity program, which we found to be quite troubling given the scale of freight that comes through the port of Melbourne; the port of Melbourne being the largest container port in the country. There is a lot of freight being pushed through Victorian infrastructure, yet this particular program designed to make sure that the heavy vehicles that transport that freight—we are getting 5 per cent of that funding in the last financial year. The headline numbers are pretty shocking, but then when you drill down into some of the particular programs we also find that pretty shocking as well.

The other way you can look at Commonwealth infrastructure investment in Victoria is by looking at the national accounts. So the Australian Bureau of Statistics publishes quarterly national account data. So we went and had a look in that. Capital investment is broken down in those national accounts into public and private, and then within public it is broken down between Commonwealth and state investment, both by the general government sector and by public corporations—things like universities and other utilities. So we just focused on Commonwealth general government—so if you just look at Commonwealth general government infrastructure investment versus state general government infrastructure investment. Then we had a look back over history and tried to map what has been going on and the relative change that we have seen in that type of investment as detailed in the national accounts by the ABS over the last 10 to 15 years. We found that if you go back a decade, in about 2012 the amount of infrastructure investment by the State and the Commonwealth Governments in Victoria was about the same. It was about \$1 billion to \$1.5 billion a year; it moves around a little bit.

In 2015 there was really a big step change in infrastructure investment in Victoria. I mean, I do not need to tell you how much is being spent, but the State Government has put a lot more on the table. So we had a look at how does that compare to what happened with the Commonwealth over the time? And basically since 2015 the State Government has massively increased its infrastructure investment in Victoria and the national government infrastructure investment has basically flatlined, such that in the June quarter—the latest available data that we had when this report was being prepared—showed that the value of Commonwealth infrastructure investment in Victoria from the government general government sector was \$1.068 billion. The value of state government infrastructure investment was \$5.275 billion. So that is about a fivefold difference, when a decade earlier it was about the same. We have got some charts in the report that demonstrate that gap.

I mentioned this *Bridge over troubled water* report earlier. One of the things we did in that was we created a model which essentially asked the question: what would have been happening to the Victorian economy had the State Government not increased its infrastructure investment in or about 2015? So we took the levels of state government infrastructure investment from the decade prior and modelled the projection from 2015 to the present day, assuming that essentially there had not been Victoria's Big Build and there had not been all of this state government infrastructure work, and then we looked at what effect that would have had on the size of the state economy during COVID. We found that, without the State Government's infrastructure investment pipeline, the recession in Victoria last year would have been twice as bad as it was and that during the pandemic not only did the state's infrastructure investment keep rising, we found that the Commonwealth's infrastructure investment actually went backwards. So in this hour of need, so to speak, the state's infrastructure investment was really critical in pulling the state through, in softening the load. That is why we chose the title

Bridge over troubled water, because that is effectively what it was. It was building a bridge over a period of immense economic uncertainty while at the same time things were going backwards from the Commonwealth.

The last point I will make is that the other thing we did was we looked at what we call the delivery gap. The Commonwealth budget papers are often statements of hope rather than statements of reality. So we went back and had a look at: how much did they promise and how much did they deliver in infrastructure to Victoria? We looked at the last year, but the same thing applies if you go back over the prior years—and we just did not include all the detailed working in here because it would have just been tables and tables of incomprehensible material. Basically comparing what they promised in the May budget in 2020 for the 2020–21 financial year with the final budget outcome that was released in September 2021, there was a delivery gap of about \$89 million that was promised but was not spent and that that underspending was a pattern that has been repeated from prior years. So in the last financial year \$89 million was the gap, the year before that it was \$45 million, the year before that it was \$189 million. These just are not little delays; they are a systemic pattern of underdelivery of promised Commonwealth infrastructure investment into Victoria, which we were a bit surprised about to be honest.

That is what I wanted to take you through: the gap over time, the annual population versus shares—those little programs—and then also the delivery gap. I am very happy to take questions and have a discussion with you about it.

The CHAIR: Thanks very much, Ryan. Thanks for your submission and also your presentation this morning. I suppose in terms of the inequity that exists purely on the numbers that you have mentioned, the question that I have is: what are some of the reported reasons for the Commonwealth investing less in Victorian infrastructure relative to Victoria's population share? I mean, have they got a reason why they have stagnated this infrastructure spend? Are they saying that something else is happening that is more important somewhere else?

Mr BATCHELOR: One of the reasons that is often provided is that there are obviously bigger states and that there are more roads in kilometre terms in Queensland and Western Australia than there are in Victoria. That is one of the reasons. But we do not think that that kind of geographic disparity really accounts for the scale of difference. We also note that geography and topography are one of the things that the Commonwealth Grants Commission takes into account when it calculates the distribution of goods and services tax revenue, and it is probably best left in its capable hands to use a more scientific approach to understanding those issues rather than a blunt instrument that gets applied by the Commonwealth. So we do not see any real recognisable reason why Victoria is getting less, other than ones which might be able to be explained at a political level rather than at a policy level.

The CHAIR: Thank you. Gary, did you have a question?

Mr BLACKWOOD: Yes. Thanks, John. And thanks, Ryan, for your presentation this morning. Just to follow on from what John asked, you have outlined the fact that our funding has decreased over the past three financial years. How does that compare with other states? Has theirs increased or has it decreased as well or been maintained?

Mr BATCHELOR: So if we look at the funding versus population share as the first point, we can see that Victoria is the state where there is the largest gap between our infrastructure share and our funding share—that is, we are furthest behind. There is also a gap in New South Wales on these figures. Whereas in Victoria it is 18 per cent compared to about 26 per cent, in New South Wales I think about 28.5 to 32 per cent is the gap. And the reverse is true in Queensland, Western Australia, South Australia and Tasmania. I will not go into the territories, because I do not think they are useful points of comparison. On the delivery gap, what you see is that there are some other jurisdictions where the Commonwealth in general is just bad at delivering. All of the states and territories in the last year received less funding than they were promised, so it is a general problem with the delivery of Commonwealth infrastructure spending compared to what they promised they would do. So there are clearly some systemic issues in the administration of Commonwealth programs designed to support infrastructure in all of the states and territories, which is clearly falling behind. I do not have the comparative numbers on previous years, but things were worse in New South Wales last year because of particularly large commitments that were not delivered. They have got an infrastructure plan for western Sydney, so that was falling further behind. So there are some issues there. So we see it as a common problem, but it is relevant to

Victoria. I think it would be probably excusable if it was just a one-off, but given it is a repeated problem we think it is probably something that needs to be looked at.

The CHAIR: Thanks, Ryan. Kat, did you have a question?

Ms THEOPHANOUS: Thank you, Chair. And thank you, Ryan, for your submission today. It is hard not to be disappointed on behalf of Victorians, hearing some of your statistics. But I did note that your submission focuses on Commonwealth investment in transport infrastructure, and I am just wondering whether you have looked at other types of Victorian infrastructure—for instance, health and education infrastructure—and how that might compare.

Mr BATCHELOR: This analysis does not, partly because the presentation of information in Commonwealth budget papers is slightly more complicated when it comes to health infrastructure in particular. It is something we should go and have a look at, but we have not done it as yet. The other point to make is that in the ABS's national accounts you can obviously tell where predominantly things like university infrastructure spending are going, because the national government capital spending in the national accounts is broken up between the general government sector and the public non-financial corporations, which at a Commonwealth level are largely universities. There have been some very significant declines, particularly in the last couple of years, in the value of Commonwealth public non-financial corporation capital formation in Victoria, so we think there is something going on there as well. Now, that may not just be exclusively universities; it could be other Commonwealth wholly owned enterprises. But there has clearly been a decline in that type of investment, which would indicate that there is a decline. On that, we have not done the analysis on the comparative performance, so we have not gone in and analysed: 'Well, it's gone down in Victoria by this much. What's it gone down in other states?'. We just have not had the bandwidth to do that. But that is certainly something we are conscious of: is it something that is across the board, or is it something that has just been happening here? From my perspective, part of my job is to look at and stand up for the interests of Victorians, so that is something that we would be primarily concerned with.

The CHAIR: Thank you. Nick, did you have a question?

Mr WAKELING: Thank you, Chair. And, Ryan, thank you very much for your presentation. I should note from the outset that I have a common ancestor with Sir William. It is the first time I have actually dealt with the organisation. I am interested in your take, though, on the delivery of projects. As you know, public transport/roads are actually state-delivered projects. The Federal Government cannot build VicRoads projects, and they cannot build projects on VicTrack land. I know that there are a range of projects across my community—road projects and public transport projects—where hundreds of millions of dollars have been promised by the Federal Government; the money is sitting there and is yet to be spent by the State Government to deliver the projects. We have had, you know, half a billion dollars sitting there for years for the Rowville rail, billions of dollars for projects like east-west—I mean, that is a political argument. But I would just be interested in your view on where a Federal Government is funding projects which principally have to be delivered by the State Government. What is your view on that? Because technically a Federal Government, regardless of their political colour, can get punished for not delivering a project, but ultimately they have no capacity to step in and actually be responsible for the delivery of the actual project.

Mr BATCHELOR: It is a really good point, and it is one of the features of the federation—that it does not help delivery. I think part of the problem is in the planning and that there just needs to be, across the board, a better integration of Commonwealth infrastructure planning and Victorian infrastructure planning so that the delivery can actually occur. I think you do see examples of where the Commonwealth and the state work together to get something done. Although it has not fully started yet, it looks like the airport rail link is going to be a good example of that, where you have actually got a long time—sorry, it does not necessarily have to be time, but a lot of effort that has gone into the work up front where there is a common goal, a common objective, alignment of interests and the project itself is of mutual importance and you can actually get it delivered.

I think part of the problem is that sometimes—we all know how politics works—projects get announced for a range of reasons, not because they are the most urgent, the most important or where the delivery timetable is assured. I think that does lead to these kinds of delivery and delay problems, and particularly on the transport networks the management of infrastructure projects is actually very complicated because of the sequencing and planning. That is why organisations like Infrastructure Victoria and Infrastructure Australia have an incredibly

important job in providing long-term guidance and advice on what the pipeline should look like, so that the experts put the expert advice on the table and that gets backed in at a political level—noting that there is I think a role for elected governments to set priorities and that sometimes the way that elected governments set priorities, particularly on their capital program, can actually push along where the sort of planning bureaucracy gets up to and can certainly accelerate and deliver greater benefits more quickly in a way that may not have occurred if it had just been left to the planning body.

But to get to your central point of why they cannot work, why there are delays in some projects and not others, I think it is about that often the work is not done cooperatively early enough to make sure it all lines up and then there is a bit of politicking that goes on over the top, and I just think that both of those things are not particularly helpful.

The CHAIR: Thank you very much. I think we have got time for a couple more questions. On the basis of the last few comments that you have made in relation to cooperation, obviously governments come and go regardless of their political colour. To avoid some of the complications that arise from making commitments, knowing that they may not be implemented and that they can actually be deferred—say that they have got billions of dollars in investments to make but they do not want to make them—to alleviate the politics out of that, would it be a better structure if, for example, Infrastructure Victoria and Infrastructure Australia come up with a common goal and negotiate their way through in terms of priorities, giving the governments of the day some options in pursuing those common goals?

Mr BATCHELOR: I think that is a really important part of future planning, but it does require, then, both sides to come to the table. With some projects, like Metro Tunnel, for example—everyone for a long time knew that we had to deliver the Metro Tunnel and that the key to Victoria's train network was unclogging the city loop and making sure that we had more capacity going through the city that was not reliant on infrastructure that was built 50 years ago. It is a bit of a disappointment, then, when the independent experts put a project that is high up on the list for a whole range of reasons and it gets funded but it then does not get the kind of level of support that it probably deserves at both levels of government. Certainly the Commonwealth support for that project probably was not as great as it could or should have been. So I think it is important that that occur. But it has got to be backed up and it has got to be backed in, and that is a problem when it is not.

The CHAIR: Thank you. Any further questions, anyone? No? Well, thank you very much, Ryan, for being here today with us. It is a very important submission that you have made, and we will take all of that into consideration going forward when we make our recommendations. So thank you for your submission and your presentation today.

Mr BATCHELOR: Thanks very much.

Witness withdrew.