PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

Budget estimates 2020-21 (Pallas)

Melbourne—Tuesday, 1 December 2020

MEMBERS

Ms Lizzie Blandthorn—Chair	Mr Danny O'Brien
Mr Richard Riordan—Deputy Chair	Ms Pauline Richards
Mr Sam Hibbins	Mr Tim Richardson
Mr David Limbrick	Ms Nina Taylor
Mr Gary Maas	Ms Bridget Vallence

WITNESSES

Mr Tim Pallas, MP, Treasurer,

Mr David Martine, Secretary,

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

Ms Trudy Hart, Acting Deputy Secretary, Economic Division,

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

Mr Jason Loos, Deputy Secretary, Commercial Division, Department of Treasury and Finance;

Mr Paul Broderick, Chief Executive Officer, State Revenue Office;

Mr William Whitford, Managing Director, Treasury Corporation of Victoria; and

Ms Lisa Gray, Chief Executive Officer, Victorian Funds Management Corporation.

The CHAIR: I declare open this hearing of the Public Accounts and Estimates Committee. I would like to begin by acknowledging the traditional Aboriginal owners of the land on which we are meeting. We pay our respects to them, their culture, their elders past, present and future and elders from other communities who may be here today.

On behalf of the Parliament, the committee is conducting this Inquiry into the 2020–21 Budget Estimates. Its aim is to scrutinise public administration and finance to improve outcomes for the Victorian community.

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

We ask that mobile telephones be turned to silent.

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

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

We welcome the Treasurer and his officers from the Department of Treasury and Finance. Treasurer, we invite you to make an opening statement of 10 minutes. This will be followed by questions from the committee. Thank you.

Visual presentation.

Mr PALLAS: Thank you very much, Chair, and committee members. It gives me great pleasure to present to you today my observations around the Victorian budget 2020–21. I would like to acknowledge the traditional owners of the land on which we meet and to pay my respects to their elders past and present.

As you know, 2020 has been quite an extraordinary year, with unprecedented challenges. These circumstances demand a budget to repair, recover and make us stronger than before. To do that, we need to get more Victorians back into work. We need to ensure that all Victorians can get a job, to deliver certainty and security for them and their family.

We need to look after families, making sure of course that they have confidence in their future and the future of their kids. We have to take care of people we love the most and ensure that if the worst were to happen, we need to know that they will have the care that they need. That is how we build a strong recovery and an even stronger future for our state.

We entered this unprecedented year with strong foundations, thanks to our record of responsible economic and financial management. Since November 2014 economic and employment growth has been strong, both averaging around 3.3 per cent a year over the five years to 2018–19. Over 520 000 more Victorians were employed than were employed when the government was elected. Contrast that to the employment growth achieved under the previous coalition government—120 000 jobs in four years.

Our prudent fiscal management has seen the government deliver operating surpluses that averaged $2.2 billion each year between 2015–16 and 2018–19. This provided the strong foundation for us to respond to the pandemic.

Like so many countries around the world, the global pandemic has resulted in serious impacts to our economy. The unemployment rate is forecast to peak at 8.25 per cent in the December quarter and average 7.75 per cent in 2020–21. Victoria's economy is forecast to contract by 4 per cent in 2020–21, following a small decline in 2019–20. In total the government has committed $13 billion since March to address the immediate impacts of COVID-19 on the health system, to support businesses and to protect jobs. These impacts would be far worse without the record levels of support provided by government, but it also demonstrates a significant recovery task that lies ahead. In addition to the significant revenue and expenditure impacts of coronavirus, Victoria has once again lost out due to decisions of the commonwealth.

The Commonwealth Grants Commission estimated that the net impact of the Commonwealth Grants Commission 2020 methodology review on Victoria's relativities would see about $802 million reduced to Victoria's GST revenue in 2020–21. These changes were signed off by the federal Treasurer in April, after the pandemic was upon us, and this change represents the single largest redistribution away from any state in the methodology review since the introduction of the GST. Based on Victoria's own forecast, the methodology change is expected to redistribute approximately $1 billion per year in GST away from Victoria across the budget in the forward estimates.

The budget responded to the scale of the challenge presented by the coronavirus pandemic by investing up to $49 billion in the things that matter to Victorians, and we were able to do this as a result of the government's financial management strategies over the previous six years.

We are projecting an operating deficit of $23.3 billion this year, forecast to reduce by almost 75 per cent to $5.9 billion in three years time. Net debt is forecast to increase to almost $155 billion by the end of the forward estimates, and this is necessary to get Victorians back to work and also to restore economic growth. And as the economy strengthens, we expect that our budget position will also strengthen. The increase in debt is being driven by several factors: significant revenue writedowns and significant increases in expenditure to deal with the immediate effects of the pandemic. But it has also been driven by significant investments we are making to drive Victoria's economic recovery.

The governor of the RBA has been very clear about the economic prescription for these unprecedented times, and that message is clear: 'Increase your borrowing'. That is exactly what we are doing. We are putting our credit rating to work where it is needed most to help Victorians now and into the future, and we are prioritising the use of our balance sheet to support employment, business and consumer confidence and of course household budgets. Record low interest rates mean that the increase in borrowing remains manageable. To give you an illustration, interest expenses as a total share of revenue remains more than manageable, averaging only 4.4 per cent of revenue per year over the forward estimates period, just 1 per cent higher than in 1920.

We are not alone in our fiscal approach. In fact our fiscal approach is broadly comparable to the commonwealth government's. In 2021 Victoria has forecast a general government operating deficit of 34.9 per cent, a total revenue less than the commonwealth's equivalent. Both Victoria and the commonwealth will see an increase in debt of around 20 per cent of our respective economies over the next four years. Commonwealth debt will be approaching $1 trillion by 2023–24.

Some members of the commentariat, and indeed I think some members of this committee, have questioned the government's focus on getting the virus under control and the restrictions that were necessary to ultimately achieve this. They did this under the false assumption that opening up faster was better for the economy. However, there is plenty of evidence around the world now that countries that have best managed the effect to protect their economy is by putting the interests and the protection of their population's health and lives first.

What the chart shows is that the more effectively a country controls a pandemic, the better its economic outcomes. The rapid recovery in business confidence, consumer sentiment and employment that we have seen in Victoria since restrictions were eased in October is really a demonstration of that. The restrictions we put in place were necessary to save lives, slow the spread of the virus and enable sustained economic recovery.

So at the heart of our economic recovery is jobs creation. That is why we have got an ambitious strategy. Our jobs plan identifies an extra 200 000 Victorians as a target back into work by 2022 and 400 000 by 2025. Supporting our workers is key to Victoria's successful economic recovery. That is why this government is making significant investments to boost workforce participation and support vulnerable workers. We are investing $1 billion in Victoria's TAFE and training sector, $619 million for Jobs for Victoria to extend Jobs Victoria's services and help Victorians into work and $836 million for a new jobs tax credit which will encourage businesses to create and to re-employ therefore assisting with our jobs target and assisting the community back into work.

Overwhelmingly women have been most affected by the pandemic. Through the jobs plan, the government will support more women back into the workforce, ensuring that they have the stability and security that they deserve. There is $500 million to create jobs across mental health, family violence, health, child protection and education. We are making kinder free next year and expanding before- and after-hours school care in 400 schools. One hundred and fifty million dollars is towards a wage subsidy to support businesses to hire 6000 women. One-third of the subsidies will go to women over the age of 45, recognising the particularly difficult barriers that they face, and we will roll out a range of other initiatives to support women in specific industries, including construction, tech and transport. Our direct and indirect support for women's economic participation is close to $1 billion.

A key part of our recovery is having a strong pipeline of infrastructure projects. Earlier this year we announced $2.7 billion for building works to get people working as quickly as possible. Our Big Housing Build will invest $6 billion; $5.3 billion of that to build more than 12 000 new social and affordable homes and $678 million to make housing more accessible and affordable and to reform our planning system. Over $4 billion will go to the Suburban Rail Loop and stage 1 of the Geelong fast rail.

As a result of these investments our annual spend is now trending towards $19.6 billion over the next four years. That is four times more than the 10-year average prior to us coming to government. We see that that $134 billion of new and existing projects underway this year will support something like 165 000 jobs. Of course we are building and supporting every corner of the state and helping every part of the state to recover—$8 billion to assist regional economies get back on track by creating jobs all over Victoria.

The CHAIR: Thank you, Treasurer. I will hand to the Deputy Chair, Mr Richard Riordan, MP.

Mr RIORDAN: Thank you, Chair, and good morning, Treasurer and Treasury team. We had the Premier here last Friday of course, and, Treasurer, there were a couple of things that he was unable to clarify for us. I am going to ask first-up this morning about the Independent Broad-based Anti-corruption Commission. However, before I do so, Chair, given that the Member for Cranbourne spent most of yesterday as a witness before IBAC inquiring into whether she and others have engaged in corrupt conduct, I would like to check whether it is appropriate that the Member for Cranbourne stay in for questions around IBAC.

Mr MAAS: Point of order.

The CHAIR: Mr Maas.

Mr MAAS: Firstly to say that Mr Riordan really is a one-trick pony. It beggars belief really. I thought we established last time that members of this committee can stay on this committee unless there is a direct pecuniary interest, so to raise this in this forum now is just complete and utter nonsense.

The CHAIR: That is right, Mr Maas. This committee has previously determined, as is the case across the Parliament, that if a member has a conflict of interest that is a direct pecuniary interest, then that is a matter for them to determine. Does the Member for Cranbourne feel she has a direct pecuniary interest?

Ms RICHARDS: No, I don't, Chair.

The CHAIR: There is no point of order. I ask that Mr Riordan continue.

Mr RIORDAN: Okay. Thank you, Chair, for putting that on the record.

Treasurer, I refer to budget paper 3, page 384. We spent quite some time on this last week. The table at the bottom of the page, the second-last line item, 'Independent Broad-based Anti-corruption Commission'. Are you able to inform the committee of the amount listed for IBAC under the 2020–21 budget?

Mr PALLAS: Well, I am aware of the numbers, and I am aware of the evidence that the Premier gave, so could we spare the need to go to the numbers. I can take you through those numbers in quite some detail, if you would like, Mr Riordan.

Mr RIORDAN: I am just needing you to confirm the number, because there has been some—

Mr PALLAS: I am aware—

Mr RIORDAN: So are you able to confirm that number for us?

Mr PALLAS: I am aware of the numbers, yes.

Mr RIORDAN: Can you confirm them for the committee, because the Premier could not.

Mr PALLAS: Look, I am not going to be a performing parrot here. If you want the numbers provided, I am happy to take you through them. How I give my evidence before this committee is a matter for me.

Mr RIORDAN: So both the Premier and the Treasurer are unable to say the sum.

Mr PALLAS: No. Did you hear what I just said?

Mr RIORDAN: Sorry, I am just asking you for one question.

The CHAIR: Sorry, Mr Riordan and Treasurer, if I could interrupt, please. We had this dialogue on Friday last week. It is the job of the committee to ask questions and scrutinise the budget, not to ask the Treasurer to read the budget out line item by line item. If you are unable to read the budget, then you should have sought advice prior to today.

Mr RIORDAN: No, no. We have on the record countless times in the past fortnight the Premier being quite adamant that there has not been a reduction. He was unable to confirm that again—he often referred on Friday that we should ask the Treasurer. I am now asking the Treasurer the simple question: Treasurer, can you confirm that the 2020–21 budget shows a decrease in funding to IBAC?

Mr PALLAS: I can confirm the numbers in the budget, and I can explain what has happened if you will care to listen.

Mr RIORDAN: No, I am just wanting—

The CHAIR: Mr Riordan—

Mr RIORDAN: Excuse me, Chair. The question is simple: can the Treasurer confirm there is a reduction?

Mr PALLAS: You can remain blissfully ignorant if you wish.

The CHAIR: Sorry, Treasurer, and sorry, Mr Riordan. We are not going to start the day with you consistently talking over the top of me again when I am speaking. The Treasurer can answer your question in the form that the Treasurer sees fit in the same way that you can ask your question in the way that you see fit. It is not for you to—

Mr RIORDAN: No. Excuse me, Chair, this is a nonsense. This is an inquiry. The inquiry is asking a question: is there a reduction in funding to the Independent Broad-based Anti-corruption Commission?

The CHAIR: Mr Riordan, you are again starting the day in a very rude tone. It is not appropriate for you to speak over the top of the Chair when the Chair is speaking. You can ask the question; the Treasurer can answer the question in the way that he sees fit. If you are unsatisfied with the answer, then that is a matter for you.

Mr RIORDAN: Well, for the record, this committee member finds it totally unsatisfactory that the Premier of this state and now the Treasurer of this state cannot admit on the record that they have cut funding when it clearly shows it in the budget paper for this year—again something that there are members of this committee in fact appearing before, and it is a great—

The CHAIR: Mr Riordan, please do not yell out over the top of me. If you have answered your own question, perhaps you would like to move onto the next one.

Mr RIORDAN: We will move onto the next question. It seems impossible for the most senior people in this government to answer the simplest of questions.

Mr PALLAS: Well, having been asked the question, I will take you through what has happened here.

Mr RIORDAN: No. Stop—that is not my question, Treasurer. Sorry, we are moving on. This question is not an opportunity for you to filibuster.

Mr PALLAS: I seek to table an analysis produced by Treasury which explains exactly what has happened with the funding for the Independent Broad-based Anti-corruption Commission—

Mr RIORDAN: We will take that on notice. Thanks, Treasurer.

The CHAIR: Mr Riordan, sorry, I cannot even hear the Treasurer over you yelling.

Mr PALLAS: and I will take you through this, because it will demonstrate—

Mr RIORDAN: If you have got it there, Treasurer, feel free to table it.

Mr PALLAS: Mr Riordan, it was your question and I intend to answer it.

The CHAIR: Mr Riordan! Treasurer!

Mr RIORDAN: My question was: was it a decrease? A yes or no answer, Treasurer.

Mr PALLAS: No. No is the answer. It was not, and now I will take you through—

Mr RIORDAN: It is not a decrease. So 42 is not a decrease on 46? Okay? No wonder this state does not have a plan to get us out of the deficit—

The CHAIR: Mr Riordan!

Mr PALLAS: God help us if it were you taking responsibility for accounting given your inability even to listen to your own question let alone get the advice from Treasury. I will give you that advice now.

The CHAIR: Sorry, Treasurer, just before you do: Mr Riordan, I would greatly appreciate if you could desist with the rude treatment. I could not even hear the Treasurer then. I understand from what is happening now that the Treasurer is seeking to table this document. Is that right, Treasurer?

Mr PALLAS: Yes, and rather than I take you through it, I will hand it to the Secretary of Treasury to take you through these numbers so that you are not hearing it from a politician but rather by the department that put together these numbers.

The CHAIR: Thank you, Secretary. That would be appreciated.

Mr MARTINE: Thank you, Chair, and thank you, Treasurer. The document that has been tabled by the Treasurer outlines the explanation as to the funding over the last couple of years. You will see in the second row of the table provided, titled 'Plus funding rephased', IBAC had underspends in 2014 and 2015 and at one point sought the approval of the government to rephase that underspend across 2017–18, 2018–19 and 2019–20, and that was agreed. So the $5 million, the $4 million and the $4 million represent the rephasing of money that IBAC was given in those years that was not spent and then approved for rephasing. So that funding was approved. And the other point to note is in the budget there is actually additional funding for IBAC, which is what they requested, and that was also approved by government.

Mr RIORDAN: Secretary Martine, we have heard many, many times the government justifying that they have not cut. Even on this document, and I am happy for it to be tabled because the document says 'Funding excluding rephases'—still shows a cut to the IBAC. Last year you have got $42.528 million without the rephasing, and then you have gone to $42.195 million.

Mr MARTINE: So, Deputy Chair, up to 2019–20 IBAC's funding was part of DPC. So this is the first year that their funding is now treated separately in terms of an appropriation, and they actually drew down, I am advised, I think it was a couple of million dollars of DPC appropriation in 2019–20. So the number you see there in that column is the actual spend as recorded in their annual report.

Mr RIORDAN: Okay. So there is nothing you have tabled today that shows in any way that you have increased funding. But, look, we have had the discussion. There are many more questions we need to get through, so we will move on. Thank you for tabling that.

Mr PALLAS: But I think this is an important point, Mr Riordan, and it may help you going forward. When the government makes a judgement to allow the provision of an underspend in future years, it does not constitute the new base funding for that entity. It is actually at entirely—

Mr RIORDAN: But your base funding is less anyway, Treasurer.

Mr PALLAS: Look, as the Secretary has indicated, they drew on extra funding out of DPC.

Mr RIORDAN: So we have now got two excuses as to why the budget is cut.

The CHAIR: Mr Riordan, could you please stop interrupting people.

Mr PALLAS: Look, if essentially your argument is that we should not augment the entitlements to efficiently run organisations to allow them to roll over underspends in future years, you cannot count it as a new base.

Mr RIORDAN: No, our argument is you have got a conga line of your party members lining up at IBAC because you are cutting the funding.

The CHAIR: Mr Riordan, could you stop interrupting people, please.

Mr RIORDAN: Right. We are moving on, because you have tabled it and you have proved absolutely nothing. In fact it makes it worse because we thought it was only the forward funding you had cut but you have actually cut the base funding as well, and now you are blaming departmental hokey-pokey that is moving it around.

Mr PALLAS: Well, I will make it clear that the funds that IBAC sought IBAC got.

Mr RIORDAN: Okay. So we will get that on record, that IBAC asked for less money than they got last year. That would be the first government department ever to do that.

Treasurer, in Friday's PAEC session the Premier stated that he does not have a plan for repaying Victoria's forecast record $155 billion in government debt. Treasurer, he does not have a plan. Do you have a plan?

Mr PALLAS: Well, I am sure the Premier did not say that, but I am certain—it is pretty clear in our—

Mr RIORDAN: We will refer the Treasurer to the Hansard.

Mr PALLAS: Well, the strategy is pretty clear, and it is in four parts, Mr Riordan. The first thing that the government needs to do is deal with our economic recovery and the creation of jobs. As you grow the economic base of the state, you also improve the revenue inflows into the government's coffers. The second thing that we will do is create and deal with the delivery of an operating cash surplus. The third thing we will do is move to operating surplus. And the fourth thing that we will do is ultimately get ourselves to a position where we stabilise debt liabilities. None of those things can be done other than in that sequence. It is a strategy that is well adopted around the world and is effectively being applied by the federal government in terms of their debt, which is rapidly approaching $1 trillion.

Mr RIORDAN: We are not here to talk about the federal government. You are the state government, and it is our state that has got more debt than anybody else.

Mr PALLAS: Except for the federal government of course, Mr Riordan.

Mr RIORDAN: I ask the further question: you talk about you can only pay that down when you get into surpluses. We understand that, and a massive debt that it is. The budget is now, your own records, in deficit every year across the forward estimates with no clear plan to get back to surplus. Do you or does Treasury have a year when you would expect that the first dollar in debt could be repaid?

Mr PALLAS: Well, we would expect it in the second period of the forward estimates—that is, the second forward estimates, years 5 to 8. But to also be clear, we are not the only state that is projecting deficit over the forward estimates. Our nearest equivalent, New South Wales, is also in their four-year forward estimates projecting deficit each and every year. But to put the nature of the situation in some context, the Victorian government's debt through the Victorian government general public sector is less than the deficit this year of the federal government. To put that into some context, one year of deficit for the federal government still exceeds the debt for the general sector that the Victorian government has projected over the next four years.

Mr RIORDAN: Treasurer, prior to the 2018 election Labor's financial statement committed to stabilising net debt at 12 per cent of GSP; that was doubling net debt. We understand there has been a pandemic and there have been unusual circumstances, but we also know that before COVID took over the state and our consciousness back in March you were already in deficit and most of your major projects were over budget. Now that net debt to GSP—gross state product—is forecast to rise to 28.9 per cent, up from what only two years ago you said you were capping at 12 per cent, do you have an upper limit on how much debt you are prepared to undertake? What is that limit, and how far will you be prepared to go beyond?

Mr PALLAS: Well, I will be pretty clear that our priority is to the Victorian people and to get people back into work and to make the necessary interventions to ensure that. And can I give you and every Victorian an assurance that we will use our budgets to protect household budgets and to support businesses. But your observation that we were already in deficit is just transparently wrong. Indeed before the onset of this event and leading up to the normal timing for the budget, the Department of Treasury and Finance did make it clear that we were seeking to pursue a surplus budget and were well on track to deliver it. So we were not heading towards deficit until of course the pandemic event occurred.

Mr RIORDAN: Was the December quarter in deficit?

Mr PALLAS: Well, I will leave that to the Secretary to make some—

Mr RIORDAN: What, as Treasurer you do not know that?

Mr PALLAS: Well, that is this December quarter.

Mr RIORDAN: The one we have just—

Ms VALLENCE: Nineteen.

Mr RIORDAN: The 2019–20 December—the December before the bushfires.

Mr D O'BRIEN: 'Yes' is the answer you are looking for.

Mr PALLAS: Oh, yes. Yes, it was—

Mr RIORDAN: You know, less than 12 months ago—that December.

Mr PALLAS: Well, hang on. If you want to know why that is, it is around the phasing of the revenue that comes into the state. So, for example, land tax predominantly comes in in the second part of a financial year. We were not getting those land tax receipts.

Mr RIORDAN: So just to confirm, the state has been in deficit since the December quarter last year, hasn't it?

Mr PALLAS: No. We were anticipating, as we said, and Treasury—

Mr RIORDAN: I am anticipating a swimming pool for Christmas. It does not mean I am getting one.

The CHAIR: Mr Riordan, could you allow the Treasurer to answer the questions, please.

Mr PALLAS: To give you an appreciation of—

Mr RIORDAN: Well, we cannot move into he is 'anticipating' as an answer.

The CHAIR: Well, Mr Riordan, you are the one asking speculative questions. If you would like the Treasurer to answer them—

Mr RIORDAN: It is the budget estimates. We have got the Treasurer who cannot quite recall that he was in deficit in December—

The CHAIR: Mr Riordan, could you give the Treasurer an opportunity to answer your question.

Mr PALLAS: So, to give you the second part of your question, which went to the debt profile of the state, as you will appreciate, that level of debt will come close to 29 per cent—28.9 per cent—of GSP. But let us spare a thought for a comparable analysis with the commonwealth, who will see their debt profile rise to 44 per cent. In terms of the debt event in terms of the economic circumstances that we have encountered, both jurisdictions are seeing something like a 20 per cent appreciation in their debt profiles as a consequence of the interventions we have both necessarily had to make in order to deal with these issues. So if you wish to know when we anticipate that we will be in a position to effectively deal with these matters, the answer is simple: a four-staged approach. The first stage, and most important stage, is to get people back into work and to grow our economy and make our priorities very clear to the Victorian people.

Mr RIORDAN: But, Treasurer, do you not also agree that not only do you have to grow the economy but you have to spend taxpayers money wisely? We know that before the pandemic your Big Build projects were all over budget, and how much of this $155 billion debt is going to that area?

Mr PALLAS: Well, I do not take it as a standard and accepted proposition that all projects were over budget, but I will make the point that there is no doubt that the pandemic has had a considerable impact upon the delivery of projects, both in terms of timeliness and, might I say, some of them not in a negative way. I have—

Mr RIORDAN: So how do you think shareholders would go if you rocked up to a board meeting and said you had just blown the debt five times over?

The CHAIR: Mr Riordan, could you allow the Treasurer to continue to answer his question.

Mr RIORDAN: Do you think that would go down well in the average boardroom, using COVID?

Mr PALLAS: Well, Mr Riordan, I think if I was going to have difficulties on that I suppose the federal government would have even more given that two-thirds of the debt that they have run up—

Mr RIORDAN: Treasurer, we are talking about your budget and your—

The CHAIR: Mr Riordan, you keep asking a question and not allowing the Treasurer to answer it.

Mr PALLAS: Well, you cannot analyse the budget paper of one state without looking at how the sovereign jurisdiction is dealing with this event.

Mr RIORDAN: Well, you are trying to blame COVID for the overrun on your projects.

The CHAIR: Mr Riordan, you are not allowing the Treasurer to answer your questions.

Mr PALLAS: So it is important that you appreciate that we operate in a federation and that a key part of our capacity, about 50 per cent of our cash inflows, our revenue, comes from the commonwealth; that has a direct impact upon the state of Victoria. I have already indicated to you that there has been an appreciable reduction in commonwealth inflows out of GST because of what is nothing short of an unfair recasting of the methodology of the GST, specifically against the interests of Victoria. That is one of quite a number of problems, some going towards a downfall—

Mr RIORDAN: Time is up, I think, Treasurer.

Mr PALLAS: in revenue but others going most notably to the government's commitment to support businesses and families through this event to the tune of some $13 billion.

The CHAIR: Thank you, Treasurer. I will hand the call to Mr Gary Maas, MP.

Mr MAAS: Thank you, Chair. And thank you, Treasurer and Treasury officials, for your appearance this morning. Treasurer, I would like to take you to budget paper 2, which details some of the government's jobs plan and how it will help address the economic impact of the coronavirus. Would you be able to tell the committee a bit more about the government's jobs plan and its plan for economic recovery?

Mr PALLAS: Well, thanks very much, Mr Maas, and I would make the point that this government has got a well-established record when it comes to job creation, because it is part of our DNA. It is our principal focus and objective. We understand that you cannot improve the wealth of the community without actually going through the process of creating jobs. It is about where our priorities lie, and that is to enrich the entire community, and to provide people with the assurance of employment also provides them with wellbeing and a sense of purpose. So jobs are the centrepiece of the government's investment this year—jobs for Victorians of all ages, across all industries and across every corner of our state. Before the pandemic we saw some 523 000 jobs created in this state between November 2014 and March 2020. In fact our state created more jobs in this period than any other state or territory in the nation. There was a quarterly report produced by CommSec, *State of the States*, and of the eight quarters that were provided we were first of the performing states, and that was in no small part due to our success in creating jobs and delivering the projects that will enhance both the lives and the wellbeing of not only this generation but future generations to come.

So our jobs plan aims to replicate that success, getting more Victorians back to work while of course building an inclusive and innovative economy. It is underpinned by two basic principles: firstly, not leaving any worker, sector or community behind—so genuine recovery really only occurs when it is inclusive recovery, and that means every Victorian gets the support they need; secondly, playing to our strengths, and Victoria has a range of fundamental strengths that will be critical to our rebuild and to the long-term future of the state. And a plan really is not worth much unless you have got a clear objective, a target with which to aim for and to hold yourself to account to. So we are aiming for 400 000 new jobs by 2025 and an interim milestone of 200 000 new jobs by 2022, compared with a trough in employment in 2020. So I think we need to get more Victorians into work. That is obvious, and it is obvious the hardship of the Victorian community through their commitment to social distancing and the restrictions that were necessary. Their sacrifice has put us in the position we are in and they deserve a return on that sacrifice, and that is exactly what this budget is about. The creation of jobs assists all Victorians find purpose and economic security.

So it is not just that more families are able to pay their bills, it is also that they need to be able to plan for the future, and the future is a Victoria that is fairer, stronger and more inclusive for everyone. So the jobs plan will target timely economic stimulus that kickstarts the economy, gets more Victorians back to work and also ensures that we lay the foundations for a more inclusive and innovative economic recovery. The plan is really based on some fundamentally strong budget settings, a track record of investment in services and infrastructure and an enviable record of economic growth through the state. And it also reflects that no one Victorian worker, business or community will be left behind. So an effective recovery plan necessarily requires that we tailor support to meet the diverse needs of our state and the diverse nature of economic activity that occurs within this state.

There is no simple, single intervention. The jobs plan is a multifaceted effort by the government to deal with those issues, but there are four basic tenets underpinning it: getting Victorians back to work, building our state as we rebuild the economy, support for industries and leveraging to our strengths, and no community and no Victorian left behind. That is the four-pronged approach that the government is adopting that underpins the jobs plan and principally underpins the values that we think will stand Victorians in good stead going forward, because to pursue economic growth without recognising that starts in households and homes is to do a great disservice to the sacrifice of Victorians that got us to the COVID-normal situation that we rapidly approach.

Mr MAAS: Thanks, Treasurer. You mentioned leaving no group behind or no-one behind, but it is clear that some groups, women in particular, were disadvantaged by the pandemic. In fact that is acknowledged in budget paper 2 on page 29. My question is in two parts: why do you think that was, and secondly, what does the jobs plan propose to do about it?

Mr PALLAS: Thanks, Mr Maas. I think there are a couple ways that I can respond to that question. The first thing is there is no doubt that women have made an enormous sacrifice, perhaps a greater sacrifice than men, in the current environment, and I do not mean that to be offensive to those of my gender, who have obviously made contributions throughout the pandemic, but really to show that there are two factors at play here. One is that women predominate in industries where caring is a requirement, and the second is that their household responsibilities have also placed increased onus on them, whether it is learning-from-home requirements or whether it is caring for those in need within their family or their immediate households. So there is no doubt that women have suffered, and this event has laid bare a number of inequalities in our economy, some that I think that we need to recognise and face up to going forward. Those who have suffered most have been women, but there are others: young people, people over the age of 60—Victorians who have got plenty of experience but have not got a formal qualification and find it difficult moving into areas of growth in the economy.

So to rebuild our economy, getting Victorians back to work will be a central requirement of our recovery, and the jobs plan is aimed to do exactly that—to ensure that no worker is left behind and to make sure that women are a principal focus of our effort, given the sacrifice that they have made. Many industries have seen job losses as a consequence of the coronavirus pandemic, but several sectors have experienced a much greater impact than others. Their recovery and the recovery of their workforce of course risks being slower, which is why we are putting the effort in. What we are seeing as a consequence of this economic event, because of the embedded consumption demand that had been constrained during this pandemic, is a bounce-back. It is already starting to occur in terms of employment growth. We are already starting to see it occur in terms of business confidence and consumer confidence. But it will not bounce all the way back, and that is the critical test for this government: what interventions are we planning to make that ensure that disadvantage is not embedded in our community? What are the interventions that we value as a community, where we think we need to make further policy interventions to support those who will suffer long-term disadvantage because the bounce-back will not go all the way? And we need to find the necessary interventions to ensure that we help everybody get back to where they aspire to be as a consequence of events that have been imposed upon them.

But the other thing we need to recognise is we do not have to build the future on the back of where we were before this pandemic. We can envisage a future that is better, fairer and more inclusive, and that is exactly what our jobs plan seeks to do. As a society I think what this economic event has demonstrated is that we have fallen short in terms of our duty of care to so many in the community—those in insecure work, those who bear the burden of family responsibilities but should not see their careers constrained as a consequence.

That is why we are putting so much emphasis into this activity. The interventions we are putting in place—childcare responsibilities of course are falling disproportionately on women. What we are seeking to do: $250 million to support businesses to hire at least 10 000 Victorians using wage subsidies to support Victorians to find a job. At least $150 million of that will be directed specifically to getting women back in work, of which $50 million is targeted for women over 45. The budget also provides $30 million for a range of gender equality initiatives, including the *Gender Equality Act* and $70 million for new opportunities in sectors such as transport, construction and startup innovation. Of course 4100 tutor trainers will be taken on for a 12-month period right across government—80 per cent of those jobs will be female jobs, is our expectation. Whether it is providing for kindergarten provision or whether it is providing for the out-of-hours school care, this is about making sure that we can provide the opportunities for women to participate in the labour market and free them up, to some extent, from their childcare responsibilities, recognising that there are some industries where women predominate. Whether it be mental health, family violence, health or child protection, we will be investing in these industries because we know that our community desperately needs them, and we desperately need the support and assistance that women can provide in these industries. That is why we are investing in them: to get Victorians back to work, but also to provide a fairer and more inclusive society going forward.

Mr MAAS: Thanks, Treasurer. And speaking of a fairer and more inclusive society, insecure work of course has been exposed through the pandemic, and I suspect that is going to be difficult as well in the recovery phase. We know that the longer the period of unemployment is the worse the scarring is on that particular person's future economic prospects. If I can take you to budget paper 2, at page 14 it states that:

> Maintaining and growing Victoria's skills base is crucial to economic recovery and getting Victorians into secure work.

So the question is: what is the government doing to make sure those Victorians are not left behind?

Mr PALLAS: I spent a little bit of time talking about the impact that this event is having upon women in the workplace, and it is clear that they are subjected to industries that predominate with high levels of insecurity. But areas that I think are worthwhile turning our attention to are some of the other demographic groups that are likely to be hard hit as a consequence of this event. Those include industries like recreation, accommodation, food services and the arts, and they have a large level of young people. I suppose, Mr Maas, talking to people in your electorate, as in my electorate, we do find that there are high levels of insecurity in employment in those areas for young people. In 2019 some 63 per cent of the accommodation and food services workforce was under the age of 30. The JobMaker package in the commonwealth budget 2020–21 includes a range of measures to acknowledge the disproportionate effect that the pandemic has had on young people. Tens of thousands of young Victorians have been affected by this event and indeed will be potentially supported by the scheme. The incentive to hire young people to get them back into work is vitally important to provide them with the skills that they need and the support that they need to reconnect with the world of work.

The vitally important thing about this is that if we do not intervene quickly, we know that the longer people are out of the world of work, the more difficult it is to get them to re-engage with the world of work. That is not just motivated by a desire to do the right thing by these individuals, but it is right that we should; it is also motivated by the fact that a depressed participation rate in our labour market ultimately means that our economy is massively under-utilised. You will see that a lot of initiatives that this government has put in place are about how quickly can we identify those areas that are hardest hit and how quickly can we actively intervene to get people back to work. Whether it is the Working for Victoria trainers and mentors that we have put in place, whether it is the supported employment arrangements that we have put in place, whether it is the access to some 80 000 extra TAFE training places so that we can skill up the workforce, whether it is substantive training for free TAFE courses or whether it is the movement towards micro or specific courses so that we can get people retrained and re-skilled back into the labour market, these things are important because they not only speak to our values; they speak to our economic resurgence.

It is about the things that have to happen. So we have put $1 billion into TAFE and training to give Victorians the skills that they need to get them back to work, providing some 80 000 new training places. And $631 million dollars has been put aside to ensure that the TAFE system can help them re-skill, upskill and find work, as well as funding to attract and support people to re-skill as teachers at our Victorian TAFEs, including teacher scholarships and mentoring—so not just identifying where the problem manifests but taking an earlier intervention to make sure we deliver the skills for the trainers to be able to find larger cohorts of those that will need support.

An investment of $155 million has been put in place to provide additional flexibility for Victorians particularly affected by the pandemic—including, might I say, women, young people, retrenched workers—to access funded training in 2021. There is a new skills program for existing and emerging industries, with $75 million for skill development for selected projects such as a clean energy workforce, recognising that we can build capacity across those industries that we see great opportunity in, in terms of both policy and job opportunity and growth in these areas. There is funding of $33 million to expand opportunities for apprentices and trainees through our Big Build training pathways. I love this initiative because it is about the government saying, 'We're now leveraging a massive amount of investment—$19.6 billion a year over this year and the three years of the forward estimates'. That amount is effectively four times more than the 10-year average before we came to government.

But it is not just about building infrastructure so we get muddy boots and hard hats; it is about recognising that we should leverage this opportunity to make sure that we get young people skilled with the capacities for the future that they can apply elsewhere. And it is also about recognising that we are building the infrastructure for the future—for future generations—so this is intergenerational investment in the opportunity of the state in the skilling of the young people who have suffered so egregiously during this economic event. That is vitally important. It underpins the principles that the government has seen as vitally important going forward. And of course there is our $64 million digital skills and job programs for Victorians looking to work and to acquire skills and transition into new careers—vitally important, another skill that has become so important.

Mr MAAS: Thank you, Treasurer.

The CHAIR: Thank you, Treasurer. I will hand to Mr Sam Hibbins, MP.

Mr HIBBINS: Thank you, Chair. And thank you, Treasurer, and your team for appearing this morning. I want to ask—no surprises—about the tax on people who drive electric vehicles. In terms of the justification for it, you stated and the Premier stated yesterday that links between EV drivers paying for the roads was justification for the tax and a replacement for fuel excise, which they do not pay. Now, the federal fuel excise levy is a federal tax and it is not linked to roads expenditure, is it?

Mr PALLAS: Well, there is no hypothecation from that tax to the states; that is correct.

Mr HIBBINS: And the new EV tax is not linked to road expenditure either, is it?

Mr PALLAS: Well, it is not linked to road expenditure, but we are spending considerably more on making the road network ready for EV, some $45 million in this budget; some $30 million over the three years of the forward estimates will be gained as revenue. So electric vehicle users and the uptake of electric vehicles will be direct beneficiaries of the investments that the state has made.

Mr HIBBINS: But the tax itself will just go into general revenue?

Mr PALLAS: Yes. We are not hypothecating it into general revenue, but we are making sure that well and truly some 50 per cent more than the revenue that we are garnering out of this tax is being directed into making sure that we have systems in place that will facilitate the uptake of electric vehicles, because if you have got nowhere to charge on our arterial and freeway network that will be a problem, but also recognising that we need to plan our building codes and put in place appropriate systems for trialling the movement of electric vehicles onto our public transport system. All of that money is being directed into it, considerably more than we are gaining through our expected revenue as a consequence.

And can I just make this point: I think if we look at the uptake of electric vehicles, projections are that by about the middle of this decade, by about 2025, we get to price parity with electric vehicles. It is true to say that an electric vehicle on average is about $20 000 more than its equivalent internal combustion vehicle at the moment, but we are seeing those prices rapidly come into alignment. This is about fairness. It is about making sure that everybody who uses and causes wear and tear to the roads—

And I do not think we can argue whilst they may be good for the environment, and they are, that this is not a fair thing to do. If you are like the 99 per cent of all other road users who are paying something like $3000 a year for petrol or $2500 a year for petrol or diesel, then you should make your contribution, and the equivalent is about 5 cents a kilometre that they are paying. What we are suggesting is that you pay between 2 and 2.5 cents a kilometre, so you will still be 50 per cent cheaper in terms of your road use payment but, more importantly, Mr Hibbins, can I make the point we will continue to preserve the $100 registration discount that we give to EV users. We will continue to provide the motor vehicle duty discounts that we provide to electric vehicle purchasers.

This is about fairness, and it is about making sure that for the future, as we see electric vehicles proliferate, as we invest in electric vehicles proliferating, we make sure that everybody pays their fair share. Otherwise, in the long term—and this is a point that you and members of this committee will have to grapple with—where do we end up if effectively we do not have a system that pays for the maintenance and management of our road network? You are exactly right to say the fuel excise is not hypothecated to the states, but the commonwealth does make substantial contributions to the states for the upkeep of their road network. As they are denuded of revenue as fuel excise dies, it is a logical consequence that those contributions to the states will be lost.

Mr HIBBINS: So I mean, we have just established that there is no link between fuel excise, the EV tax and expenditure on roads. You have then made that link, made the argument that this is about fairness, that EV users should pay for wear and tear on the roads, but there is no link.

Mr PALLAS: I have made it very clear there is no link, Mr Hibbins. That is exactly correct. I am not pretending that it is a hypothecated charge. What I am telling you is that the commonwealth garners considerable revenue—I cannot remember the last number, but it is $12 billion or $13 billion a year. If you are a federal Treasurer and you are seeing that revenue fall away, the easiest hit in terms of your drawback on expenditure is to take it away from the states maintaining state assets, rather than to take it away from areas of commonwealth responsibility. It only stands to reason. We can see this coming, Mr Hibbins. Ultimately we will do a massive disservice to the 99 per cent of road users today—and, might I say, to future road users—if we cannot maintain our road network. This is about fairness into the future. No suggestion that the money that the commonwealth are raising in fuel excise will necessarily automatically flow to the states or flow to the states fairly, but the state of Victoria gets 50 per cent of its budget allocations from the commonwealth. There is a massive exposure here, and ultimately if we do not maintain our roads properly, we see that lives will be put at risk.

Mr HIBBINS: But you are drawing a link that is not there, though, Treasurer.

Mr PALLAS: Well, I think I have made the point pretty clear that whilst there is no direct link, there is a direct risk to the Victorian budget and our capacity to manage and maintain our roads if the commonwealth, who will inevitably see their revenue base fall away—

And we have seen fuel excise decline over the last 10 years quite appreciably, both through electric vehicles and hybrid and more fuel-efficient vehicles. What we will see ultimately is a great disservice to the safety of Victorians, to the maintenance of our road network and to the enormous investment that we are making in roads right across this state because we are denuded of capacity to fund it.

Mr HIBBINS: So when we state that it is only fair that EV drivers pay for the upkeep of the roads, the EV tax that you are charging them is not paying for the upkeep of roads?

Mr PALLAS: Well, it is a revenue base, and if you want me to hypothecate every revenue stream that I have to specific purposes, I think that would essentially mean that the budget had no capacity to move quickly. But I can assure you that I am expending more than 50 per cent higher than I am garnering at $45 million over the next three years for electric vehicles to facilitate their uptake and to ensure that we have got both our roads and our planning scheme and our public transport network capable of facilitating the uptake of electric vehicles. But all that aside, despite the $100 discount on registration, despite the motor vehicle duty benefits, they will still be paying 50 per cent less than the excise comparable through this charge per kilometre, and, perhaps more importantly, they will be saving between $2000 and $3000 a year in not having to purchase petrol.

Mr HIBBINS: Who is actually going to collect the revenue from the EV tax, and how will that be administered?

Mr PALLAS: Well, I think from memory it will be done through the registration system on VicRoads. Just as users currently have a capacity—because this government brought in the idea—of quarterly, half-yearly or annual payments, the electric vehicle users will need necessarily show their mileage at the period of time that they wish to essentially pay their registration. And they will pay between $200 and $250 a year as a consequence of those payments on usage arrangements. That is our expectation, assuming that you have got a vehicle that travels the average amount of distance that an internal combustion engine travels on Victorian roads.

Mr HIBBINS: The registration function is actually a function of VicRoads that you are planning to privatise, isn't that correct?

Mr PALLAS: Well, you say that, Mr Hibbins, but the government has made no decision on that matter. Once again you keep being fast and loose with language. 'Privatise'? There is no way that this government will divest its ownership in this or any other asset, unlike the conservatives who divested in perpetuity many of their electricity holdings. But certainly the government is going through a review about the best and most efficient way to deliver our registration and licensing services. Look, I aspire to run an efficient government, and that means every area of government will be reviewed from time to time to make sure that they deliver a premium service to the taxpayer.

Mr HIBBINS: Are you currently undertaking a scoping study?

Mr PALLAS: Yes, the scoping study into registration and licensing is ongoing.

Mr HIBBINS: I say ‘privatisation’. What would you say?

Mr PALLAS: I would say it will almost invariably be either an improvement of a publicly run asset or a joint venture with the private sector, or we could decide to put those functions under the control and the mandate of Service Victoria and run them as a consolidated asset. We just have not finalised our thinking in this area yet, and when we do, we will let the public know.

Mr HIBBINS: Would it be similar to the arrangements with the land titles office?

Mr PALLAS: Well, it would invariably be a joint venture, so the state would maintain a shareholding and an ownership share, as it were, over the life of any concession. But we are not divesting the asset. We are not divesting in total our asset even during the life of a concession, so it would be substantially different from that example.

Mr HIBBINS: How much has been expended on the scoping study to date?

Mr PALLAS: I would have to take that on notice.

Mr HIBBINS: Right. Thank you.

Mr PALLAS: I am happy to provide you with the numbers.

Mr HIBBINS: You have indicated one of the reasons for the EV tax is about revenue. Do you see road user charging as primarily a revenue matter or a way of managing our roads?

Mr PALLAS: A way of managing our roads. Believe me, the amount of funds that we expend on an annual basis in terms of road maintenance far exceeds the revenue that we get from the commonwealth and is far exceeded, might I say, by the amount that we actually have to expend in these areas. Some obvious areas of disparity are that of course there is no connection between road use and the distance that is travelled and the damage that has been effected to the roads, and the area that is most notably identified tends to be heavy vehicle usage on our road network. But we are focusing—

Mr D O’BRIEN: Mr Pallas, could you just bring your microphone a bit closer?

Mr PALLAS: Sorry, I am sitting back and making myself comfortable here. I apologise for that.

So certainly from our perspective it is about fairness, and the amount that we spend on our road network year on year far exceeds any projection that we would get from revenue. You asked the question earlier, ‘Would I hypothecate?’. No, because if I hypothecated, my view is that I would invariably, both in terms of capital and maintenance, have a massive shortfall in the investment that we are making in roads.

Mr HIBBINS: Just a clarification, I am not asking you to hypothecate; I am just making it clear that there is no link between revenue that you are raising from the EV tax or from the fuel excise and the expenditure on road maintenance.

Mr PALLAS: Yes, and if there was a link, then road users and the quality of our roads would be all the poorer for it.

Mr HIBBINS: Other states have actually made announcements regarding the introduction of a tax on people driving electric vehicles. In South Australia the South Australian Labor leader has said:

> We think this makes no policy sense whatsoever—the reasons offered up by the Government thus far don’t add up.
>
> Steven Marshall—

the South Australian Premier—

> has started taxing South Australians who have decided not to hurt the earth, at a time we're trying to encourage people to use electric vehicles.
>
> Only last week Steven Marshall stood up at a charging station … and said it was good for the environment, good for job creation and good for SA … one can only assume therefore that a big new tax on electric vehicles is bad for the environment, bad for job creation and bad for SA.

Do you accept the Labor leader in South Australia's criticism of the EV tax?

Mr PALLAS: Well, look, we might be in the same party, but we do disagree from time to time. It has been known that people within the Labor Party have differences of opinion, and certainly some of them robustly expressed, might I say. But might I say that I agree that the approach that the South Australian Treasurer has taken is not only manifestly fair but appropriate. And I might say that the New South Wales Treasurer has indicated publicly his support for such a measure. Ultimately the loss of fuel excise will lead to a push by the commonwealth to seek to replace that revenue stream, and the question I put back to you is: who would you prefer to effectively get the access to that revenue stream—the people whose responsibility it is to manage the road network or the tier of government who can decide entirely by happenstance what they decide to allocate to the states out of their overall revenue base? And the point I would make is that we do not anticipate that this will have any adverse impact because of the negligible level of cost associated with the purchase and maintenance and management of an electric vehicle. We expect that they will start to very substantially proliferate and we expect that we will be making very substantial investments in facilitating that going forward, and this is a very modest contribution to ensure that there is fairness for road use and a recognition that for those who are not purchasing petrol but are paying a tax for their kilometre usage there is comparable treatment for electric vehicle users.

Mr HIBBINS: In terms of the consultations undertaken to develop this initiative, who did you actually consult with?

Mr PALLAS: Well, as we have indicated, there will be a process of consultation now that the government has made the policy decision that will go towards how can we best design this strategy. The fact that we did not foreshadow an intention to raise a tax is entirely consistent with the government's approach towards taxing. If we were to identify a tax—or for that matter identify a tax cut, such as the ones that we put in place, the $1.5 billion worth of tax cuts we have identified in this budget—if we had identified them, we would have distorted the market. Now that the market is on notice we can have a process of engagement around how best to execute it, but I do not want you to be under any illusion: the government is committed to implementing these arrangements. We think they are fair, they are appropriate and they demonstrate appropriate charging for use on our road network, which will ultimately lead to more rational usage on our roads.

Mr HIBBINS: They are subject to an act of Parliament, though, aren't they?

Mr PALLAS: Indeed. We have not decided exactly when that might be, but it will be before 1 July next year.

Mr HIBBINS: I ask that question as well because I think everyone can see the wider benefits of an increased uptake of electric vehicles: less pollution, less emissions, quieter roads. I personally have never had anyone complain to me that it was unfair that EV drivers were not paying fuel excise. Was there any great pressure? Have you ever had any complaints from drivers about fairness, fuel excise fairness?

Mr PALLAS: Yes, I have. I mean, a lot of people do actually get what is going on here. I mean, on top of getting discounts from the state to facilitate the take-up of electric vehicles, on top of having a disproportionately high level of capital payments from the state to facilitate the take-up, it seems entirely unfair, and many people have raised these issues with me. Might I say, treasurers understand the irrationality of not providing for a fair system of everybody contributing to use. As fuel excise falls away, how do you anticipate that we will provide safe roads for the Victorian road users if you do not have a system such as this?

Mr HIBBINS: Did you consider—

The CHAIR: Sorry to interrupt you there, Mr Hibbins and Treasurer, but the member's time has expired. I will pass to Mr Danny O'Brien, MP.

Mr D O'BRIEN: Thank you, Chair. Good morning, Treasurer. I have some questions for Mr Whitford of Treasury Corporation, but I will go to others first. Is he here today?

Mr PALLAS: Yes.

Mr D O'BRIEN: He can come to the table and I will ask the other questions first. Secretary, can I ask questions to you. What modelling has Treasury undertaken about the impact of any change in Victoria's AAA credit rating?

Mr MARTINE: Thanks for the question, and it is an important point to discuss. We have done obviously calculations on interest expense and the AAA. I will run through the maths behind it, but the first point to make is changes to the credit rating, if they do occur, do not affect the existing stock of debt because the existing stock is all fixed. So it relates to new issuance. So the new issuance for the rest of this financial year is roughly about $19 billion, and TCV bonds are currently priced—three-year bonds are priced at about 20 basis points, which is 0.2 per cent, and they go up, because yield curve—are positive sloping. So five-year bonds at about 0.4—seven years is about 0.7. So the rates are incredibly low at the moment and the spreads are even lower. So if there was a change to the AAA credit rating and the market responded by seeking a higher return—because at the end of the day—

Mr D O'BRIEN: Pricing it in.

Mr MARTINE: it is up to the market. At those low rates you are probably only looking at about 2 maybe to 5 basis points, which is effectively 0.02 to 0.05. So a 1 basis point change on $19 billion issuance of debt is about $1.9 million—

Mr D O'BRIEN: $1.9 billion.

Mr MARTINE: $1.9 million.

Mr D O'BRIEN: Million?

Mr MARTINE: Million. So 0.01 per cent times $19 billion is $1.9 million. So a 2 basis point change, is $3.8 million. If it got up to, say, a 5 basis points change, it would be up at around $9.5 million.

Mr D O'BRIEN: That is per annum?

Mr MARTINE: So you are probably looking at about $3 million to $9 million per annum change as a result of the issuance for this year.

Mr D O'BRIEN: You said you have done the work, can the committee have access to the modelling that you have done?

Mr MARTINE: I am happy to take that on notice. Essentially the maths behind the modelling is exactly what I have outlined here, but I am more than happy to sort of put that—

Mr D O'BRIEN: I guess the bottom line question, literally, is over the forward estimates, if we went to AA+, for example, what would that cost us? Have you done that detailed work, given what the expectations of future borrowings will be?

Mr MARTINE: Yes. So essentially you extrapolate out the $19 billion that is issued this year. Let us say it is 2 basis points. That is $3.8 million. That obviously flows through to the following three years and then you have got the issuance for next year and so you have got three years of that and two years of the following.

Mr D O'BRIEN: That is what I am getting at, though. We do not know what the issuance for next year might be and what the phasing of future borrowings will be, so if we could have any numbers you have done on paper—

Mr MARTINE: Yes, I am happy to provide that information on notice. Effectively the issuance plan at the moment is $19 billion for this financial year and around $25 billion issuance for 2021–22.

Mr D O'BRIEN: Right. Is that in the budget papers?

Mr MARTINE: It was effectively—Mr Whitford can elaborate if necessary—immediately after the budget that the TCV put out what is titled the ‘Funding announcement’—

Mr D O’BRIEN: Yes.

Mr MARTINE: which articulates to the market, as a result of the Victorian budget, what is the TCV’s intention for bond issuance this financial year and next. That is an important thing to do, because obviously bondholders and potential purchasers want to be able to plan ahead. So it is quite clearly outlined there the $19.4 billion and the $25.6 billion.

Mr D O’BRIEN: Sorry, where is that, Secretary?

Mr MARTINE: Sorry, it is in a press release which would be on the TCV website.

Mr D O’BRIEN: Okay. But in terms of the forward estimates, so on budget paper 2, page 7, we have got the figures for net debt. Can we simply add those up over the forward estimates and apply your 1 basis point change, for example?

Mr MARTINE: Well, effectively that is net debt. If one was going to do that particular exercise, you would need to go to the borrowing lines in budget paper 4, page 38. There is a note to the financial statements which outlines the growth in the borrowings over the budget and forward estimates.

Mr D O’BRIEN: Okay.

Mr MARTINE: And then you would apply the sort of 2 to 5 basis point maths to that.

Mr D O’BRIEN: Sorry, is that a change to double AA+, for example? We do not know exactly what that will mean, but you are saying 2 to 5.

Mr MARTINE: Yes. At the end of the day—

Mr D O’BRIEN: What the market might guess.

Mr MARTINE: The issue is that at the end of the day it is effectively the market that determines this and not the ratings agencies. They are obviously informing the market on their views, but given that rates are so low and spreads are even lower, if you are talking about a three-year bond at 0.2 per cent, there is not much movement between a AAA and a AA+. At that scale it is quite small. So even over the forward estimates if you factored in all the bond issuance over the next four years, you are talking in the tens.

Mr D O’BRIEN: Yes. Can I just perhaps go back to the Treasurer. The same budget paper reference refers to *Labor’s Financial Statement* from 2018 and that same statement says:

> And we’ll do it all while protecting Victoria’s prized AAA credit rating.

Will we keep the AAA credit rating?

Mr PALLAS: Well, I suppose, Mr O’Brien, that is ultimately a decision for the ratings agencies, not for me. But the one thing we will do as a government is put the interests and the wellbeing of Victorians first and foremost in our strategies going forward. Whether or not we keep a AAA credit rating, as I say, is beyond my control. But we will continue to manage our budget in a AAA-rated responsible approach.

Mr D O’BRIEN: Treasurer, how can you say that when the ratings agencies are already raising flags about the $154 billion ultimate—

Mr PALLAS: Well, if they are raising flags about our $155 billion number, I imagine they are very concerned about a trillion-dollar number.

Mr D O’BRIEN: Treasurer, I am asking about Victoria surprisingly enough.

Mr PALLAS: I am contextualising these issues for you, Mr O’Brien.

Mr D O'BRIEN: Yes, we are very good at contextualising. We are actually not allowed to ask contextualised questions. We have to ask direct questions, so I am asking you about Victoria.

Mr PALLAS: So certainly from our perspective, we have been given a very clear indication by the governor of the Reserve Bank, the deputy governor of the Reserve Bank, the federal Treasurer, the Prime Minister saying that we need to increase our debt profile.

Mr D O'BRIEN: We understand that.

Mr PALLAS: And that is exactly what we are doing at the request and following the example of those jurisdictions. It is important that we recognise that the strategy to deal with our debt, which I took you through earlier, starts by the first building block, and that is we have to grow our economy and we have to get people back into work. That is why we are making the investment. I cannot tell you how the market will necessarily react to the policy positions. All I can tell you is, having been the Treasurer who has delivered the highest average surpluses the state has ever seen before the pandemic event, I believe that we have the wherewithal—

Mr D O'BRIEN: You are actually in deficit.

Mr PALLAS: and the priorities to ensure that we get to a position where we continue to grow the state and grow the economy and get the confidence of the financial markets going forward.

Mr D O'BRIEN: Speaking of which, Secretary, the 2019–20 budget update had net debt at $58 billion and now we have got it rising to $155 billion in this year's budget, so it is a $97 billion increase in government sector net debt. Can you give us an idea of how much of that will contribute (a) to new government capital projects identified within the budget and (b) budget deficits?

Mr MARTINE: I am just trying to think of the best way to answer that question. If you look at chapter 4 of budget paper 2, that is where we provide, I guess, the summary of changes since the budget update. So you can see on page 74 of chapter 4 of BP2 there is a reconciliation table stepping you through from budget update to this current budget. Now, this is on the output side but the outputs do flow through. This budget includes $29 billion roughly of new output initiatives included in the budget. Now, obviously—

Mr D O'BRIEN: Over the forward estimates?

Mr MARTINE: Over the forward estimates. So that is a four-year number. Now, obviously because we are in deficit this year, by definition all of that spend forms part of debt, so that is one factor. Then you can see in the next category of that table there is what is called 'economic/demographic variations'. So the other thing that is obviously happening here is that in this current pandemic there is a downturn in the economy, which has led to a downturn in our revenue stream. For example, we have taken off a bit over $3 billion a year on our GST receipts going all the way through to the end of the forward estimates. So that is flowing through to debt as well.

And then on the capital side you have got capital projects, and this budget includes a range of new capital initiatives outlined in budget paper 3, so they form part of the debt story as well. So there are essentially those three main factors that contribute to the increase in net debt over the forward estimates period.

Mr D O'BRIEN: Okay. Thank you, Secretary. Mr Whitford, can I just ask some questions of you. How much was borrowed by the government over the 2019–20 year?

Mr WHITFORD: Over the 2019–20 year it has actually been quite an eventful year. We had borrowed to date—forward refinanced—the better part of $27 billion through the course of the year. So we had started the year and we had been expecting that we were going to borrow pre-COVID somewhere in the $5.5 billion or $6 billion range, which we had adequately covered. It became very clear I think in the early parts of the year that business was going to be disrupted and we were going to need more for that. We issued a statement in May to the market in the lines of what Mr Martine has just mentioned. We were suggesting that number would look like $20 billion to $24 billion. We ended up, by the time the budget came out, as having issued $26 billion, or $26.3—

Mr D O'BRIEN: For 2019–20?

Mr WHITFORD: For the year through to that period, and then that leaves us, on the basis of this budget, with about $19.4 billion left to go—in fact $18.9 billion because we raised $500 million on Thursday.

Mr D O'BRIEN: Okay. What is the average term and interest rate for bonds issued by Victoria?

Mr WHITFORD: Well, it very much depends on the term. The approach to the market for us is to issue into the periods of demand, so this is very much an investor-led process. So TCV has an amount that we need to raise. We made the market aware that we have an amount we need to raise, but then we work out through the process where the best issuance opportunities are going to be—so what is the depth of the market—

Mr D O'BRIEN: Yes, but do you have an average? Presumably you have three-, five- and 10-year bonds and they are all slightly different interest rates.

Mr WHITFORD: We have a bond maturity every year. So every year we have a bond maturity. Each of those maturing lines has a different interest rate, depending on when we brought that line to the market, and what we try to do is issue into those existing lines. So we do not have a whole series of bespoke instruments; we will have a 20 November 2024 bond and we will issue into that so that we actually have a depth of market across those.

Mr D O'BRIEN: Yes, but overall is there an average?

Mr WHITFORD: An average cost of funds?

Mr D O'BRIEN: An average cost of funds and an average length of maturity.

Mr WHITFORD: I must admit it is something I would have to take on notice because frankly it is not something that is of relevance to the bond instruments process. We issue where market yields are at a particular point in time and on a particular day and then on-lend that to the customer.

Mr D O'BRIEN: What is the longest maturity you have?

Mr WHITFORD: The longest maturity we have is 2050. So the Australian financial market itself is a domestic market. It is most liquid in that kind of 8- to 15-year part, and even at the 15-year part it is starting to get a little bit specialised. Anything beyond that, you need some very special interest; for example, you will need an insurance company or someone that has got some long-tail liabilities that they are actually looking to match the risk profile on.

Mr D O'BRIEN: And is there a central registry of owners of Victorian bonds?

Mr WHITFORD: So there is a central registry, so we actually issue through a dealer panel, and all of those bonds are registered, but not necessarily in the names of the individual holder because there is also a secondary market. So you will find that some of the holders there are through a nominee company. So you cannot just pick up the register like you would be able to a retail portfolio and say, 'Mr Smith owns $10.50'. It is the wholesale numbers, and they will be through a process. But we have a fairly good feel of who the investors might look like.

Mr D O'BRIEN: So what is the breakdown between domestic and overseas borrowings?

Mr WHITFORD: The overseas investors are probably between 10 and 15 per cent of the overall holding. The biggest single group of holdings of investors are the Australian banks. So the big four banks will hold about 40 per cent. The smaller Australian deposit-taking institutions will hold about 9 per cent, on our evaluations at the moment, and this is because Victorian government bonds, as with other state government bonds, are admissible for tier 1 capital purposes, so there is a liquid asset holding that just sits underneath that.

Mr D O'BRIEN: And the registry—is it available publicly? Could it be provided to our committee?

Mr WHITFORD: Yes, it is available. You can see on the registry website.

Mr D O'BRIEN: On the registry website?

Mr WHITFORD: I can provide you the details of that.

Mr D O'BRIEN: That would be great if you could. The 10 or 15 per cent foreign owned: what is the breakdown of that—for example, the bigger economies, the US, China?

Mr WHITFORD: Impossible to tell, because, as I say, they may be held by a nominee company, and you just do not know. We issue through a dealer panel to a set of people on the day, but how long they hold that bond for—

Mr D O'BRIEN: And just so I am clear: all Victorian debt issued by TCV is just issued to the open market; there are no special offerings to anyone in particular?

Mr WHITFORD: Correct. We do not run a retail program. So we have a domestic benchmark bond program, which is the majority, about 82 per cent, of our outstandings on that. We run an EMTN program. So the EMTN program is foreign currency swapped back to Australian dollars, and that is active from time to time, but that is only really utilised when it delivers us something that the domestic benchmark bond program will not, such as duration or price. We have an ECP program and a domestic promissory note program for short-term instruments.

Mr D O'BRIEN: Okay. Can I ask: does TCV expect the AAA credit rating will be maintained in Victoria?

Mr WHITFORD: I would have no ability to know that. That is a matter for the rating agencies.

Mr D O'BRIEN: Okay. That is all right. Can I go back to the Treasurer. Treasurer, last week Neil Mitchell on 3AW asked you about what the blowouts were in the top 10 projects. As you know, it was on the front page of the *Herald Sun* as well. How can you forecast net debt if you do not know what projects are currently costing?

Mr PALLAS: The government is going through a process at the moment of recalibrating and reviewing each and every one of our projects as a consequence of the economic event that we have been through. There also has to be a commercial negotiation with the constructors. Might I say, Mr O'Brien, it is not an accepted proposition that necessarily each and every one of these projects will have been put in distress as a consequence of these events. There are examples in my own electorate where we have level crossing removals that are 12 to 18 months ahead of schedule. So both in terms of—

Mr D O'BRIEN: That does not necessarily mean they will be cheaper, Treasurer, based on past experience.

Mr PALLAS: Well, what it tells us is that we are getting clearly much better at delivering this infrastructure and much more efficient in terms of how it is delivered, and that is probably a good indication of price as we go forward.

Mr D O'BRIEN: When you said you do not have it at the moment, and the Premier told us last week that he does not know when we will have an update on these projects—

Mr PALLAS: You will. I can tell you that you will have it—

Mr D O'BRIEN: When? Can you tell me when?

Mr PALLAS: in the context of next year's budget. I want to give you an appreciation of why the concerns that you have expressed around budget paper 4 and the non-provision of the project-specific situation, I think, are unreasonable in the circumstances. I mean, the—

Mr D O'BRIEN: Well, Treasurer, I ask the same question. We have got all these budget papers predicting the future based on—

The CHAIR: Sorry to interrupt you, Mr O'Brien, but your time has expired—

Mr PALLAS: We can get back to it.

The CHAIR: and I will pass the call to Ms Pauline Richards, MP.

Ms RICHARDS: Thank you, Treasurer and officials, for your appearance at a marathon session here today. In fact I would like to follow on from some of the earlier questions Mr O'Brien was taking you to—budget paper 2, page 7, table 1.1. That shows a change to the fiscal aggregates to what we usually see, and I would like you to explain perhaps and again provide some insights into the government's approach to budget management this year and how it responds to the impact of the global pandemic.

Mr PALLAS: Well, I suppose in each of the previous five budgets the government has adhered to a clear and robust fiscal management framework. We have been clear about what our objectives are and we have held them up transparently in our budget settings, and it has enabled us to make the necessary investments in services and in infrastructure going forward as a government basically to meet the demands of a growing population—of course in the short term we will see very much stifled population growth—while maintaining a net debt as a percentage of GSP at sustainable levels.

So we remain committed as a government to ensuring that we provide a robust fiscal framework. However, I suppose, given the unprecedented nature of the economic as well as the pandemic event that we have had to deal with and consistent with recent advice provided to the national cabinet by the governor of the RBA, the government is prioritising the use of its balance sheet in order to provide short-term support for employment—for businesses—and of course for families. In essence we are using our balance sheet and the strength of that balance sheet to buttress and to support the community at large and to facilitate the uptake of economic growth, and without it there is no way that you can cut yourself out of the situation that we and the rest of the world find themselves in.

We need essentially to invest in the future and the ingenuity, the tenacity and the innovation of the Victorian people. The Victorian people are our greatest resource. They have always put Victoria in very strong stead, and our budget is based on that fundamental assumption—that Victorians, their skill, their aptitude and their flexibility will serve us well going into the future. And our strategy is aimed at jobs and economic recovery. It is also I think important that it is seen as consistent with an approach that has been adopted by each and every other state and territory in the country. For example, I chair the Board of Treasurers, which is all the state and territory treasurers of the nation coming together to work out our broad fiscal and budgetary strategies. We agreed unanimously to release a statement on state spending and debt management, and that statement highlighted that now is the right time for governments to deploy protective and stimulatory measures supported by additional commonwealth government support and manage increased borrowings where necessary. So this is across all political lines.

Now, we can always have an argument about whether or not the level of intervention that we are proposing is at the right spot, and I would argue very strongly that because we are aggressively pursuing economic growth we are making the appropriate interventions in a policy sense in support of the strengths that we already know underline the Victorian economy. Our approach is entirely consistent with all the other states, the territories, the commonwealth government and the governor of the Reserve Bank, but more importantly it is a much more substantial and robust intervention. Why is that? Of course we have suffered a much more dramatic pandemic event, but also we have so much more faith in the Victorian people through these interventions and we are sure that they will repay that faith and confidence just as they supported the entire community in getting to the position that we are in with regard to the presentation of the virus.

So there is a clear need, in my view, for a fiscal stimulus as we recover from the severest impacts of the pandemic and we move towards COVID normal. The consequence of the pandemic, as we know, led to a fall in employment—around about 180 000 between the March and September quarters this year—and the budget really aims to lay the foundation for economic recovery, reflected in the government's ambitious jobs target. Now, we set that target essentially to hold ourselves to account, because not only are we investing in the Victorian people, we are saying to the community, 'Here's what we are striving for. Here's our aim, and we intend getting there'—so for employment to be at 400 000 by 2025 from the trough of the economic event and an interim target of 200 000 by 2022. So the jobs plan as well as quite a number of other initiatives—any of which I think are very exciting demonstrations of our confidence in our capacity to go for growth and be able to deliver jobs and budget support for households and businesses—really is designed to provide the greatest levels of support for the Victorian labour market at a time when it needed it most.

Deloitte Access Economics did an estimate of the government's expenditure and revenue decisions that resulted in a cumulative $43.9 billion increase in GSP over the budget and forward estimates period, and governments' response to the coronavirus pandemic not only in Australia but around the world has seen significant deficits and increasing debt levels. So the event that we are going through is not removed from the circumstances that the rest of the world is confronting. In fact in many ways we are in a much stronger position. We know that countries that have made that decision to try and open up too early have ultimately cast themselves into just another and more insidious wave of infections. We have seen, whether it is the UK, the USA, Sweden, and many others, that essentially those events are having a profound effect upon their economies, even those that say, ‘Let’s pretend it’s not happening. Let’s just go back to work as normal’, consumers and businesses are voting with their feet, and it is being reflected in a much worse economic performance in those countries.

So as much as the Victorian people’s sacrifice was hard, it was necessary, and we are forever in their debt for it, because it has allowed us to be in a very strong position to repair the situation. That is why our business confidence and our consumer confidence is now above the national average, because people have hope for the future, and when they have that hope, and when it is reflected in the investment that the government is making in this budget, we can have every confidence that we will see a very substantial economic return.

The combined impact of reductions in revenue as a result of the global recession and increases in expenditure to deal with the COVID event has resulted in an operating deficit of course of the 2019–20 year of $6.5 billion. We are forecasting $23.3 billion, reducing by 75 per cent over the forward estimates, and that really does tell us that we are making very substantial inroads into those deficit positions. We have to do it, but we have to do it consistent with the plan that I have taken you through. It is clear, it is unambiguous, and it is a commitment from the government—first, recover the economy; second, get to an operating cash surplus; third, get to a cash surplus; and finally and most importantly, stabilise debt. You cannot do it out of sequence, and you have to do it with courage and faith in the ingenuity of the Victorian people.

Ms RICHARDS: Thank you, Treasurer. I would like to perhaps take part of your response there and go a little bit deeper. Same budget paper reference, which goes to the impact of the pandemic on the Victorian budget. Can you tell the committee how this compares to other relevant jurisdictions?

Mr PALLAS: Sure. I mean, like other jurisdictions around the country and globally, governments are relying on the strengths of their balance sheet to essentially support jobs and to protect household incomes and household budgets and business budgets. With interest rates at a record low, it is vitally important that people appreciate that accumulating a stronger budget position, being able to have a quality credit rating is not purely to look at. We are not there to hoard our credit rating. We are to apply it to the welfare and wellbeing of the Victorian people when it is needed. You are saving up effectively for a rainy day, and in economic terms it is pouring.

In terms of the wellbeing of the Victorian people, they are crying out for support and assistance, and this government will not obsess about seeking to return to surplus in an unmanaged and an unsustainable way. We have got to grow the economy. We have got to support budgets and families, and we have got to help business to get back into the business of employing.

No jurisdiction is immune to the effects of the pandemic. We know of course the federal government has forecast a deficit of $213.7 billion this year. So to put that into context, the commonwealth’s deficit—one year’s deficit—for this year is more, even taking account of accounting differential treatments, than the projected entire debt of the state of Victoria.

Now, of course we are talking about a quantitative difference in terms of the size of the economies. We are one-quarter of the national economy, but I want you to appreciate exactly the steps and the initiatives that the commonwealth has taken. Because the federal Treasurer has been quite overt in his invocations, in fact demands, that he has put on states to get out there and to invest to increase their debt profiles, and we have done it in exactly a consistent way with the commonwealth. So, for example, this debt event, if that is what we call this economic event, has seen the state’s debt profile increase by about 19 per cent over our projections previously. So we are moving effectively to a 29 per cent debt to GSP.

The commonwealth are doing exactly the same, but their debt is 44 per cent of national GDP—so a very substantial difference in terms of the burden that they carry on behalf of the nation. Many people will try to convert this debt into a per capita allocation. I would just encourage them not to do that, because if you translated the federal debt into a per capita obligation, it would be substantially larger. And in practical terms you cannot disinvest in people by effectively not taking the opportunity.

We know from the governor of the Reserve Bank that we are going to see interest rates remain lower for longer—is his language—and he has consistently said: if you do not get out there and borrow, if you do not make these investments, then you short-change the future. And that is exactly what we will not do.

We understand that these investments are critically important. They are vital to the wellbeing of the Victorian people. But importantly, for those interested in a broader economic assessment, they are vital to the wellbeing and the growth of the Victorian economy. Without these steps, we will consign the future and the people of this state to essentially a downward spiral of economic disentitlement. I am not going to do that. As a government, we are going to consistently make the investment in the things that are vitally important for Victorians.

General government net debt to gross state product of course is still appreciably high over the budget and forward estimates. It is also true that net debt to GSP in the non-financial sector is substantial, but our taxation and royalty measures both as a percentage of GSP on a per capita basis is generally lower than that of New South Wales and Western Australia over the budget and the forward estimates. So just to make that clear, we continue to provide relief to businesses.

We have reduced of course prior to this point—some $3 billion of relief to business, whether it be tax reductions, tax deferrals, tax waivers. On top of that we have added $1.5 billion in this budget in terms of support and assistance for business. So that is an enormous investment in assisting businesses to be able to employ, and as we have indicated, as New South Wales has demonstrated, they have reported a $15.9 billion deficit this year, and they are going to remain in deficit to the end of the forward estimates period and they will be increasing their debt by more than 10 percentage points over the same period. Yes, they have had a different pandemic event, but also I think it is clear that we have a different approach in terms of the counter-cyclical activity that we intend to use to create growth and jobs.

Ms RICHARDS: Thank you, Treasurer. Again, using budget paper 2 and table 1.1 as a reference, I am interested in understanding or asking you to outline your plan for returning the budget to a stronger position once we have passed this crisis.

Mr PALLAS: Yes, well, we need to recognise that sound financial management on occasion recognises that you have to use surplus and deficit as tools that are available to governments as part of a broader response, and leveraging our balance sheet and therefore recognising that on occasion debt is the most prudent investment you can make in growth and opportunity for the state is a vital part of that. Now, nobody anticipated, least of all me, where we would be 12 months ago with respect to this event, but ultimately we can make a choice to seek to consign ourselves to the settings that existed before this event occurred—and that would have a profound retrograde effect upon our budget and our economy—or we can recognise that the temper of the economic times requires governments to be much more interventionist and substantive in their policy interventions. Deficits are projected to reduce over the forward estimates to $13.1 billion in 2020–21 and $6.7 billion in 2022–23, and of course they will continue to come down at the end of the forward estimates period again. But the government’s plan, as I have already indicated—it is vitally important that people appreciate this—has to be done sequentially, consistently and resolutely in order to ensure that the event that we are currently going through is managed properly and that the community have a sense of the purpose and direction that the government is undertaking.

Make no mistake, this government is resolute in the processes it will apply. We will create jobs as our first step, reducing unemployment and restoring economic growth. Secondly, we will return to an operating cash surplus. Thirdly, we will return to operating surpluses. Fourthly and finally, then we will stabilise net debts. You cannot take it out of sequence. If you were to do so, you would effectively consign the state to a downward spiral of disentitlement and ultimately impoverishment. We are currently in an operating deficit. The first step when we get to an operating deficit is that, when conditions allow, we will return to an operating cash surplus, as this will mean that the state is generating sufficient revenue for us to offset its cash outflows on its operating activities. You would understand that a lot of the operating activities that we are investing in at the moment will be as a consequence of the spike of the pandemic event. Whether it is an investment in our health system and being able to deal with the issue or whether it is an investment in being able to improve services so that we can get greater participation in the labour market and deal with the consequences of the pandemic event that has had an adverse effect upon the community, all of these things really require us to have confidence and faith in the strategies that we are applying to grow the economy.

The CHAIR: Thank you, Treasurer. Thank you, Ms Richards. Mr David Limbrick, MLC.

Mr LIMBRICK: Thank you, Chair, and thank you, Treasurer and team, for appearing today and your presentation. I was a bit concerned to hear your response to Ms Richards when you used the phrase 'forever in net debt', but it gets to the point that I am looking at.

Mr D O'BRIEN: Literally.

Mr LIMBRICK: Yes, I hope not literally. When we look at raising these large amounts of debt, I have concerns about the moral issue that we have got here, where we are transferring this responsibility for repaying this debt on to future generations. No-one here will be repaying this debt; it will be people further down the line. What concerns do you have about the future and being able to repay this sort of debt?

Mr PALLAS: Well, it is a really good question in the sense that, firstly, I think you look pretty healthy and you may well be part of the debt repayment strategy; secondly, I would make the point that the investment we are making at the moment is very much an investment in the future and in future generations, whether it is effectively through the first part of this year, and this year on the capital side of things—the school build or indeed the $10 billion of transport build and the $19.6 billion each and every year over the forward estimates. Building infrastructure—that is intergenerational in its nature. The beneficiaries of this in many cases will not be this generation. The beneficiaries of the accoutrements of a well-resourced, well-built society will fall to those who succeed us. There is an old Greek saying—and I am not an old Greek, but I have a little bit of Greek in me—that says that society functions best when old men, old people, plant the seeds of trees the shade of which they know they will never rest beneath. And that in many cases embodies the strategy that this government is pursuing.

Our investment is in the future. Yes, we will see, I have no doubt, an economic revitalisation of this state within short order for the community as it currently constitutes. But anybody who has trepidation at the future should be absolutely convinced that this government is making investments now that will grow the functionality and the efficiency and the productivity of our economy going forward, whether it is better transport linkages, an investment in education, things like out-of-home care. We will have less presentations in our prison system and less mental health presentations through the investments we are making. All of that is a long-term investment in the vitality and the growth not just of this generation but more likely future generations. So it is a question of when we make these interventions and when we expect that they will pay dividends. I expect that we will see, in the short and medium term, benefits. But I genuinely believe the long-term benefits, as well as some of the liability for repayment, will fall on future generations.

Mr LIMBRICK: Thank you, Treasurer. I take your point that some of these investments are very long term investments, like a rail system or education. But some of these other investments, like some of the renewable energy investments, they will be decommissioned within 20 years, I would imagine, so future generations probably would not see direct benefit from those. But if we are looking at the risk of paying off this debt, what things in this budget do you think will enable those future generations to have the financial capacity to pay off this debt?

Mr PALLAS: Well, firstly, if you look at your example around renewable energy, there is no doubt that if we do not recognise that climate change is real and make investments in renewable energy then the efficiency and functionality of our economy will be constrained as our climate continues to warm. I have no doubt about that, and I think the science is pretty much well in on it. And that, of course, would be the greatest constraint that would apply to a future economy. On the broader sense, however, albeit that some of these investments may be time limited, they constitute the platforms for future investment and future technological advances, and we are seeing it already. Mr Hibbins has great affection for electric vehicles, as do I, but what it demonstrates is we are getting better and better at delivering them because we are making investments in those opportunities at the moment.

Effectively each generation rises on the back of the achievements and the capacities of previous generations, and economically that is exactly the same principle that we are applying here. If we disinvest in the future, all we do is we move into a downward spiral of disadvantage. Our strategy is to grow jobs, grow economic opportunity, so where it is an investment—perhaps more prosaic in terms of their direct economic value, but very real—in mental health services, that means that we have much more effective participation in our labour market. Early intervention in the presentation of problems around health and its efficiency—once again, that makes for a healthier, more productive community. Yes, I understand these are longer term views, but if you want to get these efficiencies there is no time like the present to make the investments.

Mr LIMBRICK: Thank you, Treasurer. I would like to ask the question: if the government is so good at investing for the future and borrowing rates are so low, why didn't we invest more? Why aren't we going up to, you know, $300 billion in debt? I mean, there is a call here, right, that has to be made, and if the government really is that good at investing for the future and is confident that these investments will pay off, then why not invest more?

Mr PALLAS: That is a really interesting question; I did not expect to get that one—

Mr LIMBRICK: Least of all from me, I imagine.

Mr PALLAS: I expected to get plenty more. Look, I suppose the simple answer becomes at some point we have to recognise that there is a maximum capacity. If you are looking on the infrastructure side, already—and no doubt I will get some questions about this at some point—we are seeing capacity constraints, and we are multiplying by a figure of four times the investment we are making in our infrastructure. You get a law of diminishing returns if you cannot deal with the capacity constraints, whether it be around skills in the workforce, whether it be competition in the marketplace or indeed the state's capacity to oversight delivery. So there is a point at which you say the law of diminishing returns starts to take effect.

Mr LIMBRICK: How do we know that we are not already passing that point? I know that some of the projects have had issues with removal of waste or production of raw materials. How do we know that we are not already moving into that diminishing returns space? These large investments in the market are going to affect competition in the market, obviously, which will raise prices, presumably, and make these projects more expensive. How do we know that we have not already gone past that?

Mr PALLAS: I think we are probably pretty clear that we are approaching and seeing capacity constraints in the market at the moment. There is no doubt about that. That is why the first iteration of investments in this budget cycle—our $2.7 billion in building works—was actually put there for a quite deliberate reason: to look at those cohorts within the construction industry that still had untapped capacity and potential, the smaller capital works program. But there is no doubt that we are going to have to grow competition, we are going to have to take a much more proactive role in how we facilitate a competitive environment, we are going to have to bring new entrants into the market and we are also going to have to recognise that there will be a shifting environment under which the state assumes risk and cooperates with industry in terms of managing projects going forward. All of that I think just demonstrates we are going to have to be a lot more fleet of foot going forward. Yes, there will be capacity constraints—I am not going to argue against that—but I also think the basic proposition we all have to ask ourselves here is: at what point do we say we are giving up on investment? Now, I say four times an investment on the 10-year historical average is ambitious but it is manageable. However, if you were to say 40 times more, it would be illusory, it would be totally unobtainable and it would be damaging to the economy.

Mr LIMBRICK: Thank you, Treasurer. I would like to move on to a couple of questions around the modelling that is used for economic growth. In budget paper 2, pages 28 to 29, it talks about some of the global impacts on trade of the pandemic. But there have also been some more recent non-pandemic-related impacts on trade from tariffs and things like that, so we have seen China impose tariffs on things and trade restrictions on things like Victorian seafood, timber and wine more recently. Has any of this impact of possible trade disruption been modelled by DTF, and if so, what sorts of impacts are we expecting to see?

Mr PALLAS: I appreciate the question, and I figure your question is really to DTF about the work that they have done, so I will defer to the Secretary.

Mr LIMBRICK: No problem; thank you.

Mr MARTINE: Thanks, Treasurer. In putting together our economic forecast for this budget—and it is probably fair to say that this was probably the most difficult set of forecasts we have had to produce for a long time—

Mr LIMBRICK: I can imagine.

Mr MARTINE: because there is so much uncertainty both in terms of the economic forecast but also the revenue forecast—we have tried to factor in everything that we are aware of at the time we finalise our forecast, which is obviously not a couple of days before the budget. We need to finalise our forecast probably about a month out, because that has flow-on implications for a whole range of different aspects of the budget, particularly on the revenue side. So the forecast you see in front of you—yes, the main driver of the change in economic forecasts since the last public release deals with the COVID-19 pandemic, but we have tried to pick up any other factors that are at play, including anything that might be happening on the trade side, and then tried to bring all that together.

Mr LIMBRICK: Thank you. So considering that many of these actions were quite recent, I can assume that they are not in the current projections, then—things like the wine tariff that has been imposed.

Mr MARTINE: Yes, well that would have been a more recent development.

Mr LIMBRICK: Yes, so that would not be included.

Mr MARTINE: Yes, so we will pick those sorts of things up along with anything else at the next update, which will be in the May budget next year.

Mr LIMBRICK: Some of the things that are going to be happening with regard to trade will be visitor economy reopening, international students coming back. When are we assuming in the modelling that that is going to be happening?

Mr MARTINE: So in budget paper 2, chapter 2, page 22 we have a box that outlines our key assumptions, and the key assumptions in this budget are, firstly, we are assuming we return to COVID normal by the end of this calendar year. We are assuming that international borders start to reopen middle of next year, but a slow reopening, with international students in a material way not really coming through until calendar year 2022 because you have got to align it with the study year. So we are not expecting to see a significant return of international students until the year after next, 2022.

Mr LIMBRICK: Okay, and so those assumptions on international movement of people, they are sort of dependent on some sort of vaccine or something being released, otherwise we cannot really open up. So is that like a key sort of milestone assumption in this modelling, that we cannot actually open up until some vaccine gets released and distributed? Is that something that has been thought of in the modelling?

Mr MARTINE: In a sense you take the vaccine into account, because I think you are right—until there is a vaccine that spreads through enough of the world population we are not going to be returning to pre-COVID movement of people internationally. So we do not forecast or assume a particular date that a vaccine will be available and spread through the community. What we do, though, is take that into account when we are thinking about making an assumption on international borders. So the assumption of middle of next year is similar to, for example, the commonwealth assumption in their budget. Since we finalised our assumptions there has been some very positive public commentary about vaccines—I think there have been about three announced in the last several weeks that have gone through a trial. So there are certainly positive views about vaccines, but they are going to take a while to spread through the community. Even if they are available at the start of 2021, by the time people get vaccinated and it spreads through not just here in Australia but around the world, that is going to take some time. I am not expecting large movements of people across international borders until well into next calendar year.

Mr LIMBRICK: Okay, thank you. I am quite concerned that it might take a lot longer than what people are expecting. Treasurer, I would like to ask another question sort of following on from what Mr Hibbins was asking about the electric vehicle tax. You were talking about fairness. I come at this from a sort of different angle. You mentioned that electric cars are typically about $20 000 more expensive than petrol or diesel cars and the funding for roads for the EV infrastructure is higher than this tax that is being collected. How is that fair when other people that cannot afford these sorts of cars are effectively paying for the infrastructure or part of the infrastructure that these cars will be using? How is that fair?

Mr PALLAS: Well, I think it is a mild understatement, Mr Limbrick, to say that you come from a different perspective than Mr Hibbins. But can I make the point that we support the movement towards electric vehicles—we support the idea that people should have choice—and ultimately it is good for the environment. But we also recognise that we need to ready ourselves for a position where essentially there are no revenue streams available to the state to maintain its assets. So what can we do to facilitate it?

We can give tax relief to consumers to purchase through motor vehicle duty and through lower registration. We can also recognise that to facilitate the take-up—a lot of people will not purchase electric vehicles, largely because they do not believe they will get the range, although quite frankly technological advances are rapidly dealing with that issue—we can put the charging facilities in, we can make sure that our planning regime is capable of dealing with the building requirements to ensure that all our buildings are electric-vehicle compliant and we can also make sure that our public transport system is ready and capable of complying and dealing with it. But ultimately that is an investment in facilitating more take-up of electric vehicles because it is good for the planet. It also in my view ensures that it is good for a sense of fairness. As we see that internal combustion engines will become less and less a part by choice of the consumer over time, the state cannot essentially consign electric-vehicle users to be second-class citizens in terms of being able to access the road network because of constraints on range. That is why we are putting the investment in charging and building capacity, but we are also making an investment and saying, 'We want you to take up this option'—lesser taxing regime. Even the mileage charge is 50 per cent lower comparably to the fuel excise charge.

So we are facilitating it. We recognise that it is a change. Some will argue whether it is fairer or unfairer that there is this differential pricing. It is about facilitating, bringing electric vehicles into the system, but it is about making it fairer. At the moment they pay zero for their day-to-day usage of the vehicle, and it is not even the taxing regime that is the great advantage of electric vehicles in many ways; it is the fact that they do not have to pay the 95 per cent of their cost of petrol, which is effectively a consumption cost that internal combustion users cannot afford and a cost ultimately that sometimes all too often is consigned as a consequence of people having a lesser capacity to buy those vehicles.

Mr LIMBRICK: Thank you, Treasurer.

The CHAIR: Thank you. Mr Limbrick's time has expired. I might adjourn the committee for a short, 5-minute break and resume in 5 minutes. Thank you.

The committee will now resume its consideration of the Treasury portfolio if people are ready, and the call is with Mr Tim Richardson, MP.

Mr RICHARDSON: Thank you, Chair. Thank you, Treasurer, for joining us today, and thank you to the Treasury officials joining us for the estimates hearing. Treasurer, can I take you to budget paper 2 and to infrastructure investment in the budget, particularly the section on page 84 titled 'Role of infrastructure in economic recovery' and chart 1 illustrating 'Government infrastructure investment'. I am wondering if you could take the committee through the importance of the government's investment in infrastructure and the jobs creation and economic rebuilding process.

Mr PALLAS: Well, I think it goes without saying that part and parcel of this government's investment in infrastructure is not building stuff for stuff's sake. It is about building it for the multiplier effect it has on the economy and the immediate jobs that this infrastructure provides. Yes, they are predominantly male, but there are strategies in this budget that seek to address that disproportionality. It will be a long-term strategy. Secondly, it provides for economic growth in the long term and the functionality and vitality of our community. And finally, of course it produces jobs, not just in the infrastructure that we are building at the time of its construction but also for the growth and opportunity for the services that quite often are provided in the social amenity that we are building, whether it be hospitals or schools, and it provides for better functionality of our economy as a consequence, whether it is healthier members of the population or whether it is better educated and more functionally interactive members of the community, because education is empowerment in our view.

So we are committed to economic recovery from this pandemic. We will do that by creating thousands of jobs in the process, by building the road and the rail infrastructure that we need, and that is aimed at making sure that Victorians get home sooner and spend more time with their family. It is probably no coincidence that

Victoria's economy has not only led the nation for eight successive quarters prior to the pandemic but that we were clearly out in front when it came to infrastructure investment.

Since we were elected we have embarked on the most ambitious infrastructure agenda ever seen. It has fundamentally been the bedrock of our economy. It is not the only thing that we do, but it is a demonstration of our faith in growth and opportunity. Going back to Mr Limbrick, it is an investment in the provision of intergenerational opportunity as well. Essentially, embarking on this ambitious infrastructure agenda, it has been the bedrock of our economy, and it will remain the case as we draw on our steady pipeline as we move out of the pandemic event into a period of growth. We are already starting to see the green shoots of that growth, and that is largely—we are seeing it in business confidence, in consumer confidence. Today the AIG manufacturing index has demonstrated that Victoria is now in positive territory. It is fantastic to see, and how quickly we are starting to see it manifest going forward.

So not only does our big infrastructure agenda mean that Victorians will spend less time in traffic commuting, it will support tens of thousands of jobs right across the state, from those on site to supply chains and of course the nearby businesses and the improvement in functionality that good transport infrastructure in particular provides for them. So investments that create jobs also tend to improve productivity, particularly when we are talking the functionality of our transport infrastructure. For businesses, that means greater growth and opportunity for them, and the opportunity to employ more Victorians in the process.

It is a well-established and proven blueprint. It is not like we invented this strategy. It has been applied in the world immemorially, particularly for those periods when you come out of a deflated economic environment. It is about investing in functionality and efficiency, but ultimately it is investing in the good capacity of the Victorian people to do what they do best, and that is grow their state through their own ingenuity. So the 2020–21 budget capital projects, with a total estimated investment of $19.8 billion, are creating the largest capital program, of course, in the state's history. But if you think about it in terms of all of the capital that is continuing and commencing in this budget, that is $134 billion worth of investment that is going on, funded and underway—building works, construction—that is going to play a massive enabler for our economic recovery for many years to come.

In the 2020–21 budget the infrastructure investment will increase on an average—$19.8 billion this year but over the four-year forward estimates, about $19.6 billion. Bear in mind that the 10-year average before this government came to office was $4.9 billion. So that is a massive increase. And we are right to be nervous about the capacity constraints that the industry is manifesting, but we cannot let our fear consume us. Our ambition for the future and our commitment to the Victorian people to work through these challenges is a vitally important part of the optimism and the ambition that underlines this budget. Our pipeline of transport investment will change the shape of our state forever. We know it because these are some of the biggest not city-shaping, not state-shaping, but nation-building projects: North East Link, Metro Tunnel, West Gate Tunnel, Melbourne Airport rail, the removal of those 75 level crossings by 2025, and of course let us not forget Geelong fast rail—so much happening right across this state.

The government's investment in public transport and roads this year provides $4.9 billion for metropolitan projects, $4.7 billion for regional and rural projects and $497 million for statewide projects. So more than $1.6 billion will be invested in road projects, and $8.5 million will be invested in public transport through increases in output funding, maintenance and major and minor projects. It is this idea that we are not just building new kit, we are building the capacity and the serviceability of the infrastructure that we build by demonstrating that maintenance is a vital part of an effective, functioning transport network.

This year's budget will provide $2.2 billion for the Suburban Rail Loop to get early works underway. It will create 800 direct jobs, project development, geotechnical and utility work and relocation work to get us started on the project. That will reshape Victoria. It will, we estimate, ultimately support something like 20 000 jobs. Once again, this comes back to the point that this is not just about building something now for the gratuity of the moment. This is something about investing in the future, because it is so vitally important that, yes, we have had an intergenerational debt effect. It is unfortunate, but it is a reality. So the best thing we can do for future generations is invest in the functionality and the utility of our economy, our transport networks and the services that we provide to them. And that is exactly what we are doing. I think that is a broader overview of the work that we are putting in place, and perhaps I will throw its back to you.

Mr RICHARDSON: Well, Treasurer, can I take you to—obviously we have seen during the pandemic and what was covered in the slides—the impact of the coronavirus on jobs. The jobs plan, at budget paper 2, page 39 goes through what the government is aiming to do in addressing that. You have outlined some of the initiatives in infrastructure investment. I am wondering if you could detail to the committee the projected employment outcomes of this budget's infrastructure investment and its contribution or its make-up of the jobs target.

Mr PALLAS: Yes. Thanks very much. I think, Mr Richardson, this is really once again, to reinforce—and I will reinforce it briefly—that this is not just about creating jobs now in construction. It is about the efficiency of the economy, whether it is the supply chain or whether it is the infrastructure that we are building. Hospitals, schools—they all employ but they also provide a better resourced, more productive community going forward. So these are all vitally important.

But on the direct investment in support for jobs, our anticipation is that since 2014 the government's infrastructure investments have supported or will continue to support something like 165 000 jobs in the Victorian economy. It is vitally important that we make these investments, because if you look at the construction industry, they constitute about one in 10 workers in our economy. Those who would argue that we are putting a disproportionate emphasis upon this particular sector, I think they probably would understand that if you do not provide a clear pipeline of investment, you take away the certainty of the security of employment in this industry and you are fighting off investors who cannot see into the long-term what that pipeline of investment and opportunity for them is.

Make no mistake, Victoria is shining a light on the activity that we are bringing to our infrastructure pipeline, and in doing it we are attracting a lot of interest, not just from other locations around Australia, but we are also seeing a lot of engineering, design companies as well as construction companies more substantially starting to focus their activity and their effort here in Victoria. But we are also starting to see very large companies from overseas saying, 'Well, we want to be part of the action that's going on here'. They are seeing the depression of activity that is occurring in their respective locations, and they are seeing by contrast, by juxtaposition in many ways, the economic effort that this government is bringing to the fore. And they are voting with their feet, and they are creating jobs by doing it. In our jobs plan of course since the 2019–20 budget update we expect that we will support around 125 000 jobs over the life of these initiatives.

So it is both the jobs plan and of course the initiatives that we have announced since the budget update. So we are playing to our strengths as a state: the resourcefulness and the efficiency of our people, our supply chain efficiency, making sure of course that we have got quick-start packages. That is important. It is not just about the two or three-year off projects, it is about making sure you have got that mix of small, medium and large projects catering to all different tiers of the construction industry so that they can get going, and recognising that an investment in maintenance is in many ways a bigger economic enabler than necessarily investment in infrastructure. And that is why our $450 million maintenance blitz has been such a vital part of the strategies that we are employing here.

If I could run you through some of the jobs figures that attach to our funding commitments contained in this year's budget, we have got $2.2 billion that we are effectively applying in the Suburban Rail Loop; 800 jobs initially, with up to 20 000 jobs over the life of the project. The Big Housing Build is something that I am very excited about, and I think it demonstrates and lives large this government's values. That will support 10 000 jobs per year over the next four years and 2000 jobs immediately. Our school capital program: that will support 7000 jobs during construction. The Melbourne arts precinct transformation: that will provide 5000 construction and 200 ongoing jobs. The investment in our hospitals will support 4100 jobs at the peak of construction. Of course already underway, the $2.7 billion building works package: that will support 3700 direct jobs as a result of our investment. Geelong fast rail will support 2800 jobs at the peak of delivery.

This is not just a shopping list of things we are doing. This is actually a very clear and dramatic investment by this government in the future of this state and our statement of faith in the Victorian people through their ingenuity and their capacity to grow our infrastructure and grow the opportunities of our state. But most importantly, it is our investment in them because they invested in us in beating this pandemic, and it is their effort that deserves a reward. That is what we are about: making sure that we can leverage opportunity through this investment, through our Local Jobs First strategies; making sure that we can not only enable the provision of work but make sure that we have our broader agenda for getting people into employment, for skilling the workforce by utilising our infrastructure build; and then ultimately recognising that it is not just about big infrastructure, it is about recognising our critical supply chain and our manufacturing have to be a key part of that. That is why our rolling-stock procurement strategies of course are a vital part of that, making sure that Victorians are directly involved in manufacturing processes that not only supply the delivered infrastructure such as rolling stock but also support and facilitate efficient delivery of infrastructure through casing factories and many other things that are a vital part of the infrastructure we build. But it is always about making sure Victorians get the first cut at these jobs.

Mr RICHARDSON: Treasurer, I might take you then and lead on from that. I think the major infrastructure project agenda is one thing and there is a longer year trajectory to some of those job impacts. But then to budget paper 2, chapter 5—the state capital program—and those smaller projects that are the immediates in some of the COVID recovery, there are the numerous smaller construction projects such as under the building works package that was announced earlier this year. What is the government doing to ensure that construction activity is spread across all tiers of the construction sector in that recovery effort?

Mr PALLAS: Well, this is a vitally important question and it is a vitally important strategy that the government is very much attentive to. You cannot build at the top end and expect that it necessarily trickles down to the smaller operators. We have to facilitate their capacity, their ingenuity, and provide a wide range of infrastructure projects, so $1.4 billion for phase 1 of the Melbourne arts precinct transformation; $6 billion for the Big Housing Build—that will be 12 000 new social and affordable homes; $3.1 billion for school capital across our school capital funding.

When you take into consideration both the budget and the building works program and investing over $2.6 billion in health infrastructure to deliver better and sustainable health services for the community, and $1.9 billion in this budget alone has been allocated for 185 schools and communities to benefit from the best schools and facilities possible. So we are upgrading those schools. One new school and four new additional stages of schools will be constructed, and seven schools will receive funding to increase their capacity. Sites for 11 additional schools will be acquired, and there will be 160 school upgrades right across the state. Everybody gets the opportunity, and that not only means diversity of economic opportunity; it means diversity of employment opportunity, not just in terms of employment types but in terms of the composition of this construction industry. That puts it in a much more robust sense going forward. There are 16 new schools and additional stages of work, nine schools are to increase the capacity of their own schools and 56 schools will be upgraded across the state, of course, as part of the building works package from earlier this year. Also we have got $45 million that we are putting into the Infrastructure Planning and Acceleration Fund. Now, this is vitally important because it plans for the future rather than jumping into a need. We have to demonstrate that we have a plan to invest in the future and to build infrastructure that is well and effectively thought through.

The CHAIR: Sorry to cut you off there, Treasurer, but the time for the member's questions has expired. I will give the call to Ms Bridget Vallence, MP.

Ms VALLENCE: Thank you, Chair. Treasurer, page 100 of budget paper 2 refers to the Melbourne Metro Tunnel project and says a commercial principles deed was signed between the parties to resolve project issues. It also says the cost of the project will exceed the planned cost. The Melbourne Metro Tunnel website currently states that the project will cost $11 billion. Can you advise the committee how much the Melbourne Metro Tunnel project will cost Victorians?

Mr PALLAS: Well, I can assure you, Ms Vallence, that we will once those commercial arrangements are finalised, but we are not in a position to do that as yet. You would understand that, whilst a commercial principles agreement has been struck, we have not finalised the arrangements. But when those arrangements are finalised, they will of course be public. What we do know is that the Metro Tunnel is a year ahead of schedule and all the parties are focused on delivering what we see as being an urgent and appropriate piece of infrastructure. It has to be delivered quickly and safely. So—

Ms VALLENCE: In terms of estimates, I understand that regarding the commercial negotiations, as you mentioned earlier, you are continuing to negotiate with constructors. But surely it is your job to know and also to be transparent with Victorians about what sort of cost estimates we are looking at in terms of this project and how much Melbourne Metro will cost—ballpark.

Mr PALLAS: Well, I know exactly where the commercial negotiations are at, and what I do know is that if I were to speculate about where they might land, I would be doing the state a grave disservice. By that I mean it is quite important that we finalise these matters and we get signatures on a page about what those commercial arrangements are like. As you would appreciate and you quite rightly identified, this is a non-binding commercial principles deed which was signed in June 2020 to resolve various issues that have arisen during the delivery of the project. Now, there will be a cost associated with that.

Ms VALLENCE: And what is that cost?

Mr PALLAS: Well, you are asking me to speculate on something that is not yet settled.

Ms VALLENCE: Yes, well, I think the entire budget process is a speculation, and I think Victorians deserve to know what that speculative cost is. Surely you have done some sort of estimate as to what you will be paying from your accounts. What do you think it is going to cost Victorians?

Mr PALLAS: Well, I will just have to restate the position that until we resolve this matter me speculating about what a price would be would have considerable disadvantage to the state's negotiating position. Yes, we are working through the issue, and yes, the public have a right to know, when the issue is resolved. But for me to speculate about where this might land might do a massive disadvantage to the Victorian people by speculating in terms that sit inconsistently with the expectation of the partnership that we are engaged in negotiating with. We will tell people when these matters are resolved.

Ms VALLENCE: Okay, is it fair to say then that it will be well over the $11 billion?

Mr PALLAS: It is fair to say that it will cost more than is currently budgeted.

Ms VALLENCE: And on the same page it refers to the West Gate Tunnel project also costing $6.7 billion in that part of the budget. Can you guarantee Victorians that that project will not exceed that $6.7 billion?

Mr PALLAS: Well, I can guarantee Victorians that this is a vital piece of infrastructure that will ultimately provide greater accessibility—

Ms VALLENCE: The question is not whether it is vital or not. It is: will the West Gate Tunnel project exceed the $6.7 billion outlined in budget paper 2?

Mr PALLAS: Well, we are currently in the process of an engagement with the consortium, but we have been pretty clear all the way through this that we have a contract with Transurban. We expect them to honour that contract. It is a fixed-price and fixed-term—

Ms VALLENCE: Well, Treasurer, you said yourself earlier today that you are negotiating with contractors. Negotiations are usually started because of cost, and we know there have been issues with that project. So asking Transurban, asking your contractor, to honour that I think is unrealistic, and Victorians know that. So do you think it will exceed the $6.7 billion?

Mr PALLAS: Well, I think we will have to wait and see. We certainly have a contract, and what we have encouraged the joint venture partners to do is to exercise their rights under that contract if they feel aggrieved. It seems that certainly from the constructor's side there has been a lack of willingness to do that, and I suspect that demonstrates where they think their likelihood of success lies. We have been pretty inflexible on this, and we have been pretty clear in terms of what we expect. Now, we are prepared to work positively and constructively with our joint venture partners, and we do understand that they are making progress on this project—considerable progress on this project—albeit that they have not yet started the tunnelling and that is a vital part of this exercise. We do not enter into contracts lightly, and we expect the terms of those contracts to be honoured. Yes, we will have commercial negotiations with them but not unless and until we see the terms of the contract being honoured and a genuine commitment to ultimately delivering this vital piece of infrastructure.

Ms VALLENCE: If they do not honour the terms, as you say, will you break the contract?

Mr PALLAS: Well, we are not in the business of breaking a contract that we have that—

Ms VALLENCE: Well, you have done it before, Treasurer.

Mr PALLAS: Any projects that we have a mandate for from the Victorian people we are absolutely committed to delivering, and we are not afraid to put them to the Victorian people, and this was one such project. But definitely from our perspective it is our intention to expect that the contract is honoured. But the contract does incorporate terms where disputes between the parties can be adequately acquitted, and we would expect those parties, if they think they have a genuine concern, to exercise the rights that the contract provides them with.

Ms VALLENCE: And where they have a genuine concern, and it is clear that the contractors for West Gate Tunnel have, and you just said before that you have been fairly inflexible in this contract—it is true though that you waived the hundreds of millions of dollars of the landfill levy for these contractors. Is that right?

Mr PALLAS: Well, it would have been a money-go-round—the state effectively taxing the delivery of a state asset to go into state coffers to deal with the responsible management of treatment of waste. Certainly that just creates an innate inefficiency in the way that that contract would have been managed. It would have inflated the cost.

Ms VALLENCE: Isn't that just a tax-free ride for privately owned foreign contractors to not have to pay a landfill levy? You have said you are inflexible, but you have waived that.

Mr PALLAS: Well, they would have just put it on the price of the asset, on the cost of delivery of the asset, if we had have done that. So all that would have happened is: if you embed a price that ultimately is for public good, then if you are running a business the first thing you do is you defray that cost by increasing the price of delivery of that asset. It is a money-go-round, and it is counterproductive.

Ms VALLENCE: Treasurer, at page 132 of budget paper 3, at table 1.22, it provides for the Suburban Rail Loop an allocated $2.2 billion, with $420 million to be spent in the 2020–21 financial year. Are you able to provide this committee with a business case that justifies the expenditure on the Suburban Rail Loop?

Mr PALLAS: Well, we have been indicating that we are going through the process of producing a business case, but we are—

Ms VALLENCE: So you have allocated $2.2 billion without a business case?

Mr PALLAS: Well, we are well advanced in our thinking and we are also confident of the vote of confidence that the Victorian people put in this project. A business case is as much about telling the state how to effectively go about delivering a project, indeed more so, as it is about whether or not it should proceed. Certainly from our perspective we asked the Victorian people, 'Will you give us a mandate to deliver this project?'. It is no longer negotiable with the Victorian people. They asked us to do it, they gave us a mandate to do it and we are about delivering it. That is why a business case is about telling us how best and most responsibly to deliver it. That business case will be produced.

Ms VALLENCE: In terms of a fiduciary duty perspective, I think generally every Victorian would expect a business case is something that would come first—you know, that the horse comes before the cart. How can you allocate $2.2 billion to the Suburban Rail Loop without having a business case and without knowing what that would look like?

Mr PALLAS: Well, I think we have heard from those opposite, your party, that this is simply a phoney project. You want to see how real this project is? Look at the size of the investment that we are making—$2.2 billion to get—

Ms VALLENCE: Well, no-one really believes it is going to cost $50 billion, so—

The CHAIR: Ms Vallence, would you like the Treasurer to answer your question?

Ms VALLENCE: Well, the Treasurer has been verballing the coalition, and I think that is unbecoming for this process.

Mr PALLAS: I do not think I verballed the Leader of the Opposition when he said exactly that.

The CHAIR: There are a number of things that have been unbecoming in the process, but perhaps you would like to allow the Treasurer the opportunity to answer your questions.

Mr PALLAS: Look, the key point here is, yes, we could wait for the finalisation of a business case that tells us how we should go about responsibly delivering this project or, recognising that we have given a commitment to the Victorian people that we will deliver it, get the early works done but also wait to see the advice that we get out of the business case about how to responsibly deliver this project. The business case is not about whether this project gets delivered or not, it is about how we deliver it responsibly.

Ms VALLENCE: Secretary Martine, can you advise if DTF has received any advice from any departments on any government projects about their likelihood to exceed their budgeted costs?

Mr MARTINE: We are currently going through the process of, as the Treasurer indicated in an answer to an earlier question, assessing, particularly the 2020–21 requirement on all of the projects. So what is reflected—

Ms VALLENCE: Have any departments actually come to you? Have any departments provided feedback that they expect their projects to go over cost—to blow out?

Mr MARTINE: It is a bit early to be able to answer that question, because we are in the middle of that process to—

Ms VALLENCE: Well, how is it too early to answer?

The CHAIR: Ms Vallence, could you allow Secretary Martine to answer your question.

Ms VALLENCE: How is it too early to answer? They have either come to you or they have not. Have any departments come to convey that their projects are likely to exceed so that you can start provisioning or can start estimating for the future expenditure review committee?

Mr MARTINE: If a project has a view that the total budget is inadequate, then the normal process is the relevant minister would raise that and seek additional funding through the appropriate process, which might be through cabinet or the relevant cabinet subcommittee. So as outlined in—

Ms VALLENCE: And have any?

Mr MARTINE: As outlined in a couple of spots in the budget papers, including the Auditor-General's statement in budget paper 4, the budget reflects all government decisions that have been made up until the close of the budget books, which was 12 November. So any projects that were under pressure, where a minister brought forward a funding request and the government made that decision, are included in budget numbers.

Ms VALLENCE: So which projects were under pressure, Secretary?

Mr MARTINE: Well, I would have to—

Ms VALLENCE: Could you provide that to the committee?

Mr MARTINE: I would have to take that on notice because I cannot recall any particular projects that have received additional funding that is not disclosed in the budget papers.

Ms VALLENCE: You just mentioned that some were under pressure, so if you could, as you said, take that on notice. Treasurer, back on 16 April this year, when you announced the $24 billion Treasurer's advance, you said the government would develop a 10-year strategy to pay off the debt. Treasurer, can you make that 10-year strategy available to this committee?

Mr PALLAS: Well, what we have seen since April of course is a much more substantial economic event.

Ms VALLENCE: Can you provide that strategy that you did set down in April?

Mr PALLAS: Well, I have taken you through the strategy. It is a pretty simple one and it is pretty clear.

Ms VALLENCE: Yes, the four-phase strategy, and you have described that already to the committee, but in terms of that strategy document, are you able to provide that to the committee on notice?

Mr PALLAS: Well, it is in the budget papers. It is explained clearly in the relevant budget papers, and I have taken you through it—

Ms VALLENCE: Well, there was a lot of rhetoric, I think. I think Victorians would like to know what the plan is.

Mr PALLAS: Well, if you need, we will give you—

Ms VALLENCE: So perhaps around KPIs, milestones—could you provide that to the committee?

Mr PALLAS: Well, if the budget papers do not give you sufficient clarity—and we will certainly provide you with the relevant references in the budget paper that deals with this—then I am sorry that you do not consider that sufficient. But I think it is not unreasonable for the government to say that this is a highly volatile situation. I think the Auditor-General makes that point in his statement attaching to these reports, and the state will need time to see how this event settles in. But there is no capacity, there will be no capacity, for governments to deal with debt stability unless and until the three preceding steps are brought into effect, and that applies for every jurisdiction across this nation, including the commonwealth—that is, we do need to get to a point where we are back into economic growth, we get an operating cash surplus and ultimately we get to a surplus, an operating surplus. But then and only then can a debt stability strategy be given effect to.

Ms VALLENCE: Okay. Treasurer, at page 8 of budget paper 2, second paragraph, it says, and I quote:

> Borrowings will continue to grow until there is an alignment of revenues with expenses.

Treasurer, when is this alignment going to happen?

Mr PALLAS: Well, essentially that is simply a statement that while ever you are in deficit—I think Mr Whitford might have said this—the consequence of that is your debt profile continues to grow. That is exactly what our four-staged approach states.

Ms VALLENCE: So as the Treasurer, when do you think, when would you estimate? You surely have a plan. You say you have a plan. We do not have details of the plan. There is nothing in the budget papers that describes how you will pay down debt. Can you tell Victorians today when that alignment will happen or at least what KPI you are setting for yourself as Treasurer?

Mr PALLAS: Similar to the commonwealth and New South Wales, we do not anticipate being in surplus during this year or the forward estimates, so—

Ms VALLENCE: Well, I think that is an unfair comparison. In New South Wales they are planning to do that in the first year of the forward estimates, year 5, and you have quite clearly said years 5—

The CHAIR: Ms Vallence, would you like the Treasurer to answer the question or would you like to answer it for yourself?

Ms VALLENCE: You have quite clearly said years 5 to 8, which I think we will all take as at best year 8, so—

The CHAIR: Ms Vallence, would you like the Treasurer to answer your question or would you like to answer it yourself?

Ms VALLENCE: Well, we are having a discussion.

The CHAIR: It does not sound that way. If the Treasurer could have an opportunity to answer your question, that would be appropriate.

Ms VALLENCE: I guess that is all a matter of perspective, Chair. So, really, as Treasurer, when do you think will be that alignment period? It is something—

Mr PALLAS: Well, as I have said earlier, my expectation would be it would be in a second term of forward estimates. Exactly when—

Ms VALLENCE: Year 5, 6, 7or 8?

Mr PALLAS: Well, that is an entirely unrealistic question to ask. It is an unrealistic question because who knows what the estimates numbers in terms of growth, economic activity, will be. If I give you an illustration: the way that we put together forward estimates, it is only the first two years of the forward estimates—the first year and the second year of the forward estimates—that are on actual projections. The remaining two are trend-based projections. So we will have to wait to see how this economic event plays out. In practical terms what we are anticipating is that the government will make the necessary actions to get us there, and it is quite clear that by reducing our deficit by 75 per cent in our forward estimates period we are making very tangible inroads to getting there.

Ms VALLENCE: Secretary, at page 38 of budget paper 4, the table that refers to borrowings, have any of these borrowings been sourced by the Belt and Road project?

The CHAIR: I am sorry to interrupt you there, Ms Vallence, but your time has expired, and I will pass the call to Ms Nina Taylor, MLC.

Ms TAYLOR: Morning, Treasurer and officials. I would just like to get back to the topic of the Big Build, with housing. I refer you to budget paper 3, page 82. You were talking before about the job prospects with the Big Housing Build. Could you flesh out, please, how the Big Housing Build will create jobs and support Victoria's economic recovery?

Mr PALLAS: Thanks very much, Ms Taylor. As I said earlier, this is one of the projects that gives me great satisfaction. What we do know is that investment in public housing and in community housing does have a very profound economic enabler effect—in fact probably the greatest of all the interventions when it comes to infrastructure that the state can make. I appreciate how much jobs and stable and secure housing mean to residents of your community and of course indeed of every community in the state. The pandemic has had a significant effect on employment in Victoria. The impact on the construction industry is likely to persist for some time given the lead times in construction projects and the impact that we are effectively seeing being felt immediately, and this will have a lag in terms of the pipeline of work that is drying up rapidly. The government can see that that forward pipeline of activity is starting to slow, and we therefore need to provide the market with some confidence and certainty going forward about investments that the state is making.

The role of the government's economic response, and in particular through our Big Build, is to maintain that pipeline and also to maintain jobs in this sector. The $6 billion Big Housing Build in this budget will deliver 12 000 homes throughout metro and regional Victoria. That will support something in the vicinity of 10 000 jobs on average each year for the next four years. For a sense of scale, if you look at the Rudd federal government investment, that was $5.6 billion in social housing construction and maintenance in response to the global financial crisis. I want to give you a sense of the enormity of this intervention. It is bigger than a federal government put in place—a decade ago admittedly—for the entire nation. In practical terms that demonstrates that not only is this important work for fairness in our community but it is a massive enabler for economic opportunity going forward.

A KPMG review that was commissioned by COAG into the response to the GFC found that for every dollar of construction activity, around $1.30 in total turnover—or an additional 30 cents in turnover—was generated in the economy. In September this year a survey of some 49 of Australia's top economists by the *Conversation* and the Economic Society of Australia named social housing spending as the single most effective form of economic stimulus. So we recognise that this has a big part to play in the economic revitalisation of our economy.

The federal government's National Housing Finance Investment Corporation has in fact advised that nine jobs are created for every $1 million that is invested in every social housing investment. Quite simply, investments in housing and the construction sector have massive multipliers for economic activity, permeating activity right throughout the economy. It is a smart investment, it is a fair investment and it is an investment in the future and in equity right across our state. So the activity creates jobs. We are expecting the Big Build housing projects to create up to 18 000 jobs at their peak. We would anticipate that, as with much of the budget, we are looking to create jobs among cohorts that are hardest hit by the pandemic. Young people in particular are going to benefit as a consequence of these investments and our commitment that 10 per cent of work on major projects will be done by apprentices, cadets and trainees. In implementing our policies to promote employment of women in the construction sector, a gender equity plan is under development to support an equitable approach to female employment in the delivery of the overall package.

We are also committed to minimum investment amounts to some of the regional centres that are hardest hit by the pandemic. So it is about sharing it across the demographic cohorts of the community, but it is also sharing it across the geography of the state so everybody gets access to the economic uplift that this vital investment will make.

Ms TAYLOR: So looking a bit further at partnerships with private sector, how will the government support partnerships with the community housing sector to leverage private sector investment and create jobs?

Mr PALLAS: Once again a great question, because essentially we can do a lot as a government but we can do so much more when we work in cooperation with the community sector and the private sector, recognising that we do have a multifaceted economy and everybody needs to put their shoulder to the wheel to unleash economic activity. The suite of policy interventions that we are putting in place across the Big Housing Build package reflects the government's appreciation really that there is no silver bullet that we apply to addressing housing security and affordability. There needs to be a multifaceted approach. We need to have more than one trick, as it were, in terms of the access and opportunity that these investments make. So there are a variety of community and public and private sector organisations offering solutions. Just as there is no such thing as a normal or typical social housing tenant, there is no need really to standardise the response to the provision of housing, in our view, to those tenants.

In the interests of providing a comprehensive response, we are going to draw on the expertise of social services organisations, community housing providers and the private sector. There should be no doubt that this package will also be very much focused on job creation and creating economic activity, so we will be working closely with the private sector to bring forward some large developments ready to start construction across Victoria. We will be engaging partners across the community and private housing sector with the expertise and the capital capacity and capital readiness to deploy and to help us to get these projects off the ground as quickly as we possibly can. The community housing sector operates around a quarter of Victoria's social housing dwellings, and it is well placed to identify opportunities to grow supply in the short term. And remember this is as much a social obligation. We have to move quickly to meet an evident and a growing need, and speed is therefore of the essence if we are genuinely committed to fairness. That is why we will receive $1.38 billion effectively from the Big Housing Build investment for the purposes of activating and encouraging the community housing sector.

Financial institutions will also include major superannuation funds. Property developers and construction companies will also be important partners in being able to achieve this important work in developing new homes. As part of the package, $948 million has been dedicated to partnerships with the private sector, and this funding is going to be used in a range of ways. It will be used, for example, to include spot purchases and purchase planned, incomplete or unsold developments—that is, property that we see as being appropriate for the utilisation of an evident and immediate need. We will get in and we will make the necessary acquisitions so that we can deal with people's immediate and evident needs. A range of new and innovative partnerships are also going to be used for the purposes of making sure that the largest number of new quality homes are developed from this investment.

One particular form of partnership that we are expecting to deploy is based on a ground lease arrangement, where the government actually retains ownership of the land and leases it to the private sector, not-for-profit or community housing agencies. Those partners then build and operate social housing for a period of time. At the end of the ground lease the land and dwellings would return to the management of Homes Victoria. So we get the immediate access to the leveraged investment, and we ultimately get the asset as an asset for the state. In those cases ground leases will ultimately be issued to the successful investor after competitive bid processes. Those investments then really develop buildings on that land. They include social housing. Homes Victoria will continue to be the legal owner of the land and the completed buildings, and they will manage the performance of the investors carefully throughout the period of the ground lease.

So common features of the government's engagement will be through the structure, the apparatus, of Homes Victoria. It is a new agency. It has been established fundamentally to work across government, industry and social housing sectors to manage existing housing and, might I say, to deliver that record housing investment that will mean so much more to our economic recovery.

Ms TAYLOR: Okay, thank you. Broadening out the discussion on affordable housing, beyond social housing what is the government doing to make housing more affordable for all Victorians?

Mr PALLAS: Well, this is important because it goes back to that multifaceted approach that the government is taking. There is no simple or singular path by which we seek to give people what they want—their aspirations for a home. So the Big Housing Build follows a record of achievement for this government in making houses more affordable for all Victorians. Our Homes for Victorians package of course abolished stamp duty for first home buyers purchasing under $600 000, and it also provided concessions for purchases up to $750 000. To 30 June 2020 we provided stamp duty exemptions and concessions to over 100 000 first home buyers across Victoria—since 1 July 2017. We also doubled regional first home owner grants to $20 000. So more than 33 000 Victorians have received the first home owner grant, and this represents a saving of about $1.8 billion for those first home buyers.

However, the Big Build is really our biggest contribution to housing affordability yet and something of which I am very proud. In addition to our investment in building new social housing, the Big Build has a number of policy interventions to improve housing affordability and accessibility more broadly. The homebuyer fund, which provides half a billion dollars to accelerate Victorians into home ownership under a shared equity arrangement, contributes to the purchase price in exchange for a proportionate equity interest in the property for the state. This reduces the size of the deposit that is required, getting people into their home quicker, and it will help those Victorians afford their home sooner. The fund will support the purchase of both established and newly built homes.

We are also boosting the stock and variety of rental housing to kickstart the build-to-rent sector in Victoria, which will mean that from 1 January 2022 the Big Housing Build will provide a 50 per cent land tax discount for eligible new developments until 2040. These developments will be exempt from absentee owner surcharge over that very same period. The benefits of build-to-rent are I think recognised around the world. We are seeing established sectors in the United States, and we are even seeing embryonic interventions coming out of New South Wales as well, and of course in the UK. Build-to-rent is a boom on economic activity because the lack of a requirement of a minimum number of off-the-plan sales to secure financing will ultimately mean that developers will be able to get to the market quicker with their investments, of course encouraging people to buy in the short term.

We are also offering tax relief on stamp duty for residential property transactions up to $1 million, a waiver of 50 per cent for new residential properties and 25 per cent for established build properties. But you have got to get in quickly; it ends on 30 June next year. That is about assisting the industry to stabilise and continue to grow and prosper going forward. That is expected to cost the state about $293 million over the budget and forward estimates period.

Again, we have extended the $20 000 first home buyer grant for regional Victorian contracts entered into up until 30 June. That extension once again is aimed at providing opportunities for people to see regional Victoria for the opportunities that it will provide, given our COVID-normal rules make digital connectedness such an important part of the nature of work and therefore the opportunities that people will be able to take up in terms of a tree or a sea change into regional Victoria—such a great place for people to live and such a great opportunity for them to embrace.

Ms TAYLOR: Thank you. And picking up on that topic a little further with regional Victoria, because you did say there were benefits across the state with the Big Build, how is the government ensuring regional Victoria benefits from the Big Housing Build?

Mr PALLAS: Of the $5.3 billion that we are investing in delivering more than 12 000 new homes, we have made a clear decision as a government to allocate 25 per cent in rural and regional Victoria. Building social and affordable housing in regional Victoria really responds to the increasing population in Victoria's growth areas. It will also create more housing to support employment growth in regional towns and regional cities. At a more local level of course the Big Housing Build includes guaranteed minimum investment for 18 regional and local government areas right across the state. These are areas that have a significant regional town or city or have high population growth. The total of these investments is guaranteed to be $765 million. We will work to identify projects in regional Victoria for the allocation of the remaining $485 million that is yet to be committed into those local government areas through the minimum investment guarantee arrangements. Importantly, that guarantee will provide certainty for total investment over four years. So it is structured, it is about giving people a line of sight on investment and it is also about making sure that every part of the state, particularly regional Victoria, gets access to this important initiative, and local governments of course and providers of social services can therefore develop and plan and deploy resources effectively for that population growth that we are providing. We will be working with local government to develop a social and affordable housing compact, with local governments playing in important part in identifying how we might be able to prioritise social housing growth in their municipalities, so the Homebuyer Fund will be available in towns right across regional Victoria. It will expand on the smaller list of available locations under the HomesVic pilot, and we have also extended of course the first home owner loan—as I have already indicated, the $20 000—to 30 June this year.

Ms TAYLOR: Excellent. I think we got just enough time. You have already touched on the Homebuyer Fund, but there are, I know, some particular cohorts that may benefit specifically from this fund. Did you want to explore that as well?

Mr PALLAS: I think we have got to recognise it is not easy, particularly for young people, for people who for no fault of their own find themselves in difficult circumstances—obviously those who are leaving marriages, invariably women, sometimes who maintain child-rearing responsibilities. This is a real and substantial problem where interventions need to be made. There are many people capable of servicing a home loan but locked out of the property market. That is what these initiatives aim to achieve.

The CHAIR: Thank you very much, Treasurer. On that note, that concludes the time we have for consideration of the Treasury portfolio, so we thank you and your officials for dealing with these matters before us today. The committee will follow up on any questions taken on notice in writing, and responses are required within 10 working days of the committee's request. The committee will take a short break and resume at 11.45 for consideration of the economic development portfolio. Thank you.

Witnesses withdrew.