

# VERIFIED VERSION

## PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

### Inquiry into budget estimates 2014–15

Melbourne — 9 May 2014

#### Members

Mr N. Angus

Ms J. Garrett

Mr D. Morris

Mr D. R. J. O'Brien

Mr C. Ondarchie

Mr M. Pakula

Mr R. Scott

Chair: Mr D. Morris

Deputy Chair: Mr M. Pakula

#### Staff

Executive Officer: Ms V. Cheong

#### Witnesses

Mr M. O'Brien, Treasurer,

Mr D. Martine, Secretary,

Ms M. Skilbeck, Deputy Secretary, Budget and Finance,

Mr M. Brennan, Deputy Secretary, Economic, and

Mr D. Webster, Deputy Secretary, Commercial, Department of Treasury and Finance.

**Necessary corrections to be notified to  
executive officer of committee**

**The CHAIR** — I declare open estimates hearing no. 1 for 2014 for the portfolio of Treasurer. I welcome the Treasurer, the Honourable Michael O'Brien; the Secretary of the Department of Treasury and Finance, Mr David Martine; Deputy Secretary, Budget and Finance, Ms Melissa Skilbeck; Deputy Secretary, Economic, Mr Michael Brennan; and Deputy Secretary, Commercial, Mr David Webster. I believe we also have other officers in the gallery who may be called: acting deputy secretary, market engagement and corporate, Mr Shaun Condron; director, infrastructure advice and delivery, Mr Joe Monforte; director, portfolio analysis, Ms Jenny Atta; and acting director, budget strategy, Mr Mark Rodrigues.

As is evident from the cameras around us this morning, this hearing — and indeed all hearings — for the budget estimates is being webcast. In accordance with the guidelines for public hearings, I remind members of the public gallery that they cannot participate in any way in the committee's proceedings. Departmental officers may approach the table during the hearing to provide information to the Treasurer or other witnesses if requested, by leave of myself. Written communication to witnesses can only be provided via officers of the PAEC secretariat. Members of the media are requested to observe the guidelines for filming or recording proceedings in the Legislative Council committee room. Cameras, of course, must remain focused only on the person speaking, with no panning of the gallery, the committee or witnesses, and filming and recording must cease immediately at the completion of the hearing.

All evidence is taken by this committee under the provisions of the Parliamentary Committees Act, attracts parliamentary privilege and is protected from judicial review. Any comments made outside the hearing are not protected by that privilege, including any comments that may be made on social media from the hearing itself. The committee does not require witnesses to be sworn, but I remind you all that questions must be answered in full and with accuracy and truthfulness. Any person found to be giving false or misleading evidence may be in contempt of Parliament, and subject to penalty.

All evidence given today is being recorded by Hansard. You will be provided with proof versions of the transcript for fact verification within two working days of the hearing. Unverified transcripts and PowerPoint presentations will be placed on the committee's website as soon as they become available. Those unverified transcripts will be replaced by verified transcripts within five days of their receipt.

Following a presentation by the Treasurer, committee members will ask questions relating to this inquiry. Generally, the procedure to be followed will be that relating to questions in the Legislative Assembly. Sessional orders provide a time limit for answers to questions without notice of 4 minutes, while standing orders do not permit supplementary questions. It is my intention to exercise discretion in both matters; however, I do request that each question is answered as succinctly as possible, recognising that many issues do include a degree of complexity. I ask that all mobile telephones be turned off or to silent. The Treasurer now has an opportunity for a brief presentation of no more than 10 minutes on the budget estimates for the Treasury portfolio. Welcome, Treasurer.

**Mr M. O'BRIEN** — Thank you very much, Chair, and members of the Public Accounts and Estimates Committee. It begins: two weeks — enjoy. This is a very important budget for the state of Victoria, and if I can move to the first slide.

#### **Overheads shown.**

**Mr M. O'BRIEN** — What we had to do as a government is very much to get our expenditure growth under control. As you can see from this slide, expenditure growth was averaging 8 per cent year on year in the decade to 2009–10. It was clearly unsustainable, and it was particularly unsustainable given that the revenue growth was around about 7.3. So in any business, in any household or in any government, if you keep increasing your expenses by more than you increase your revenue, all you do is deplete your financial situation. They are the circumstances we inherited. It is a structural deficit, and effectively we had to turn it around. Through better cost control, getting better value for money, being more prudent with the public's finances, we have been able to do just that.

The benefits are writ large in some of the macros we see — a net operating result from transactions of a surplus of \$1.3 billion in 14–15 rising to \$3.3 billion in 17–18. That provides us with substantial opportunities to undertake investments. Those surpluses are very critical to our budget. What it does is that it enables us to invest in important job-creating infrastructure without being reliant on debt and it sets Victoria apart. Yesterday

Western Australia in their state budget predicted a fairly modest surplus of, I think, \$175 million for 14–15 and then \$5 million in 15–16. It might be modest but I do welcome them to the surplus club. There are very few members of it. It is important and it comes about through prudent financial management.

Because of this management, our net debt will actually fall across the forward estimates from \$23.4 billion in 14–15 to \$19.5 billion in 17–18. Accordingly our net debt to GSP also falls from 6.3 per cent to 4.5 per cent. That supports our AAA credit rating. Having that AAA credit rating is very important. It is an important marker of confidence and it is important from the point of view of lower interest costs. If we needed to refinance Victoria's debt portfolio and we had Queensland's credit rating, we would be paying an extra \$170 million a year, every year, in higher interest payments. That AAA is important and you need to have strong financial management to be able to support it.

The surplus also provides opportunities for greater government infrastructure investment, as we see from these figures. We see the economy growing from 2 per cent to 2.5 per cent in 14–15 and then back to trend at 2.75 per cent. Similarly employment growth is also coming through, 1.25 per cent in 14–15, back to trend at 1.5 in the years thereafter. We see unemployment stabilising at 6.25 and then falling as employment growth strengthens further, and very strong population growth as well.

As previously mentioned, the financial management and the surplus has helped us to fund a record infrastructure program and you can see some points of comparison there. The money is not being frittered away; the money is going into major job-creating infrastructure for Victoria.

One of the issues we continue to face is the inequitable distribution of GST. Victoria is now one of the greater donor states. In fact I think we are the only state that since federation has consistently been a donor state. We will be receiving 88 cents in the dollar of GST from 1 July this year. New South Wales by comparison gets 98 cents in the dollar and Queensland gets \$1.08. We cannot even fit South Australia on the chart because they get \$1.28. What this demonstrates, though, is that our hard financial work has been done despite getting an unfair share of GST.

We were interested in the commission of audit's recommendations. Some of them seemed to be a little bit ambitious, but where I would say they did get it right is with the suggestion of equal per capita distribution of GST. If Victoria simply got back the GST we paid, we would be \$1.5 billion a year better off. That would be a substantial benefit to Victoria and to Victorians. Imagine the additional infrastructure we could invest in; imagine the additional services we could provide; and imagine the tax and cost of living relief we could provide with an additional \$1.5 billion a year.

In this budget there are infrastructure highlights. Obviously there is the \$8.5 billion to \$11 billion Melbourne Rail Link, incorporating the airport rail link — absolutely critical infrastructure to not only create jobs but more importantly to boost productivity, help stimulate economic growth and ensure that Victorians have a public transport system that is built for our growing population.

Completing the East–West Link, the great western section, one that has been called out for — we are getting on and building it, with \$8 billion to \$10 billion. There is the \$2 billion to \$2.5 billion Cranbourne–Pakenham rail corridor project — 25 high-capacity trains, high-capacity signalling, stabling, four grade separations at Murrumbeena and Carnegie, two at Clayton, and planning for a further five. This is a fabulous project that will increase the capacity on that line by about 30 per cent. Given that Melbourne's south-east is home to about 1 million people, it is a growing area and they need a growing train system.

Our arrangement with Transurban to deliver an \$850 million widening of CityLink and the Tullamarine Freeway is a terrific outcome for the state. There are very important efficiency savings — a 16-minute saving on travel time between West Gate Freeway and Melbourne Airport as a result of this deal, creating 700 jobs as well.

There is \$685 million in this budget to deliver the Metro Level Crossing Blitz, so in addition to the grade separations that are being done as part of Cranbourne–Pakenham rail corridor project we are also delivering further grade separations at Main Road, St Albans; Burke Road, Glen Iris; North Road, Ormond; and Blackburn Road in Blackburn.

We are making sure that we have significant investments in rural and regional transport as well, with \$220 million for the Murray Basin Rail Project — a project that has been on the books for decades but a critical one for our farmers and the agribusinesses in north-west of Victoria. Standardising those freight train lines, making sure they can get their product to port and get their product to market more easily and more efficiently at lower cost will make our farmers who are already amongst the most competitive in the world even more competitive.

There is also investment in Shepparton law courts.

We are very pleased to deliver payroll tax relief. We want to have business tax cuts that help make it easier for businesses to employ more Victorians. Cutting payroll tax to 4.85 per cent from 1 July this year will deliver a \$234 million tax saving for 39 000 Victorian businesses employing 1.6 million people. It will cement us as having the second lowest rate of payroll tax anywhere in the country, and for payrolls between \$4.7 million and \$26.7 million, Victoria will have the lowest effective payroll tax of anywhere in the country. We are determined to make sure Victoria is a very tax competitive state to try to encourage businesses to grow and to put on more jobs. We have also abolished entirely the stamp duty on life insurance products from 1 July 2014. On a \$500 000 life insurance cover, this would save the average policy-holder about \$600, so that is a significant saving for consumers, but it is also about tax reform.

We have made significant steps up in health funding. Our output funding for health is about 21 per cent higher than in the 2010–11 budget. We are seeing an additional \$1.4 billion over four years to support hospitals, including \$60 million to boost health service capacity in 2014–15 over the winter peak, and this is in addition to the record investment in 2013–14 of the \$1.8 billion over four years.

School capital funding again has seen significant increases from the last budget of the former government. The school capital funding was a little under \$350 million; we are delivering \$500 million in school capital funding in this budget, including 12 new schools, 11 of which are being delivered as a public-private partnership. It is a great model to ensure that principals can concentrate on being educational leaders rather than worrying about asset maintenance — who is going to fix the sticky windows? All those cares and concerns will be taken off the desk of the principals. They can focus on better learning outcomes for our children and will be able to have contractors to worry about and take care of maintaining those assets.

There is a significant increase in training delivery for Victoria. The budget provides over \$1.2 billion in 2014–15 for vocational education and training, and we will keep it at \$1.2 billion. We will lock in those significant uplifts over the next four years. By comparison, the last training budget of the former government was \$808 million — so, \$1.2 billion versus \$808 million.

Community safety is also a very important part of the government's program. We have committed \$33 million to construct new police stations. There is a very significant investment in our fire services — a funding boost to the CFA and the MFB, with funding for 78 new CFA fire vehicles and \$20 million for new respiratory equipment. And there is an additional expansion of the corrections system. We have some very strong measures to reform parole. We know that parole was not working. We are determined to fix it, but you cannot fix it without making the investments in the corrections system, and that is what this budget delivers. We are backing up our reforms with the funding to ensure that people who do not deserve parole, people who are a danger to the community, are able to remain in the corrections system until they do not pose a risk anymore.

Chair and members, that is an overview of this year's 14–15 Victorian budget. I am very happy to take your questions.

**The CHAIR** — As has been the practice for the past two estimates, I intend to ask the first question and then step back and allow committee members to ask the balance of questions. Treasurer, can you outline to the committee the budget initiatives which will contribute to the growth of Victorian jobs, both in the coming year and over the forward estimates period?

**Mr M. O'BRIEN** — I think the strength of Victoria's budget position is something which in itself contributes towards job growth. Having those significant rising operating surpluses means that we are able to invest in the sort of job-creating infrastructure projects which will help grow our economy. I have mentioned that we have a \$1.3 billion surplus in the 14–15 year; that is a very significant result. As we get up towards those \$3 billion surpluses in some of the out years, that will be the highest level of surplus Victoria has ever

seen in nominal terms. Having that AAA rating also supports that position. By 2015–16 we expect to be able to fund our infrastructure projects effectively from operating cash.

I have mentioned the payroll tax cuts: we want to make sure Victoria is a low-cost place to do business. We want to make sure we are tax competitive, and we want to make sure that businesses that are considering locating to Australia think of Victoria as being the most business friendly place in which to invest, because that will mean more jobs for Victorians. If we can pinch a few businesses from our rivals interstate, we are very happy to do so along the way.

I have mentioned some of the major infrastructure projects. Melbourne Rail Link: not only is it great from a transport enhancement point of view, with 30 new peak-hour services and 35 000-person capacity at peak hour, but it also creates jobs — 3700 jobs at least we think at the peak of construction, and potentially increase considerably more. East–west link: we announced stage 1 in the last budget. That has gone through the procurement and planning processes. There are 3200 jobs in that. The western section we believe will create over 3000 jobs at its peak as well. A lot of these infrastructure projects will come with direct job benefits in the construction period, not only for the construction industry but also for planning, design et cetera. Also, these will lead to better economic outcomes, because when you can improve your productivity you improve your efficiency, you make it easier for businesses to grow and you make it easier for businesses to employ people. This is very much a budget about strong economic outcomes, a strong budget position and strong investment in job-creating infrastructure to not only create jobs in the construction of this infrastructure but to grow our economy and make sure that we can continue growing jobs for years to come.

The other aspect that I think is important to job growth is training. Having that much higher level of support in vocational education and training is critical to making sure that our citizens have the training to be able to take advantage of the job opportunities which are being created for them. Obviously we know the automotive sector is in transition. We have announced a \$30 million package of specific support for the automotive sector and the associated supply chain to make sure that when these thousands and thousands and thousands of new jobs — created through the infrastructure investment this government is making — come online, those workers in the supply chain in the automotive industry will have opportunities to get the skills they need to take advantage and be the first ones through the door to be able to move into those new jobs that we are creating. Obviously we see our rural and regional communities as being great economic drivers. Agribusiness and food and fibre are great advantages for this state. We have some of the best producers in the world, and we have a huge, previously almost dormant, market in Asia on our doorstep. Their tastes are changing. They have developed a taste for Victorian produce; they have developed a taste for what we grow and what we produce in this state. Increasingly they have the financial capacity to pay for it, and they are prepared to pay top dollar for it. That is a fantastic thing for our farmers. Through this budget we are delivering the \$35 million food and agriculture into Asia package to make sure that our farmers, our businesses, will be the ones first through the door in those emerging and growing Asian markets, better able to get their goods and services on the table in front of paying customers. We see that as being a great jobs opportunity for this state as well.

The last thing I will mention is obviously freight and logistics. We are the freight and logistics hub of Australia. It is very important that we maintain and support that position. It is not only our port expansion projects at the port of Melbourne, which are making sure we can keep getting those vessels in and out, but also our development of the port of Hastings is critical to making sure Victoria retains the capacity to deal with increasing trade volumes and making sure we can keep the jobs associated with those.

**The CHAIR** — Thank you, Treasurer. I neglected to mention that questions will run until 12.03 p.m., so just keep that in mind.

**Mr PAKULA** — Welcome, Treasurer. I note that in your presentation you made no mention of the sale of the Rural Finance Corporation to the Bendigo and Adelaide Bank, but it was mentioned on page 4 of the budget speech. That sale occurred without the normal government tender process, a sale made by your own admission on the advice of J.P. Morgan, which you say advised you not to go through the normal tender process. Until Tuesday J.P. Morgan listed Bendigo and Adelaide Bank as clients, and J.P. Morgan Nominees Australia Limited is listed on the Bendigo and Adelaide Bank share register as their second largest shareholder. Treasurer, were you aware of those facts when you made the decision to sell the Rural Finance Corporation to the Bendigo and Adelaide Bank on J.P. Morgan's advice without a normal tender?

**Mr M. O'BRIEN** — I welcome the question. The divestment of Rural Finance Corporation to Bendigo and Adelaide Bank is a fantastic outcome for the state. It is a fantastic outcome for rural and regional communities. What we have been able to achieve with the sale is a very significant return which reflects the quality of the business. It is a quality business. We have been able to ensure continuity of employment on no less favourable terms for the 123 staff of RFC. We have been able to ensure continuation of the 11 branch network of RFC to ensure those towns that are serviced by RFC will continue to be serviced by RFC. We have been able to ensure continuation of what I might call the community service aspects of what RFC does, so funding the rural scholarships, the concessional loans for young farmers and the natural disaster relief and recovery payments. This will all continue to be done, but there will be additional network capacity through aligning with the Bendigo bank.

There are two gists, or two nubs, to the Deputy Chair's question. The first is in relation to whether there is some sort of conflict. J.P. Morgan dealt with this in a statement on Tuesday, and the statement notes:

The mandate between J.P. Morgan and the state specifically prohibits J.P. Morgan from acting as an M&A adviser on the transaction other than to the state or arranging or providing finance — —

**Mr PAKULA** — That was not my question.

**Members interjecting.**

**The CHAIR** — Order! The second question in — I think we can do a little better than this.

**Mr M. O'BRIEN** — For the benefit of Hansard I might just read that again:

The mandate between J.P. Morgan and the state specifically prohibits J.P. Morgan from acting as an M&A adviser on the transaction other than to the state or arranging or providing finance in respect of the Bendigo and Adelaide Bank and Rural Finance Corporation transaction.

The statement states in another section:

J.P. Morgan Australia confirms that it has not provided investment banking, advisory or capital market services to Bendigo and Adelaide Bank or any of its subsidiaries in the last 12 months and is not currently engaged by them in respect of investment banking services.

I think J.P. Morgan comprehensively dealt with that issue. It is extraordinary, frankly — and I heard the member for Tarneit try to retail these sorts of slurs on the radio this morning — given that comprehensive statement of fact from J.P. Morgan, that that issue is getting any ventilation at all. It smacks of desperation.

In relation to the second issue, my understanding — and I understand J.P. Morgan will be confirming this at some point — is that J.P. Morgan has no beneficial interest in Bendigo and Adelaide Bank. I will say that again: no beneficial interest in Bendigo and Adelaide Bank. Any major bank acts as a custodian of shares held by other people. That, I understand, is what relates to the J.P. Morgan Nominees listing a shareholding. They do not own any shares. They hold them as custodians for their clients. It is a complete red herring to suggest that acting as a custodian of shares for your clients means that you have got any equitable —

**Mr PAKULA** — They don't draw fees?

**Members interjecting.**

**The CHAIR** — Order!

**Mr M. O'BRIEN** — or beneficial interest whatsoever. I think what it suggests is that some people either do not have the first idea about how banking works or that they understand it and, worse, they are prepared to go out and try to run a smear campaign against a company and a bank which is an important investor in this state.

**The CHAIR** — I indicated right at the start that supplementary questions were not in the standing orders of the Assembly but I would exercise discretion. I am making clear to all committee members that if we have a series of interjections, if we have an attempt to distract the witnesses as they are appearing, I will not allow a supplementary question. I had not given that warning, so in this case I will allow it. This is question 2 of 50 hearings.

**Mr PAKULA** — Fifty hearings?

**The CHAIR** — Fifty hearings — 50 separate portfolio hearings. It is going to be a long couple of weeks, so let us get the ground rules right to start with. If there is an outbreak like that again, I will not allow supplementary questions.

**Mr PAKULA** — Treasurer, my original question was a very simple one. It was: were you aware of the connections between J.P. Morgan and the Bendigo and Adelaide Bank when you made the extraordinary decision to do away with the normal tender process? I note you said that you understand J.P. Morgan will be making a statement today. It seems someone from your office must have been in touch with them this morning. You might make your comments about the beneficial interest, but you and I both know that J.P. Morgan draws fees from these relationships and has had a client relationship. Were you aware of those relationships when you made the decision to do away with the normal tender process for the sale of the RFC?

**Mr M. O'BRIEN** — I was aware that there was a mandate specifically between the Department of Treasury and Finance on behalf of the state and J.P. Morgan in relation to their engagement, which specifically prohibited J.P. Morgan from anything which would constitute a conflict of interest. Absolutely. Of course you would expect the state to take those sorts of precautionary steps in any engagement in a transaction of this nature. It is standard operating procedure to ensure that any adviser you have has no conflict of interest and attests and warrants to that fact. Those processes were followed, so I am absolutely comfortable that the processes were all followed and that there is no conflict of interest, and it is fairly desperate to suggest otherwise.

**Mr ANGUS** — Treasurer, thank you for your presentation earlier this morning. I refer you to budget paper 2, pages 21, 30 and 32, and I ask if you can outline the government's economic strategy as it relates to a diverse and flexible economy?

**Mr M. O'BRIEN** — I thank the member for his question. Budget paper 2 sets out that our economic strategy is very much focused on improving productivity, and one of the ways that you improve productivity is to provide major infrastructure that links the state. We want to connect the state and bring people to jobs and bring jobs to people. Improving productivity also requires being focused on building the skills and capabilities of the Victorian workforce. It is very much the case that our future growth as a state will be driven by maintaining flexibility in our economy.

Our labour market, like all labour markets, is in a constant state of change. Monthly movements of people in and out of employment are around 80 000 people a month, so we always see people changing jobs — people moving into jobs, and people moving out of jobs. We saw that in last month's employment data, with 10 000 new full-time jobs created, but part-time jobs lost. There is always movement in and around; that is what happens in a healthy, dynamic economy.

What we are doing in this budget is investing in the sort of major infrastructure that will connect and grow the state. Projects such as the full East–West Link project — absolutely critical and identified by Sir Rod Eddington as being the state's no. 1 road priority. What it means is that instead of having this overreliance on the M1 corridor, which has been really the east–west spine of the state, we can have an alternative. How many times have Victorians been sitting in a car and turned on the radio to hearing the traffic reports saying that there had been an incident somewhere either on the Monash or on the West Gate, and the entire network grinds to a halt. That is no way to run a major road system for a modern state.

We need to have this sort of transformational investment. Having east–west will make sure that people coming from western Victoria — from Geelong, from Ballarat — will not be funnelled simply onto the West Gate Bridge. There will be options. There will be opportunities when there is an incident in one part of the network to move traffic elsewhere. When we are growing state, as we are — 1.8 per cent population growth a year; 30-year highs of net interstate migration; a bit of a baby boom happening amongst our population, which is great news and demonstrates some confidence in families; and strong net overseas migration — we need to build this sort of infrastructure if we are going to make sure our economy grows in the future.

Consistent with this widening of the Tullamarine Freeway is the airport rail link. Most major, mature, international cities have a rail link between their major airports and the CBD. I think it is something Melbourne has been lacking for some time. It is something which I think the Victorian community regards as being a good

investment. We certainly think it is. That is why as part of our Melbourne Rail Link project we will be delivering that airport rail link.

We are also trying to ensure that, as I said, we have the right skills, so not only investing more money in vocational education and training, but also making sure that those courses lead to real jobs — the courses that give the qualifications and skills that will help fill those areas of the economy where there are gaps. Whether it is building and construction, or whether it is aged care and health services — the areas where we expect to see a lot of growth in the future — we are making sure we are investing not just more money but more money in the right areas to ensure that Victorian workers get the skills they need for the jobs they want.

This is very much a budget as a whole. Whether it is through our infrastructure investments, whether it is through our skills investments, or whether it is through payroll tax cuts, it is growing the economy and creating the environment with more jobs and the right skills to meet those jobs.

**Mr SCOTT** — Treasurer, I will ask a very simple question and I will also ask a question relating to the sale of the Rural Finance Corporation. I would simply like you to explain to the committee why you did not go through the normal tender process. In the context of the sale and the context of other issues, why did you not go through a tender process? Why was it a trade sale, as I understand it, to the bank directly rather than a tender?

**Mr M. O'BRIEN** — I thank the member for his question. We had a number of objectives we sought to achieve with the decision to divest the Rural Finance Corporation. One of those objectives was obviously to obtain what we thought was going to be a very strong value to recognise the quality of the business. We also had an objective to ensure security of employment for those people who work in RFC in rural and regional Victoria. We think job security is an important issue and is worth working for. We wanted to ensure that there would be — —

**Mr PAKULA** — You cannot do that through a tender?

**Mr ANGUS** — Stop interrupting the minister. Let him answer.

**The CHAIR** — I have made my position clear. If we have constant interruptions, there will not be supplementary questions. Make up your own minds.

**Mr M. O'BRIEN** — We wanted to ensure that there was continuation of services to those areas of rural and regional Victoria that RFC currently services. They have 11 branches in their network; we wanted to ensure as much as possible not only that those areas would continue to receive services but also that additional services could be made available in other parts of rural and regional Victoria.

We also wanted to ensure that there was going to be a continuation of what I would call the community service aspects of what RFC currently provides to rural and regional Victoria. At the moment they act as the delivery arm for a number of state government programs and they do some things themselves. There are the rural finance scholarships, the concessional loans for young farmers and the payments made under the natural disaster relief and recovery arrangements. These are all done through RFC, and it was very important to the state government that those measures be continued. We wanted to make sure that this would be an outcome that would lead to net benefits for rural and regional Victoria.

Of course one of the ways in which we have done that, as we have announced, is that the net proceeds of the divestment will be earmarked for investment in infrastructure in rural and regional Victoria. That is a great outcome for rural and regional Victoria, and even better is that as a result of the timing of this we will be eligible for the federal government's asset recycling initiatives, which will give us a 15 per cent top-up. So if, for example, the final price is around \$400 million, we will get 15 per cent on top of that. That is \$460 million that the state has been able to deliver in additional infrastructure for rural and regional Victoria, and that is a very important outcome.

There were a number of different objectives the state had. We sought advice on how those objectives would best be met. Of course there are a number of different ways that you can undertake a divestment. I should say it is not the first time that a financial institution has been divested in this way. QIDC, which was owned by the Queensland government, was divested to what is now Suncorp Metway Bank in a very similar way, so there is historical precedent for these sorts of things. We also wanted to make sure that there was a good community fit,



and we think that Bendigo and Adelaide Bank is a bank from rural and regional Victoria and a bank which is part of the community. Remember that Bendigo and Adelaide really started its existence when the big four banks were pulling out of country towns. They were turning their backs in some cases on rural and regional Victoria and pulling out their services and pulling out their branches from country towns, and it was the Bendigo Bank that stepped up and made sure that our people from outside the tram tracks continued to get good financial services. So we felt it was absolutely the best fit.

We took advice and, as I said, there are a number of different ways that we could have undertaken the sale.

**Members interjecting.**

**The CHAIR** — Order! David O'Brien and Deputy Chair!

**Mr M. O'BRIEN** — Obviously there are always pros and cons that you can look at. One of the concerns with the idea of going to open market is that RFC's business is very much one that relies on not just the products but also personal relationships. That is why we not only felt that protecting the staff was very important from an equity point of view for them, but we also regard the staff as being an important, valuable component of the RFC business. One of the concerns that we had at the forefront of our minds is that running a public process and announcing the intention to divest RFC to whoever would pay the highest price would likely lead to cherry picking of RFC's client book by its competitors, so in the process of going through a sale of the business you could actually devalue the business.

**Mr PAKULA** — Nonsense.

**Mr M. O'BRIEN** — That is not economically sensible, so we received advice from JP Morgan on the pros and cons of different methods, and we made the decision as we did. The outcome in financial terms, in terms of protection of employee jobs, in terms of services to rural and regional Victoria and in terms of continuing those community service aspects is a first-class outcome, and I could not be happier with it.

**The CHAIR** — I call Mr O'Brien.

**Mr PAKULA** — All right, now we know the ground rules.

**The CHAIR** — The ground rules are quite simple. I made it clear that if there is a series of interjections or one loud one — we are here to have a civilised hearing — we need to hear from —

**Mr PAKULA** — If we are going to have one, we might as well have ten.

**The CHAIR** — That is fine, but in this hearing there are probably 10 to 14 questions a side. For the last three years government members generally have had one question each, and my intention is the same this year — to allow supplementary questions from the opposition — which means you effectively get twice as many questions. That is a privilege. It is a courtesy and a privilege. It is not necessary to grant it. We can either have a civilised discussion, ask a question and listen to the answer, or we can carry on like it is question time in the Legislative Assembly. If we want to do that, then we will simply stick to the rules, and I am sure you will have far fewer opportunities to achieve what you are seeking to achieve.

**Mr D. O'BRIEN** — I refer you, Treasurer, to budget paper 2, pages 1 to 10, and I ask you to give an overview of the government's economic and fiscal strategy.

**Mr M. O'BRIEN** — I thank the member for his question. Our strategy is very much focused on growing our economy by investing in major economic infrastructure into the future, creating a responsive education and training system, ensuring that Victoria is a competitive and attractive place to do business, growing new markets and investing in services to support livability and population growth. Obviously I could speak at length about any of those, but it might be more to the committee's interest and in the interest of time if I give an example from each of those different dot points.

In terms of investing in major economic infrastructure for the future, what we have delivered in this budget is a program of up to \$27 billion of new economic infrastructure for Victoria. This is going to be the sort of transformational infrastructure program that will make an enormous difference not just to the quality of life of

Victorians but also to the way in which our economy and our state functions into the future. These are the sorts of productivity-growing, economy-growing, job-creating projects that will leave a legacy for decades.

I do not wish to be provocative, but there have been a number of projects in the past where there have been very expensive investments and they have not generated significant economic outcomes. Obviously the desalination plant, which is lying there idle at the moment, and the north–south pipeline, which is also lying there idle, are very expensive projects but they have not led to the sorts of economic growth and outcomes that I think Victorians are entitled to expect. We have deliberately set out on a path of delivering. I should emphasise that this is not just about funding for planning or funding for designing; this is funding for construction, this is funding for digging and this is funding for building to ensure that in this budget and across these forward estimates the money is there to get on with building these projects that Victoria needs. That is how we are going to build the major infrastructure that we need.

In terms of a responsive education and training system, I have mentioned previously not just significant additional investment in vocational education and training — \$1.2 billion compared to a little over \$800 million — but also investment in the right areas. We are making sure that those courses and those skills that lead to jobs at the end of them are preferred over some of what might be termed lifestyle courses.

We are ensuring that we are a competitive and attractive place to do business. Our red tape reduction program is key to trying to get rid of red tape that costs businesses and governments to administer and leads to negligible, if any, benefit for the community.

We are growing new markets. I mentioned our \$35 million food and agriculture into Asia package. That is enhanced by our super trade missions. We have taken dozens of these super trade missions, and they are generating real results from the businesses that attend. You cannot just hit and run in these overseas markets; you need to establish a relationship. Having that relationship is critical to making sure you get not just the foot in the door — not just that first order — but also the repeat business. It is the old business saying that 80 per cent of your business comes from 20 per cent of your customers. We need to have these relationships with these overseas markets and with key people and organisations in these overseas markets so we can build and grow our export trade.

We are of course investing in services to support livability and population growth. That is why you build better roads. That is why you invest in better public transport. That is why you invest in hospitals, and not just in Melbourne. It is why you make sure you have your \$630 million Bendigo Hospital. That is why you have your \$73 million Latrobe Regional Hospital expansion, and even your \$14 million Boort hospital. People from all parts of Victoria deserve to have access to good quality — in fact better than good quality; great quality — health care and great quality education. We are certainly making sure that we can govern for all Victorians, and putting investments right throughout the state reflects that.

**Ms GARRETT** — Treasurer, I refer to your previous answer to Mr Scott regarding the criteria from which the government determined that they would do this sale behind closed doors with no scrutiny from the Victorian public. I note that all of those criteria could have formed part of a public process. What has emerged today, as Mr Pakula pointed out, is that it is clear that there is a longstanding relationship between JP Morgan and Bendigo Bank involving millions and millions of dollars. Millions of dollars of JP Morgan's clients' money has been invested in Bendigo Bank, and that company has now won big from a deal that JP Morgan extracted from taxpayers, again behind closed doors.

The question is: given the facts that have emerged, given that this has all happened behind closed doors without the scrutiny of the Victorian public and others and given that the sale does not go through until the end of July — now that these facts have been revealed — will the government go back to the drawing board? Will the government give the Victorian people the respect they deserve and ensure that there is a public tender process and that people can have confidence that this is in fact the best deal for Victoria, particularly regional and rural Victoria?

**The CHAIR** — I take it the question is: will the government go back to the drawing board?

**Mr ANGUS** — It was a long preamble.

**Ms GARRETT** — It was a fine preamble, Mr Angus, and we would like the minister to address both the preamble and the question.

**The CHAIR** — There were a number of questions there. The convention is to ask one at a time.

**Mr M. O'BRIEN** — Why would we want to go back on what is a terrific deal for Victorians and a terrific deal for rural — —

**Members interjecting**

**Mr M. O'BRIEN** — This is a terrific deal for Victorians, particularly for rural and regional Victorians. Being able to secure the jobs of those 123 — —

**Members interjecting.**

**The CHAIR** — I have all the time in the world. The longer this goes on, the fewer questions that will be asked. We still finish at 12.03 p.m.

**Mr M. O'BRIEN** — This is a deal which not only delivers enormous financial benefit to rural and regional Victoria — probably about \$460 million in money which is going to be earmarked for investment in infrastructure in rural and regional Victoria. Of that, \$220 million will go towards the Murray Basin rail upgrade project, a project that has been on the books for years and a project which the former Labor government said it was going to do something about and said it was going to invest money in and did nothing for whatsoever.

These projects are now not just coming forward; they are going to be actually made a reality and financed and funded through this transaction. We have secured jobs in RFC. We have secured the continued delivery of services to all those towns that RFC currently services, and there will be additional opportunities through the Bendigo network. We have secured the continuity of those community service aspects of RFC's operation. We have been able to do it in such a way which did not jeopardise the business by opening it up to having its client book being cherry-picked through a public process, so there has been very much historic — —

**Members interjecting.**

**The CHAIR** — Order! The Treasurer has the call. It is not a conversation. You ask a question, you listen to the answer.

**Mr M. O'BRIEN** — I did note in my budget speech, I think, the last financial institution sold in Victoria was the State Bank back in 1990 by a Labor government. But rather than the proceeds being used to actually benefit rural and regional Victoria, I think they were used to fund a black hole in Tricontinental bank and the VEDC, which was an example of poor Labor financial management. By contrast, all the benefits of the sale of RFC will go to rural and regional Victoria. I have in front of me a statement from J.P. Morgan, which I think does help address some of the matters raised by the member. It states in part:

**Mr PAKULA** — In part?

**Mr M. O'BRIEN** — It is a statement to me. It says:

Listed companies and a large portion of the investors who buy and sell their shares rely on custodians for the safekeeping of assets and for record keeping, valuation and other reporting purposes.

It also says:

J.P. Morgan and other large custodians may appear in a particular company's share register as holders of their shares but J.P. Morgan is not the owner of the shares and has no voting rights or influence over the company through this arrangement.

**Members interjecting.**

**Mr ONDARCHIE** — Treasurer, good morning. I notice that the state opposition, which clearly went to the Tony Sheehan school of financial management, want to talk about banking this morning. I note that the ANZ Bank even this week said:

The Victorian budget is in good shape ahead of the November state election and arguably ... the healthiest of all — states and territories in this country.

The ANZ Bank said that, while we are talking about banking. I refer you, Treasurer, to budget paper 2, pages 1 to 10. I noticed you touched on it on slides 2, 3 and 4 this morning. Particularly I want you to, if you could, update this committee on the type of action the government is taking to retain the AAA credit rating here in Victoria?

**Mr M. O'BRIEN** — I thank the member for his important question, because retaining the AAA credit rating is critical for this state. We are the only state in the country that has a stable AAA credit rating from both Standard & Poor's and Moody's, and that is very important.

### **Members interjecting.**

**The CHAIR** — Order! We do not have morning tea scheduled, but if it goes on we will have morning tea.

**Mr M. O'BRIEN** — Maintaining that AAA credit rating is a strong competitive advantage for Victoria. It means that we are a safer place to invest. There are certain bond-holders who will only invest in AAA-rated securities, so it means we have a larger and more liquid pool of potential investors. It also means that should there ever be another economic shock — and of course one can never rule it out — we are a safer place to invest and we will have greater access to funds when we need them than a comparable jurisdiction that does not have the AAA credit rating.

As I have flagged earlier, it is also important from the point of view of borrowing costs. Every state does have borrowing programs, and because of our AAA credit rating we can borrow at lower interest rates compared to those jurisdictions that do not have the AAA. I think I might have mentioned previously if we were to refinance our current debt portfolio and we had Queensland's credit rating instead of our AAA credit rating, we would have to pay an extra \$170 million a year in interest payments. That is \$170 million that otherwise you could spend on services or otherwise spend on infrastructure, or it is \$170 million of tax relief that you could give. Keeping that AAA is important. What we have done in this budget is make sure we can deliver strong financial outcomes to support the AAA. Having that budget surplus of \$1.3 billion and rising, having the net debt falling and demonstrating that where we are investing it in productive economically enhancing infrastructure is something which is critical.

Standard & Poor's issued a statement on the day of the state budget this year, saying:

... the Victorian government's budgetary performance is benefiting from several years of strong fiscal discipline ...

We expect the state's total tax-supported debt to remain relatively stable at under 90 per cent of adjusted operating revenues over the forward estimates ... Standard & Poor's considers this level of debt to be consistent with the 'AAA' rating on the state.

Moody's said:

... the state of Victoria's budget for 2014–15 shows improvement when compared to the 2013–14 budget and to mid-2014 estimates, which is a credit positive for the state ...

Having those statements from Moody's and from Standard & Poor's indicates that not only is the budget that we have brought down this week consistent with the AAA, but it in fact further strengthens our position. The danger and risk to the AAA is always a government — or any government — that has sought to try and defray those surpluses.

If you cannot fund your own election policies and you spend that surplus, that is what will put the AAA on the chopping block. Those surpluses are what funds the infrastructure, without having to resort to unsustainable debt. My very clear message to the community is that those large operating surpluses are what funds the infrastructure. You cannot start frittering those away on otherwise unfunded election policies without jeopardising the important infrastructure that Victoria needs and without jeopardising our strong AAA credit rating.

**Mr PAKULA** — I want to read to you a statement from these hearings last year. This was in response to a question from me about Melbourne Metro. You said:

It is not a case of ... saying, 'I really wish Melbourne Metro was ready to go today, therefore it is ready to go today'. The fact is that it is not, but we are prepared to put the money into the work to get it ready as soon as practicable. The one lesson that we can learn as a state from the litany of major project disasters we saw before the coalition came to office is that a failure to do your homework will bear a huge cost on Victorians. We are not prepared to make those same mistakes; we are not prepared to go down that same path.

We will make sure we do our homework.

Then today we have been treated to this story in the *Age* saying that Napthine's rail tunnel has no business case.

### Members interjecting.

**The CHAIR** — Order! Mr David O'Brien! Members have the opportunity to ask questions without assistance from the other side.

**Mr PAKULA** — It says that a \$547 000 business case being prepared by Ernst & Young:

... will be delivered to the department ...by the end of May.

Minister, not only have you reneged on your commitment to Melbourne Metro, but you have also it seems done away with your previously stated commitment to doing your homework before you announce \$11 billion to \$12 billion worth of rail work, as you have described it. My question is: is it just the fact that it is an election year and you need to get some phantom projects on the table? Is that the only reason that you have discarded your long-held, apparently, devotion to doing your homework before you spend \$11 billion to \$12 billion worth of taxpayers money? Why are you having a business case retrofitted to an announcement that you have already made?

**Mr M. O'BRIEN** — I thank the Deputy Chair for his question. There is probably a risk in basing your questions on headlines in a newspaper when those headlines are not accurate. Can I say — —

**Mr PAKULA** — You are telling us you have done the business case?

**Mr M. O'BRIEN** — Does the Melbourne Rail Link project have a business case? Yes, it does.

### Members interjecting.

**The CHAIR** — Order! Mr David O'Brien, I am not going to take that interruption as an indication that the Deputy Chair should not get a supplementary question. If he or his colleagues do, then that will be denied. But I am not going to interrupt on the basis of your interruption.

**Mr M. O'BRIEN** — The government has obviously built on the work that was initially done on Metro, but the trouble with that is that what became apparent the more work that went into it is that the Metro proposal was not going to deliver the sort of capacity enhancements that we need. We need to have significant additional capacity enhancements over what the Metro project was proposing. It was proposing a 19 000 to 20 000-person capacity increase at peak. Does it make sense to invest that sort of money — I think the figure is \$8.5 billion to \$11 billion — in a project which only gets you 20 000, does not get you an airport rail link and causes massive disruption to jobs and the economy in the Melbourne CBD for year after year after year?

By doing our homework it became very apparent that Metro was not the best solution. That was why we looked for better solutions. The better solution is Melbourne Rail Link. Melbourne Rail Link will deliver capacity enhancements of 35 000 people at peak hour, it will deliver the airport rail link and it avoids digging up and shutting down the CBD for years on end. That is why we have gone down the path of Melbourne Rail Link, and that is all within the same price envelope as the Metro proposal.

So Melbourne Rail Link is the way of the future. Metro is retro in that respect. It was an idea for its time, but times have moved on and better ideas have come about. Melbourne Rail Link on every criteria is a better outcome. So yes, work has been done — considerable work has been done — and we have built on the work of the Metro proposal. The government has prepared and has considered an interim business case for Melbourne Rail Link. We considered that before deciding to commit funding in the 2014–15 budget for Melbourne Rail Link, because what that business case provided was that for every single key metric that you choose a project on the basis of, Melbourne Rail Link stacked up better. Certainly it was no worse than some and much better on the

key ones — much better on capacity, much better on delivering the airport rail link and much better on not digging up and shutting down Swanston Street in the CBD.

We have backed that up with not just money for further planning and design. Although the time line we have announced provides that there will be that additional planning and design work that is important and is part of doing homework, we have \$830 million there which will include construction. This project will commence in mid-2016 and the digging will start and we will start getting this long-awaited enhancement to Melbourne's rail transport network.

**Mr PAKULA** — I am glad if you think that taking Frankston line passengers out of Richmond and Flinders Street is better. If you think taking Cranbourne and Dandenong passengers out of the loop is better and you want to send people to Fishermans Bend or Montague or wherever that might be rather than Flinders Street, if you think that is better, bully for you — —

**The CHAIR** — Is there a question coming?

**Mr PAKULA** — Yes, there is a question. Minister, it is clear that Ernst & Young are providing you with the business case at the end of May. You say there has been an interim business case. It is the first suggestion that there is a business case for this project. We have no option but to take your word for it, other than if you decide to release that business case that you say has been done. Will you release that business case today so you can prove your assertion that this story is not true?

**Mr M. O'BRIEN** — All the material has been provided to the Budget and Expenditure Review committee of Cabinet, and we do not release cabinet documents.

**Mr PAKULA** — Right, whether they exist or not. What is the Ernst & Young business case if you have already done one? What is it? Is that a business case for something else?

**The CHAIR** — The question has been asked.

**Mr M. O'BRIEN** — Can I say that obviously, as I have flagged, there is further planning and design work to go. That is why the construction will commence in mid-2016. But we had to make sure we had all the relevant information in front of us to be able to make a decision on the key metrics comparing Metro versus Melbourne rail. Why would you choose a project which only delivers you a 20 000 capacity enhancement compared to 35 000? Why would you choose a project that does not give you an airport rail link compared to one that does? Why would you choose a project that digs up and shuts down the CBD for years compared to one that does not?

**Mr ANGUS** — Treasurer, I refer you to budget paper 1, page 3, and also to a matter that you raised during your presentation earlier, and ask: will you please explain to the committee the rationale behind the cuts to payroll tax and stamp duty on life insurance?

**Mr M. O'BRIEN** — I thank the member for Forest Hill for that question. As a government we always want to try and make sure that we can reform the tax system and make it as easy as possible for businesses to grow and to employ more Victorians. That is what it is all about. In this budget, through our careful management of the state's finances, we were looking for opportunities to try and ease some of those business tax burdens. We were able to fully fund a reduction in the rate of payroll tax, from 4.9 to 4.85 per cent. That reduction will deliver a \$234 million tax cut to 39 000 Victorian employers over the next four years. It also makes us extremely competitive with other states.

As I think I might have mentioned previously, we have locked in the second lowest rate of payroll tax at 4.85. When you factor in the different thresholds and the way they operate with the payroll tax rates, if you have a payroll between \$4.7 million and \$26.7 million, Victoria has the lowest effective rate of payroll tax of any jurisdiction in the country, and I think that is something that Victorians should be pleased about. We want to be a place where businesses can come here, can set up here and can grow. The government will be trying to make it easier for them, rather than harder for them. Victorians do like to be very competitive. When you compare our 4.85 per cent rate to New South Wales and their 5.45 per cent rate, that is a real bonus for Victorian businesses and their employees.

We also looked around for opportunities to try and abolish taxes which are inefficient, and the stamp duty on life insurance is one of those. It raises about \$4 million a year, so it is a \$16 million reduction in revenue by abolishing it. But it was a complicated tax. It was one that increasingly we found businesses were seeking ways to avoid through bundling up life insurance products with superannuation policies. It was having an unfair impact on those who were having stand-alone life insurance policies, whereas others who were able to bundle life insurance as part of super products were able to effectively avoid it. We felt it was an important step of tax reform to make this change.

Together those two measures amount to a quarter of a billion dollars worth of tax relief over the next four years. By abolishing that stamp duty on life insurance, Victoria joins WA as the only states to have abolished that tax. Again, it is a competitive advantage for this state, and we will continue to try and find opportunities to reduce the tax burden on families and on businesses to make this a better state and a stronger economy.

**Mr SCOTT** — Minister, in both your presentation and on page 64 of budget paper 3 you made reference to the western section of the East–West Link, and again I will ask you a fairly straightforward question. Will you rule out accepting an unsolicited bid for this project and guarantee a proper open tender process?

**Mr M. O'BRIEN** — I thank the member for his question. The government's unsolicited proposal guideline sets out the different criteria that we use to assess and determine whether an unsolicited proposal might be accepted. To date the government has accepted two unsolicited proposals, and both of them I think demonstrate one of the important elements of that checklist, if you like, that we use. One of the important aspects that we like to see in an unsolicited proposal is that it is preferable that there be an element of uniqueness about it. We have said no to some unsolicited proposals already, and partly that is because either we do not think it represents value for money for the taxpayer or there is nothing in the proposal that is brought to us which actually is particularly innovative or that the government could not do itself.

Where we have accepted proposals or are in the process of finalising them — for example, with the CityLink Tullamarine Freeway widening. Transurban approached us about that, and Transurban is the owner and operator of CityLink. It would be very hard to have a discussion with anybody other than Transurban about the widening of CityLink, because they own the asset. Therefore it makes sense that you can have an unsolicited proposal process where the owner or the proponent brings something unique to the table, and in this case Transurban had the unique position of being the only owner and operator of CityLink.

Likewise, with our Cranbourne-Pakenham rail corridor project, there was a consortium led by MTR, which is the owner of Metro, which is the franchisee, the operator, of Melbourne's train systems. To talk about having a project to upgrade train lines, including undertaking grade separations, with somebody other than the operator of the train line would have been a bit difficult. MTR — Metro — certainly brought something unique to the table in that they were able to say, 'Look, we operate this system, we understand the capacity constraints that we are operating under. We have been telling governments' — and I use the plural term advisedly — 'for years about capacity problems on the Cranbourne-Pakenham lines. We really think something needs to be done and needs to be done soon, but we have proposals for how this could be done in a way which will deliver a better benefit to the state'. Now I should say, in all of these processes, even here where we have entered into exclusive negotiations with both Transurban and with the MTR-led consortium, this is all subject to a final value-for-money assessment. We will make sure that it represents value for money for taxpayers. That is a critical guarantee that Victorians do need to know.

### **Members interjecting.**

**The CHAIR** — Order!

**Mr M. O'BRIEN** — In relation to the western section of East–West Link, I have already stated that we would expect, rather than this being one particular tender for one complete project as it was with the eastern section, because the eastern section is 99 per cent a tunnel connecting the Eastern Freeway with CityLink, this would be, we think, a package of different projects. There would be a viaduct, there would be a tunnel, there would be freeway-grade roads. We think it will be done separately, but I do not think there is anybody who would have anything particularly unique to bring to the table that would indicate this would meet our criteria for an unsolicited proposal.

**Mr SCOTT** — I will respond to something, and ask a supplementary, in the answer given by the minister in relation to the two projects that he referred to in his answer relating to unsolicited bids, where he implicitly was indicating that if the value-for-money test was not met, the project would not proceed. If I understood correctly, that seemed to be the implicit statement in his answer relating to that matter. Therefore I ask the minister: can he guarantee these projects will proceed?

**Mr M. O'BRIEN** — We are absolutely confident that these projects will proceed because when you get to this stage of the negotiations, as we have been, it is all about ensuring that it does represent value for money. What we are doing with the MTR-led proposal on the Cranbourne-Pakenham rail corridor upgrade is the consortium, with input from government, is currently going through the tendering process to ensure that it does represent value for money. I am absolutely confident that these projects will proceed because they will represent and do represent value for money.

**Mr D. O'BRIEN** — I refer you to budget paper 4, page 11. Why has the government decided to deliver 11 new schools as public-private partnerships, or PPPs, and not a traditional delivery model?

**Mr M. O'BRIEN** — I thank the member for his question. We are very pleased to announce we are investing \$191 million in 11 new schools in this budget to address demand in growth areas in Victoria. There will be 12 schools in total but 11 of them will be delivered as a public-private partnership. Those 11 schools are Bannockburn primary, Casey central east primary, Cranbourne south-west primary, Epping North primary, North Geelong special development school, Heather Grove primary school in Clyde North, Mernda South P-9, Mill Park Lakes East primary in South Morang, Pakenham south-west primary, Point Cook South and Torquay North primary. These are terrific initiatives that will be welcomed by local communities there.

We do have significant population growth in this state. Our net population growth in the last year was about 110 000 people. If you think about the MCG on the last Saturday in September, you think about a packed full house, possibly Melbourne and Carlton playing — possibly not this year but maybe a future year — but if you think about a full house there, 100 000, and add GST on top of that, that is how many extra people we have got in this state every year in net terms. This is a great investment in our schools.

Why have we decided to go down the path of delivering these schools as public-private partnerships? First of all, there is strong evidence of the benefits of PPPs in school projects in New South Wales and Queensland and indeed in Victoria. Having the private sector build and maintain the schools frees up principals to focus on quality learning instead of time being spent on asset management. It is very important. We want our principals to be educational leaders, not worrying about unclogging the toilets and fixing the sticky windows. In fact we have had some schools done under PPP arrangements in Victoria in the past. When we had those terrible floods in early 2011 the learned experience, the lived experience, was that the schools that were operating under a PPP model got back open sooner than the traditional schools under the department of education model. That is because the private sector had a financial incentive and contractual obligations to get those schools back up as quickly as possible, and as a consequence our school communities benefited.

We think that this model is a terrific one. It is particularly appropriate to greenfield sites, which is why we are not proposing to use it on the Prahran secondary college, which is likely to be a conversion of a brownfield site. We think this is going to be a fabulous outcome in this regard. It will help those growing school committees, it will help the principals and teachers in those schools to be able to make sure they get a great quality school, a well-maintained school.

The other point about a PPP is that where the consortium that builds it also has to maintain it, they have got a greater incentive to deliver you quality in the building. There is an old saying that it is always good to buy a house that a builder built for themselves because you know they are not going to skimp on quality. If they are living in it, they will build it right. The benefit of the PPP is that where schools are built by the private sector and that same group has to effectively live in it — they have to maintain it — they have got an incentive to build it for quality because they are living with the consequences.

It is not just a case, as in some of the BER proposals, where you can build it and then you walk away and you never see that school again. The consortiums that will build these schools will maintain them, will live in them, and they have got a great incentive to make sure they deliver quality up-front, which has just got to be far better for our principals, for our teachers and most importantly for our children.



**Ms GARRETT** — I refer to budget paper 4, page 50, and to answers you have given throughout this hearing and to your presentation. The eastern section of the East–West Link, and I note, based on the answers given, there certainly appears to be a disturbing characteristic in this government that billions of dollars worth of projects are dumped on an unsuspecting Victorian public, all having been thought up behind closed doors. No business case has been released if there are business cases. No commitment was made to this project before the election, as we know, by your government. There has been no business case released. We know that there is a frenzy of activity going on, which no doubt could be viewed as politically motivated to try to attempt to sign these billion-dollar contracts prior to an election and refuse to — —

**The CHAIR** — Is there a question coming?

**Ms GARRETT** — Yes, there is. The preamble is important. I ask the Treasurer, on behalf of the Victorian people, will the Victorian people have a chance to see the eastern section of the East–West Link contracts before they are signed and know what the state is trying to sign them up to in availability payments. And if you have already signed this behind closed doors, will you show the Victorian people those contracts?

**The CHAIR** — We will stick to the practice of just taking the first question that was asked.

**Mr M. O'BRIEN** — I thank the member for her question. I am quite intrigued by members of the opposition who never showed as much interest in providing business cases around the desalination plant or myki or the north–south pipeline. Apparently it is a case of do as I say, not as I do — —

#### **Members interjecting.**

**The CHAIR** — Whenever everyone is ready.

**Mr M. O'BRIEN** — Having said that, can I say the standard practice of the government in relation to contracts is, within a period of time after contractual close, contracts are published and summaries are made available on the Partnerships Victoria website.

**The CHAIR** — I will allow a supplementary this time.

**Ms GARRETT** — An associated question: will you be advising the Victorian people how much the tolls will be?

**Mr PAKULA** — Before the election.

**Ms GARRETT** — Before the election.

**Mr M. O'BRIEN** — The consortium bids have come in. We have not seen them, as in I have not seen them yet as Treasurer. First of all, there are probity processes that need to be adopted. It is the Linking Melbourne Authority which is conducting the bulk of the assessments. Results of those will be provided to government in due course. Tolling will to some extent depend on financial outcomes, and without having seen the detail of what is in those tender boxes at this point, I cannot advise what the tolls are likely to be, but certainly we would intend to provide information around the project as much as possible because this is a great project for Victoria. This is a project that Sir Rod Eddington said was desperately needed. It is a project which will create jobs, which will reduce congestion — —

#### **Members interjecting.**

**Mr M. O'BRIEN** — For those members who represent inner city Melbourne electorates, they will find it much easier for their constituents to get around. It will reduce congestion around inner Melbourne, so this is a terrific project. We are very pleased to talk about it, to discuss it, but I cannot anticipate what is in those tender boxes without having seen them, and it is not appropriate for me at this point in time in the process to know what is in them.

**Mr ONDARCHIE** — Treasurer, thank you. PAEC is like a box of chocolates: you never know what stupid question you are going to get from the opposition. I want to talk to you about one of the transformational projects that you talked about in the state budget — one of them that will connect and grow Victoria like never

seen before — and that is the Melbourne Rail Link. I know the opposition is confused about this project. Could you explain to this committee the planned alignment and the reason behind that planned alignment?

**Mr M. O'BRIEN** — I thank Mr Ondarchie for his question. What Melbourne's rail network needs is greater capacity. When people cannot get on a train it is because we do not have the capacity on our network to run more trains to deal with that. As a large and growing city we need to build capacity, and that is what the Melbourne Rail Link is all about. We can increase capacity by 35 000 people at peak hour. That will make an enormous difference to the functioning of the system, to the punctuality of the system.

When we examined the work that had been done on the Metro proposal, it became quite clear that 19 to 20 000 capacity increase was not going to be enough; we needed more. It was far better — —

### **Members interjecting.**

**Mr M. O'BRIEN** — Interjections are disorderly, but if anybody actually bothered to look at the so-called Project 10 000 document, it actually refers to a capacity enhancement of 20 000 for Metro, so I am interested that Mr Pakula is now disputing his own policy numbers.

We have deliberately set out on a project that will boost the capacity of the rail network — 35 000 increase — and for the same price as the Metro proposal. For the same price Melbourne will finally get the airport rail link that Victorians have been asking for for so long. It will be delivered: airport rail link, 35 000 capacity increase. And we avoid digging up and shutting down Swanston Street for year after year after year. Think about the disruption to businesses that would cause.

**Mr ONDARCHIE** — It would cut the city in half.

**Mr M. O'BRIEN** — It would cut the city in half. It would cost jobs. Victorians would lose jobs if we had to shut down Swanston Street for year after year after year. It is not the way to go. Melbourne Rail Link gives you a bigger capacity — 35 000. It gives you an airport rail link and it gives you a CBD that can keep functioning. That is why it is a far better proposal, and it also has stations which will help to grow urban renewal precincts such as the Fishermans Bend urban renewal precinct, including the Montague section of that. So this is about making sure that instead of waiting until the suburbs are developed and full — and it is more expensive to put in infrastructure afterwards — we are actually getting ahead of the game. That is what good planning is all about, Mr Ondarchie, and that is what we are committed to doing as part of the Melbourne Rail Link project.

**Mr ONDARCHIE** — Victorians have been crying out for this.

**Mr M. O'BRIEN** — Absolutely. Victorians have wanted to see a step change in capacity in our rail system. It is what Sir Rod Eddington identified in his report as being the most essential thing, and we have found a better way to do it than the original Metro project. Why would anybody support a project which does not give you an airport rail link, that requires you to dig up and shut down the spine of the CBD for years and does not even give you 35 000 capacity?

**The CHAIR** — And on that note we will have a very quick break and be back as soon as we can.

**Mr PAKULA** — Treasurer, hopefully a very simple question. In answer to Ms Garrett's last question you went through a range of contractual negotiation-type reasons as to why you are unable to tell the committee and the Victorian community now what the toll will be on east-west. The government has consistently said that it is your expectation that contracts will be signed prior to the election. Can you give the Victorian community a commitment that in the event that contracts are signed before the election you will, at the point that those contracts are signed, reveal the rate of the toll?

**Mr M. O'BRIEN** — At this point, without knowing what the successful bid will be, how it will be structured, what the final design will be and, importantly, what the financial cost will be, it would be premature. We would intend to have as much information available about what is a terrific project for Victoria as quickly as we can bring it on. It is one of the reasons why, unlike other governments in the past, we were very pleased to release an executive summary of our business case for East-West Link.

This is a project which is fabulous for this state. We want to get more information out there about it, but we are not prepared to compromise the commerciality of the tendering process to do so. We will provide more

information as and when it becomes available for release, but it is premature for me to give guarantees, sitting here on 9 May, about what may happen when we have not even seen the tenders that have been lodged.

**Mr PAKULA** — Minister, they are all good reasons why you might not be able to tell us now. All of those issues that you say are currently not settled will presumably be settled when you sign a contract, so my question is: at the time that the contract is signed, when presumably all those matters are resolved, will you tell the Victorian people what the level of the toll will be? They will all be resolved at the time of contract signing, undoubtedly.

**Mr M. O'BRIEN** — It would be premature of me to be able to make that commitment without knowing what the tenders are.

**Mr PAKULA** — But you will know that at the time of the contract.

**Mr M. O'BRIEN** — As I have said, this is a terrific project. We are very happy to provide more information about it, as much and as soon as we can. I would expect that would include information to the community about tolling. But absent seeing what is actually in the tenders and absent making a decision on the successful tenderer and how that fits in with the government's tolling options, it would be premature to make a commitment that I do not know we can deliver, but my expectation is that there will certainly be a lot more information. I look forward to providing more information to the community ahead of the election on this fabulous project, and I expect that information will include information about tolling.

**Mr ANGUS** — Treasurer, I refer you to budget paper 5, page 165, and I ask: can you explain to the committee in relation to the decrease in GST revenue forecast since the 2013–14 budget?

**Mr M. O'BRIEN** — I thank the member for his question. We are getting less GST revenue in 2014–15 and over the first two years of the forward estimates than we had forecast in last year's budget. That is because the Commonwealth Grants Commission has reduced Victoria's GST share from 90 cents in the dollar to 88 cents for 2014–15. This results in us receiving \$290 million less in 14–15 than if we had retained that 90-cent share. If Victoria were getting our fair share — if we were just getting back the GST we paid — we would be \$1.5 billion better off in 2014–15 alone and \$10.9 billion better off in the 10 years to 2014–15.

We are disappointed that we still have this inequity, because twice now the commonwealth government — and I say successive commonwealth governments, Labor and Coalition — has been advised that this is an unfair system and needs to be changed. The former Rudd-Gillard-Rudd government received the recommendations of the review of the GST by former Labor Premier John Brumby and former New South Wales Liberal Premier Nick Greiner. Recommendation 6.1 of the Brumby-Greiner review would have led to far better treatment of road and rail grants provided by the commonwealth to Victoria.

I will give you a practical example of how this inequity hurts us. The federal government is providing Victoria with around about \$3 billion towards the regional rail link project, but because of the way those grants are treated by the GST distribution system, we hand back effectively \$2 billion of that \$3 billion to other states. So we receive \$3 billion in gross terms from the commonwealth towards the regional rail link, but we only net \$1 billion and other states receive the benefit of that \$2 billion taken away from us. That is not only unfair and unsustainable; it actually discourages states from investing in major rail. We think that road and rail should be treated equitably in relation to GST distribution formulas.

The Brumby-Greiner review also suggested there should be, I think, a moving towards more of a fairer distribution, and we were pleased that the commission of audit also proposed equal per capita distribution. Acknowledging that other states, particularly some of the smaller states, will need some support, the commission of audit recognised, and I think most sensible people recognise, that there will need to be some level of support for the smaller states, but that should come through direct commonwealth financial assistance rather than through the GST. The GST is a growth tax, but Victoria is getting a shrinking share of it. That means that we are not getting the money we need to be able to deliver the sort of infrastructure and services that Victorians are paying for through the GST. So while we do have a strong budget position, it can be and should be even stronger if we get a fairer distribution of GST.

We look forward to using the coming white paper on tax reform that the federal government is issuing as a platform to take up the cudgels on behalf of this state, to argue for a fairer share of GST, to argue for a fair return to our taxpayers and to have other states pull their weight a bit more than they have been doing to date.

**Mr SCOTT** — Minister, I refer you to budget paper 3, page 80, which shows the total amount expended on the Coalition's 2010 election commitments, and I would take you to the line item related to asset initiatives. You would note there that the original funding there was for just over 2.4 billion, and the progress as of the 2014–15 budget is already over 3.4 billion. Particularly in the context of the failure to progress issues such as Avalon rail and others, how did your capital commitments blow out by over \$1 billion?

**Mr M. O'BRIEN** — I thank the member for his question, but he is misguided in his supposition. What we have done is overdelivered — —

#### **Members interjecting.**

**Mr M. O'BRIEN** — I am very happy to provide the committee with some concrete examples. At the last election we identified a number of level crossings that we intended to progressively remove, but the commitments in many cases were simply for money for planning — to do planning and design work, rather than — —

**Mr SCOTT** — Is that what voters thought?

**The CHAIR** — Do we want a supplementary? The Treasurer.

**Mr M. O'BRIEN** — The commitments that were made in many cases were to undertake planning and design work, and what had not been funded was the removal, which was to take place in a subsequent term. What we have actually done in a number of cases is bring forward the removal of those level crossings, bring forward the full funding — —

#### **Members interjecting.**

**Mr M. O'BRIEN** — What we have done is to bring forward the full funding of the removal of those level crossings. I was very pleased to stand up there with the transport minister last Friday week and announce that the government is fully funding in this budget the removal of the Burke Road, Glen Iris, level crossing, identified by the RACV as one of the top five congestion red spots in the entire state; the level crossing in North Road, Ormond; and the level crossing in Blackburn Road, Blackburn. Of course that follows on from the Premier and the transport minister having announced the full funding of the removal of the deadly level crossing at Main Road, St Albans, a level crossing which Labor ignored for 11 years and this government is funding the removal of in our first term, ahead of time. So we have overdelivered — overdelivered, Chair — on our commitments, and that is something we are very proud of.

**Mr D. O'BRIEN** — Treasurer, I would refer you to budget paper 4, page 48, and ask if you could please elaborate and explain further how the Cranbourne-Pakenham rail project relates to the government's unsolicited proposal process.

**Mr M. O'BRIEN** — The Cranbourne-Pakenham rail line project is going to be a terrific outcome for Victorians. The south-east of Melbourne is home to about a million people, but the train line is very much under pressure. What it needs is a substantial expansion. So that means you need to have more trains, you need to have trains running closer together and you also need to have grade separations, because the more services you run and the more trains you have on the line, the longer boom gates will be closed, and that means congestion for motorists. So what we have done through this unsolicited proposal is to undertake arrangements with MTR as the operator of the Metro franchise to undertake this fantastic upgrade. It will lead to a 30 per cent increase in capacity on the Cranbourne, Pakenham and Dandenong lines. It will result in the removal of four level crossings at Koornang Road, Carnegie; Murrumbeena Road, Murrumbeena; and two levels crossings in Clayton.

There will be high-capacity signalling. With high-capacity signalling, Chair, it means that because the trains will have better knowledge of where other trains are, you can run them more closely together while still retaining safety. We have quite an old and antiquated signalling system at the moment; it means that trains need very significant spaces between them for safety reasons. When you have high-capacity signalling — modern

signalling — you can run the trains more closely together while maintaining, in fact enhancing, safety, and that means you can get more trains on the system.

We are also investing in 25 new next generation trains — 25 trains with greater capacity to get more people on them, more people travelling in comfort. This is a total package. And of course because grade separations do interact with the train network, it makes a lot of sense to have Metro, or MTR as the operator of the Metro franchise, undertake that role in terms of coordinating the undertaking of the grade separations around the operation of the network. Where we do grade separations as a government, sometimes the interaction can be quite difficult. But Metro — because it is their system, they run it — will be able to make sure they can manage those risks better than we can from government, and will get a better value-for-money outcome.

It will bring forward investment that might otherwise have taken a longer period of time. We will get substantial extra enhancement of capacity on the system. We will get four grade separations and funding for planning towards a further five, and this is going to make sure that that very important train line — Cranbourne, Pakenham and Dandenong — gets the sorts of services, the sort of reliability, the sort of punctuality that Melburnians should expect and have not been experiencing for many years. The system is getting better, but this is the sort of step change we need in our rail investments if we are going to make this a modern, 21st century rail system.

**Ms GARRETT** — I once again refer to budget paper 4, page 50, regarding the eastern section of the East–West Link and to previous answers to both myself and Mr Pakula, and I ask quite simply again: will you tell the Victorian people what the Victorian government is signing them up for in availability payments for this project prior to the election?

**Mr M. O'BRIEN** — I thank the member for her question. As I have answered in a previous question, when contracts are signed — and this is being done as a public-private partnership — within a period of time those contracts and summaries of key points are published on the Partnerships Victoria website and they will contain all relevant information.

**The CHAIR** — Is there a supplementary?

**Ms GARRETT** — This will happen before the election?

**Mr M. O'BRIEN** — It will happen in accordance with our stated policies, whereby within a time frame — within 90 days — they are required to be published on the Partnerships Victoria website.

#### **Members interjecting.**

**Mr M. O'BRIEN** — I understand this has been a longstanding policy under governments of both political persuasions. We are very happy to comply with this policy. As I said, this is a terrific project. We want to get as much information about it out to the public, because we want Victorians to know about the benefits that the East–West Link will deliver. We want them to know about the 3200 jobs, which some oppose. We want them to know about being able to move and avoid 23 sets of traffic lights, which some would oppose. We want them to know about the public transport enhancements that are part of this East–West Link project, which some oppose. This is a fabulous project. We are very happy to get as much information out about it as possible, because we want Victorians to know that this government will stand up for jobs, will stand up for economic infrastructure and development. We are not prepared to sit on our hands and let population growth overwhelm us, as did our predecessors over 11 years.

**Mr ONDARCHIE** — Treasurer, I would like refer you to page 87 of budget paper 3, specifically about higher education and skills. Just last night I was at an event where I was talking about vocational training and what our government is doing about it. Could you explain to the estimates committee the variance between last year and this year?

**Mr M. O'BRIEN** — I frame this answer by noting again that the Coalition government is delivering \$1.2 billion a year for vocational education and training over the next four years. This is in stark contrast to the, by comparison, fairly paltry \$808 million that the former Labor government funded in their last year. In addition to that, we are providing \$30 million over two years to support training for automotive and supply chain workers. These investments are having a major impact.

In 2010 there were 426 900 government-subsidised enrolments. In 2013 enrolments increased by 51 per cent to 645 000 government-subsidised enrolments. I think those do bear repeating: 426 900 government-subsidised enrolments in 2010, 645 000 in 2013. And it is not just metropolitan areas that are growing; it is regional enrolments as well. In 2010 the figure for regional enrolments was 126 300. In 2013 the figure was 168 200 — a 30 per cent increase in regional Victoria.

I have noticed that some commentators, and I use that term a little bit loosely, are claiming that there has been a \$124 million reduction in the 2014–15 budget for higher education and skills. This is inaccurate, it is misleading, it is flat out wrong and it shows that some people cannot read budget papers. It does not surprise me that some people have this problem, but I am very happy to explain it step by step. The figure that some people are referring to is derived from the higher education and skills line of table 2.2 in budget paper 3, page 87. As the final column of this table makes clear, higher budgeted funding is provided for higher education and skills than last year.

In addition, as the footnote to this table clearly explains, the 2014–15 budget for higher education and skills is affected by a change in accounting treatment following the passage of the Education and Training Reform Amendment (Dual Sector Universities) Act 2013. This was an Act of Parliament that went through the Victorian Parliament, so I am surprised that members of that Parliament did not understand what the consequences were of that Act for the accounting treatment of dual sector universities in the budget papers. So as a result of this change, the operating expenses of dual sector TAFEs are no longer reported through the general government sector. While this expenditure still occurs, it is no longer a component of the higher education and skills budget. I am advised that the 2013–14 revised budget for higher education and skills includes around \$130 million associated with dual sector TAFE operating expenses, which is now not included in the 2014–15 budget as a result of the accounting change.

Let me make it very clear: claims that the government has cut funding for training and for TAFEs are false. They are false and they are wrong. The Coalition government is providing substantially more money for training than the former government ever did. It is very important that the community understands the facts and that the misleading statements made by those who cannot read budget papers and do not understand the consequence of legislation that passes the Victorian Parliament are not left unchallenged.

**Mr PAKULA** — I want to talk about the Cranbourne-Pakenham rail upgrade, and I want to ask you whether you are intending to make a state capital contribution to it. The reason I ask is that I have correspondence in my possession from Martin Dunn, a proponent group representative for MTR Corporation, John Holland Group and UGL Ltd, and Project Flinders scoping document items that have been before government. What they show is that without a state capital contribution, a \$1.79 billion project, which is what it is estimated to be, will end up being paid for by \$5.2 billion of annual service payments, and that averages out at an annual interest rate of something above 20 per cent per annum. It would be cheaper to put it on the credit card. My question is: will you bring that astronomical interest rate down by making a state capital contribution to the project?

**Mr M. O'BRIEN** — I thank the member for his question, but it is an ill-informed question.

**Mr PAKULA** — I am happy to hand you the documents.

### **Members interjecting.**

**Mr M. O'BRIEN** — I can assure the committee I have read more documents about this project than any member of the committee has, including the Deputy Chair. I can assure the committee that the suggestion made by the Deputy Chair is not a correct one. What this project does is provide for capital investment to be made by the consortium, but there are also obligations on them to maintain and operate the assets.

I know accounting treatments can be a little bit arcane to some people, but I will use an analogy: nobody would look at buying a new car tomorrow — let us say for a sticker price of \$20 000 — and then think, 'Hang on. We need to then add in the price of all the petrol we're going to use, all the maintenance, all the registration, all the car washing, all the things we're going to do over the life of that car', and then say, 'Actually the real purchase price of this car is \$60 000'. You would not do it. Attempts some journalists have made, and obviously the Deputy Chair is singing from that same hymn sheet, are just flat out wrong. You do not capitalise the ongoing operational and maintenance costs of assets. It is just wrong.

What we are doing at the moment is we are going through the process to finalise the execution of this fantastic upgrade with the proponents. As part of that we are considering different options obviously in relation to financing. We will be very pleased to advise the committee and in fact the general public of Victoria about how this project is delivering terrific value for money and delivering an absolutely essential upgrade to one of the busiest train lines in Victoria — one which has been under pressure for years and former governments did nothing about it. We are taking on the challenge to build the capacity in that network, upgrade those services and ensure that people can get on the train safely, comfortably, reliably and punctually.

**Mr PAKULA** — Treasurer, I am surprised by your answer, given that I also have here the Project Flinders maintenance costs — the target O and M estimate — for the whole project right through from 2016–17 to 2033–34, and it comes to a grand total of \$323 million out of \$5.2 billion worth of annual service payments. If you want to suggest that the ongoing operation and maintenance is anything other than a small element of the \$5.2 billion for a project that has a nominal cost of only 1.8, I ask you to explain how it is that \$5.2 billion in annual service payments will ultimately be paid to the operator on a project where you have target cost estimates of 1.79 billion and maintenance costs of only 320 million.

**Mr M. O'BRIEN** — I would say two things to that. The first is that the government has not made any final determination in relation to the financing.

**Mr PAKULA** — Caught.

**Mr M. O'BRIEN** — The government has not made any final determination in relation to the financing, so we have options open to us. The second is that we are talking about very significant up-front capital investments — very significant — and we will make sure that in any final execution of this fantastic and absolutely vital upgrade, it will deliver value for money. We will assess this.

#### **Members interjecting.**

**Mr M. O'BRIEN** — We will assess the proposal against a number of criteria to ensure absolute value for money for Victorians. The worst thing we could do for Victorians would be to do as the former government did and do nothing. We will ensure — as we have demonstrated with the Regional Rail Link, a project that was in real trouble and that we have got back on track, and as we have demonstrated with a number of major projects — that we will get value for money out of this project, because if it does not represent value for money, why would we do it? Why would we do it? We have got no interest in doing — —

#### **Members interjecting.**

**Mr M. O'BRIEN** — The government is the party which ultimately decides whether this project is going ahead.

#### **Members interjecting.**

**Mr M. O'BRIEN** — It feels like a Punch and Judy show here sometimes, Chair; seriously. We will determine that the project will go ahead and we will ensure that it does represent value for money for Victorians, unlike — —

**Mr ANGUS** — A foreign concept to you guys.

**The CHAIR** — Mr Angus!

**Mr M. O'BRIEN** — I did see the commentary in one of the newspapers about suggestions it was going to cost \$1 million a day for all of these terrific necessary upgrades — the expanded capacity, the 25 new trains, the new signalling, the grade separations, the maintenance stables. There was concern that this would cost \$1 million a day. I do not accept, necessarily, that figure, but to give it some context, we have a desal plant — the Wonthaggi white elephant — sitting there costing us \$1.8 million a day, delivering nothing at all, and that is the legacy of bad project management by the former Labor government. We will ensure that we will upgrade the Cranbourne and Pakenham lines, get those 25 new trains, get those four grade separations, get that planning for a further five grade separations and get that high-capacity signalling. When we invest the public's money we make damn sure they get a good return out of it, unlike the Wonthaggi white elephant.

**Mr ANGUS** — Treasurer, I refer you to budget paper 3, page 64, and a matter that we touched on just a few minutes ago in passing. Treasurer, can you outline to the committee the funding in this budget for level crossing removals and grade separations?

**Mr M. O'BRIEN** — I appreciate that question. This government is committed to a large-scale program of level crossing removals. We have undertaken considerable work to deliver that. We have delivered them in Springvale and in Mitcham, and we have other grade separations on track. I have previously advised the committee of the four full grade separations being funded through the Cranbourne-Pakenham upgrade proposals. We have also got planning of a further five grade separations being done as a result of that project. In addition to that, I have flagged we have got the announcements for the grade separations at Burke Road, Glen Iris; North Road, Ormond; Blackburn Road, Blackburn; and Main Road, St Albans. Main Road, St Albans, will be funded through savings in delivering the regional rail link project.

Chair, as guardians of the public purse, the Public Accounts and Estimates Committee would be very interested: this government is actually delivering savings in RRL. It has been a long time since Victorians have been used to governments managing major projects well and delivering savings which can then be put towards other important infrastructure investment, such as removing that level crossing at Main Road, St Albans. Victorians have been more used to desals and other types of blow-outs.

A further \$20 million has been provided in this budget to undertake planning and development on the next seven level crossings to be removed under the Metro Level Crossing Blitz program. Since coming to office, the Coalition government has allocated planning and/or construction funding for 40 level crossing removals and grade separations. Around \$1.8 billion has been provided to remove or commence planning the removal of 27 metropolitan level crossings, and in addition 13 grade separations are being delivered as part of the regional rail link project. These are very important investments, and they demonstrate that unlike those who might like to talk about grade separations, the Coalition government is delivering them. We are fully funding them and we are delivering them.

It is interesting that some people are claiming that you can do grade separations on the cheap, and certain people's policies seem to be predicated on doing grade separations on the cheap. What has been demonstrated is that those figures are wrong. They lack all credibility. We know this because we actually undertake grade separations. We know what they cost. Many grade separations require new stations to be built as part of them. Grade separations are very labour intensive. They are disruptive to the system; you have to fund replacement buses for a train line while the work is being done. All of these are costs which it appears some people have not factored in.

The question is: who would you trust? Trust people who did not deliver them in government and think they can do them on the cheap now, or trust the coalition government, which is planning, funding and removing 40 level crossings across Victoria?

**Mr SCOTT** — I would like to follow on from the answer from the minister. I have got a document here, a letter from Mr Martin Dunn, as a representative of MTR, John Holland Group and UGL. It is relating to the unsolicited proposal on the Dandenong corridor. Strangely enough, following on from your comments, it makes reference to the cost of four grade separations in that particular proposal and it costs them at \$479.3 million, which is less than — just a touch under — \$120 million per crossing. I am quite familiar with a number of those locations. How do you square away those costings with your previous comments that you have just made to the committee and also the comments of the Minister for Public Transport, who said that \$120 million grade separations would leave the community with a poor outcome? I am happy to give the minister the letter.

**Mr M. O'BRIEN** — First of all can I say, Chair, I thank the member for his question. There are a number of early proposals by the consortium which — —

**Mr SCOTT** — No, no, no, that is not the — —

### **Members interjecting.**

**Mr M. O'BRIEN** — I will just make the point that we have we have actually undertaken grade separations. The reason why we have allocated \$685 million for the removal of four level crossings announced in this budget — Burke Road, Glen Iris; North Road, Ormond; Blackburn Road, Blackburn; and Main Road,



St Albans — is that we have undertaken the work. We know exactly what these projects will cost. If you divide \$685 million by four — I do not want to get my calculator out but I can tell you, Chair, the number is a lot more than \$120 million each.

This idea that you can cherry-pick less expensive level crossings and say, ‘Ah, we can extrapolate that across 50 level crossings to fund our policy’ is a nonsense. Of course we know that somebody has belled the cat on this because as part of the planning process for the East–West Link eastern section a member of the opposition made a submission which stated quite clearly that the cost of removing 50 level crossings would be \$8 billion. The shadow Minister for Planning, Mr Tee, a member of the CFMEU — so I presume he knows a little bit about construction — —

**Members interjecting.**

**The CHAIR** — Order!

**Mr M. O’BRIEN** — Can I say when even the shadow minister bells the cat and knows the opposition’s policies are unaffordable, you would think they would stop digging the hole they are in.

**Mr D. O’BRIEN** — I will not ask you about the CFMEU cost impacts on the desalination plant, but we might hear more about that one day.

**Member interjecting.**

**Mr D. O’BRIEN** — The add-ons, yes. Someone else may ask those questions. I will ask you to refer to budget paper 2, page 9, and please explain, Treasurer, how this government is keeping net debt under control.

**Mr M. O’BRIEN** — I thank the member for his question. Keeping net debt under control is very important because funding additional expenditure through unsustainable borrowings is just irresponsible and will make it much harder for us to maintain our AAA. You cannot accumulate debt indefinitely without compromising our ability to deliver services and maintain tax competitiveness. Allowing debt to blow out will simply impact on our interest payments, and every dollar of additional interest we have to pay is one dollar less that is available for funding our schools and our hospitals. It is an extra dollar that needs to be taken from the community in taxes and charges.

We are absolutely committed to keeping a tight rein on expenditure. This does not mean that we are cutting services — quite the contrary. We are investing in more front-line services, but what we are doing is making sure we can actually reform the way we deliver services in this state so that we can get better outcomes for the public. We have had a shift within the public sector in terms of the number of public sector employees who are engaged in front-line service delivery. We have made difficult decisions but necessary decisions to ensure that we spend what we earn. As a consequence we do have the strongest finances of any state, but that will last only as long as we have a government that will maintain strong budget discipline. If we go down the path of debt and deficit that we have seen other governments do, that will lead — —

**Members interjecting.**

**The CHAIR** — Order!

**Mr M. O’BRIEN** — If we go down the path of debt and deficit that other governments have done, that will come at a severe cost to the community. When you look at Queensland you see that Queensland used to have such a strong financial position and it has gone in just a few short years to having a debt of, I think, around \$80 billion or something just extraordinary. The sorts of difficulties that Queensland faces now as a consequence of that accumulation of debt means that the government and its people have some very difficult decisions in front of them.

We cannot afford to go down that path here in Victoria. These strong budget surpluses we have delivered are the product of discipline, but they are also essential to making sure we can fund our infrastructure. You cannot have your cake and eat it too. You cannot spend your surpluses on programs and then have your infrastructure as well. This is a very important message for the community and for those of us in public life. If we deplete those surpluses, we are preventing our citizens from getting the infrastructure they need and the jobs and economic growth that they will deliver.

We are absolutely determined to keep a strong rein on finances and keep strong rein on expenditure growth. Yes, we will invest more. We will invest prudently and we will reform our public services to get better value for money for our people, but it is important to make sure we do keep that expenditure growth in check and ensure we can continue delivering strong surpluses for Victoria.

**Ms GARRETT** — I refer again, Treasurer, to stage 1 of the East–West Link and the answers previously provided regarding tolls and regarding availability of payments. I note what some might describe as your too-cute-by-half answer that details would be provided 90 days after the contracts were signed. Assuming these contracts — as you have insisted, even though you have not seen any of the details — will be signed prior to the election, any time post the end of August would mean that if that 90-day time frame was adhered to, the Victorian community would not know what the tolls were or the availability charges were, but you would. I would like you to explain to us and to the Victorian people in plain language why and what possible reasons you would have for not giving that information upon signing the contracts before the election.

**Mr M. O'BRIEN** — We will comply fully with the policy that has been in place under successive governments which provides that material be posted on the Partnerships Victoria website within 90 days. 'Within 90 days' does not necessarily mean 90 days. It could mean 80 days or it could mean 20 days. It is premature to determine that ahead of seeing the conclusion of the actual tendering process.

We need to make sure that we adhere to all the probity and planning requirements as part of the East–West Link procedures. They are under way. I have made it clear that the government's general intent is to provide more information about this project as soon as it can because we think it is a terrific project for Victorians. We want Victorians to have more information about it. There will obviously be a lot more clarity once the tendering process is concluded, but we will absolutely comply with Partnerships Victoria's longstanding policy. I note that it does not require publication after 90 days or on the 90th day; it is within 90 days.

**Mr ONDARCHIE** — Treasurer, I want to ask you about the investment in Victoria's education system. In particular I refer to pages 8 to 12 of budget paper 3. In doing so I want to say thank you. I represent one of the fastest growing areas in Melbourne, the Northern Metropolitan Region. We have been able to secure funding for a brand-new primary school for Epping North; a new school for Mill Park Lakes East Primary School; Mernda South Primary School, which is in one of the fastest growing postcodes in the country; an expansion of a high school for Coburg, to give access to all kids in that area to go to high school; \$4.7 million for Whittlesea Secondary College; and \$12 million for Hazel Glen College in Doreen, which is another very fast-growing area with over 170 residents moving into the wider area every week. There is also an expansion and upgrade for Wattle Glen Primary School. Can you expand on your recent comments about the investment this government is making to the future of Victoria's education system?

**Mr M. O'BRIEN** — I thank the member for his question and acknowledge his passionate advocacy for education and for his area. He represents a very fast-growing part of Victoria. There is great population growth there and great need for new schools, and we are very pleased to be delivering in this budget for our growth areas and in particular Melbourne's north.

This budget provides not just the additional capital increase I flagged previously — a significantly larger amount of capital than the last budget of the former government, of less than \$350 million compared to \$500 million — but also additional money for schools themselves. This budget delivers \$1.6 billion in additional funding over five years on top of \$1.2 billion of state funding growth, which is already reflected in the estimates. This is \$2.8 billion of \$5.4 billion over six years that this government committed to putting extra into the education system. We did that as a result of our discussions and agreements with the then federal Labor government. I remember working and discussing these matters with the then federal Minister Shorten. There were no pies served.

The important point was that when the former federal government came out with its Gonski plan, which morphed into Better Schools, there was some agreement on the need to put more funding into schools right across the country. In Victoria we were very happy to step up and play our part. What we were not prepared to do was to sacrifice the autonomy of our local school communities. We were not prepared to hand control of our schools over to Canberra. Victoria has a very autonomous, decentralised system. School councils and school principals have a lot of influence and decision-making power and authority over how their schools operate. That was critical to us and we were not prepared to sacrifice that in pursuit of a dollar from Canberra.

In the end we held out and secured significant changes that protected our autonomy in Victoria and we got additional money, which we are putting in and which the federal government is putting in as well. While other states were very quick to sign up — and I recall the Victorian opposition was demanding and bellowing at us to sign up as quickly as possible — we actually got a far better deal because we got the money but kept the autonomy. At the schools I have had the privilege of going to from time to time as Treasurer you see that different schools have different philosophies and act in different ways, which reflect the communities from which they spring, and that is a great part of our system. We do not want dumbed-down, uniform, cookie-cutter schools; we want great, vibrant and diverse schools that reflect the diversity of our community. Sacrificing autonomy to Canberra would have killed that, which we were not prepared to do.

In this budget we see the first additional money from that agreement. There is \$2.8 billion over five years in this budget alone for our schools. That includes \$273 million in additional funding provided to government schools to support students with moderate to severe disabilities. I think that is absolutely critical. We want to make sure we support our most vulnerable Victorians. Students with a disability need extra support to try to make sure their lives are as full as possible. They need extra support and we are providing them with it.

In addition to that \$273 million, \$32 million has been provided to support transportation between home and school for students with disabilities to attend specialist schools. That is critical as well. The government has already invested in more specialist schools. Indeed one of the 12 schools we announced this year is a special development school in the Geelong region. We are putting significant extra investment into our schools and making sure that the most vulnerable in our learning community get the support they need and that we are building schools to cater for the growth in Victoria's growth corridors as well as protecting their autonomy so that our schools are truly reflective of their local communities.

**Mr PAKULA** — Treasurer, you seem to have great confidence in getting the money; I think we should probably all wait until next Tuesday. In your budget speech you talked about the divestment of RFC, saying that that decision recognises that in the 21st century the core business of governments is to not to own and operate retail financial institutions. I am wondering whether you might also form the view that the core business of governments is not to operate various other types of institutions. In order to give the Victorian community some peace of mind can you rule out public assets like WorkCover, Snowy Hydro, the land titles office, State Trustees, Places Victoria or the TAC being included in the government's asset recycling program?

**Mr M. O'BRIEN** — I thank the member for his question. Mentioning RFC, some further information has actually come to me, if I can add to a previous answer, because I think it is on point. I understand that Bendigo Bank undertook some commentary today on the radio, and they did say something which I had felt a little bit concerned about sharing, but since it has been shared publicly I can feel free to do so. The way in which the private treaty negotiations were undertaken was such that Bendigo Bank were under the impression that it was a very hotly competitive process. Bendigo Bank were not aware that we were only speaking to them. The reason we did it that way was to ensure that Bendigo Bank would put in their very best bid — very best offer — to maximise the value we could obtain for RFC. Now that Bendigo Bank have disclosed that publicly, I do not feel bound by confidentiality in that regard. But the government were always very determined to set up a structure where we could maximise value for RFC. That was done, and we have also secured those very important other community service obligations, employment obligations and service to rural and regional Victoria obligations as well.

The government has announced two major divestments as part of the asset recycling initiative. RFC is obviously one. The medium-term lease to be issued over the port of Melbourne is the other. There are no other divestments we are currently examining. I was asked about this in a press conference recently, and my view is that, when you look at organisations like WorkCover and TAC, they give very good value to the Victorian community. We have some of the safest workplaces in the country, and our WorkCover premiums are some of the lowest in the country as well. I think it is a system that works; I really do.

#### **Member interjecting.**

**Mr M. O'BRIEN** — Indeed, a very good outcome for Geelong. So I do not see the need to examine divesting organisations like that, which are doing a very good job by the Victorian community. They have commercial-type benchmarks to meet as well, and that is why they pay dividends. We expect any government business enterprise that is investing Victorians' money, effectively, to make a return to the taxpayer, and we do

that through TAC and we do that through WorkCover. I think WorkCover is a well-run organisation. I think TAC is a well-run organisation. I think what they do in terms of the road safety message and the effectiveness that we have seen of TAC in terms of getting out that community message about road safety — through their promotional campaigns, through funding of actual road safety improvements — is terrific.

I can assure the committee that it is something we are not examining at all. I think where government business enterprises are doing very well — where they are delivering financial outcomes, whether it is for consumers, road users or employers, where they are delivering a reasonable dividend return to the taxpayer and where they are delivering the sorts of workplace safety and transport safety outcomes that the community thinks are good and we think are good as a government — why would you change it?

**Mr PAKULA** — Just to follow up, I noted the minister's talk of no current plans. Did you just rule out any privatisation of WorkCover and the TAC? Did you rule it out?

**Mr M. O'BRIEN** — I do not see any circumstances under which we would be doing it.

**The CHAIR** — We are out of time. That concludes the hearings for the Treasurer's portfolio. I thank the Treasurer, the secretary and departmental officers for their attendance today.

**Witnesses withdrew.**