

# CORRECTED VERSION

## PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

### Inquiry into budget estimates 2011–12

Melbourne — 6 May 2011

#### Members

Mr N. Angus

Mr P. Davis

Ms J. Hennessy

Mr D. Morris

Mr D. O'Brien

Mr M. Pakula

Mr R. Scott

Chair: Mr P. Davis

Deputy Chair: Mr M. Pakula

#### Staff

Executive Officer: Ms V. Cheong

#### Witnesses

Mr K. Wells, Treasurer,

Mr G. Hehir, Secretary,

Mr D. Yates, Deputy Secretary, Budget and Financial Management Division,

Mr J. Fitzgerald, Deputy Secretary, Commercial Division, and

Dr L. Williams, Under Secretary, Department of Treasury and Finance.

**The CHAIR** — I declare open the Public Accounts and Estimates Committee hearing on the 2011–12 budget estimates for the portfolio of the Treasurer. On behalf of the committee, I welcome the Honourable Kim Wells, MP, Treasurer; Mr Grant Hehir, Secretary of the Department of Treasury and Finance; Mr Dean Yates, deputy secretary, budget and financial management division, Department of Treasury and Finance; Mr John Fitzgerald, deputy secretary, commercial division, Department of Treasury and Finance; and Ms Lynne Williams, undersecretary. As well we have Ms Laura Halfpenny, departmental liaison to the Treasurer, who will be operating the presentation only.

Members of Parliament, departmental officers, members of the public and the media are also welcome.

In accordance with the guidelines for public hearings, I remind members of the public that they cannot participate in any way in the committee's proceedings. Only officers of the PAEC secretariat are to approach PAEC members. Departmental officers, as requested by the minister or his chief of staff, can approach the table during the hearing to provide information to the minister, by leave of myself as chairman. Written communication to witnesses can be provided only via officers of the PAEC secretariat.

Members of the media are also requested to observe the guidelines for filming or recording proceedings in the Legislative Council committee room and no more than two TV cameras are allowed at any one time in the allocated spaces. May I remind TV camera operators to remain focused on only the persons speaking and that panning of the public gallery, committee members and witnesses is strictly prohibited.

I am also pleased to announce that for the first time these series of budget estimates hearings are being audiocast live on the Parliament's website.

All evidence taken by this committee is taken under the provisions of the Parliamentary Committees Act 2003, attracts parliamentary privilege and is protected from judicial review. However, any comments made outside the precincts of the hearing are not protected by parliamentary privilege. This committee had determined that there is no need for evidence to be sworn. However, witnesses are reminded that all questions must be answered in full and with accuracy and truthfulness. Any persons found to be giving false or misleading evidence may be in contempt of Parliament and subject to penalty.

All evidence given today is being recorded. Witnesses will be provided with proof versions of the transcript to be verified and returned within two working days of this hearing. Unverified transcripts and PowerPoint presentations will be placed on the committee's website immediately following receipt, to be replaced by verified transcripts within 48 hours after the hearing.

Following a presentation by the Treasurer, committee members will ask questions relating to the budget estimates. Generally, the procedure followed will be that of questions in the Legislative Assembly.

As a housekeeping item, I ask that all mobile telephones be turned off.

Before I proceed further, I would like to make some further remarks. I do so in respect of officers of DTF. I wish to thank DTF officers for meeting the committee's request to return the detailed questionnaire in a short time frame. I regret that a number of departments have failed to meet the request and I therefore must advise that the committee regards this delinquent performance as a serious impediment to its deliberation and that it must be attended to urgently.

I now call on the Treasurer to give a brief presentation of no more than 10 minutes on the more complex financial and performance information that relates to the budget estimates for the portfolio of the Treasurer.

**Mr WELLS** — Thank you, Chair, and congratulations on your appointment as Chair. Public accounts is without doubt the hardest working committee of the parliamentary committees, and it is a great honour to be part of that. As I look around the room, I note that the shadow Treasurer is not part of the committee, which I find very odd because it has been a tradition of this committee that the shadow Treasurer be part of this committee. If you are the lead spokesman in Treasury and Finance matters it seems very odd that that is not the case for this committee. Putting that aside, let us start with the slide presentation.

**Mr PAKULA** — Good start.

**Mr WELLS** — I just thought it would be important to point that out. With the shadow Treasurer, you have had myself, the brilliant Robert Clark, and Tony Sheehan — excellent, outstanding shadow treasurers — in the past.

#### **Overheads shown.**

**Mr WELLS** — One of the issues that the government is faced with is obviously strong population growth. This graph shows that Victoria, especially Melbourne, has outstripped Sydney, Brisbane, Perth and Adelaide. It is one of the issues that we need to deal with.

With regard to economic projections, one of the points that we have highlighted is obviously the issue of real GSP. You will note that in 09–10 it was 2 per cent. In 10–11 it was 2.5 per cent, and that was actually forecast down from 3.5 per cent, so it is a full 1 per cent from the budget update, so that gives an idea, I guess, of the consumption and the business activity that has taken place. It is forecast at 3 per cent and then flattening out at 2.75 over the forward estimates.

Employment is growing and forecast at 3.5 this year and then flattening out at 1.75 over the forward estimates.

The latest unemployment rate is 4.5 per cent but we maintain that the unemployment figures are vulnerable at the moment — they are up and down — so Treasury is forecasting 5.25, flattening out to 5 and then a slight drop down to 4.75.

The CPI is there, the longer term trend being at 2.5 per cent.

The wage price index: flattening out at 3.5.

Population growth: slightly dipping from 1.8 to 1.7 and then flattening out at 1.5 per cent longer term.

The high Australian dollar: we have put that in there. The dollar was floated in 1983. The average since 1983 has been about 74 or 75 cents and now it is up to a \$1.08, \$1.09; I think it has fallen back a little bit overnight. So we are aware of those rates.

When it comes to where the country's investment is, on this graph the red line is the non-mining sectors and the purple line is the mining sector. You can see that continuing sharp increase in investment in that sector, which is significant. But the good news is that Victoria has a diversified economy. You will note that in this graph, 1994–95 to 2009–10, manufacturing in the mid-90s was very strong, but as part of the total economy it has dropped, and yet finance and insurance is obviously increasing and it is one of the big drivers of this state. Then you have the scientific and technical advice and expertise and health care and social assistance increasing as well.

One of the real issues we have in this state is obviously productivity, and I have spoken about the issue of productivity on numerous occasions. The problem we have is that during the 1990s Victoria was significantly above the nation's average on productivity and then over the last 10 years we have lost that competitive advantage with regard to productivity. That is incredibly disappointing and something the government will need to put forward as one of its priorities.

So what are we doing about it? We have to reduce the burden of regulation, and we have said that we would cut regulation by 25 per cent. We have to continue to reduce business costs to make sure that we have that competitive advantage. We have to make sure that we have a more efficient, transparent and responsive public service. We have to ensure that our infrastructure is targeted so that we are making sure that the bottlenecks and congestion around our ports and our rail and road network are freed up. One of the great strengths of this state is obviously the knowledge and skills and the education that we can provide for other states and overseas.

So with the fiscal context the purple line is revenue and the red line is expenses. You can see that from the 1990s to now the big issue that the state has faced is that expenditure has grown at an average of 8 per cent over the past 10 years — on average an 8 per cent growth in expenditure — but at the same time the revenue has only grown at 7.3 per cent. It is simply not a sustainable situation to have where the revenue is not keeping pace with expenditure, and that is causing significant concerns with regard to the budget.

With regard to one-off grants from the commonwealth — this is money coming in from the one-off payments for the BER, Building the Education Revolution — these are significant payments where the federal government set targets to invest in education. They have put that money in. It is treated as revenue coming into the operating statement, which means there is a negative balance. You will note that it was significant in 09–10 and 10–11 and then in the next graph we have put it across where it still has a negative balance but the negative balance is being reduced as we do the hard work to make sure that the operating statement is more sustainable.

With regard to general government net debt, in the budget update in 13–14 the debt was forecast to be \$15.7 billion, or 4.2 per cent of GSP. Under this budget that will increase so that the 13–14 current forecast in this budget will be \$22 billion, or 5.9 per cent of GSP. The bars are obviously the actual amount in billions; the red line is what this budget has done; and the green line is what the budget update forecast was aiming for, so that green line is the continuation of the budget update at 4.2 per cent.

Total public sector net debt: it is the same situation. We have a debt that has increased — the total public sector net debt. It was forecast in 13–14 at \$30.7 billion, or 8.3 per cent of GSP. That is now going to flatten out at 9.9 per cent of GSP or \$36.8 billion.

The fiscal shocks and the cost pressures that have been put onto this budget: the first issue we have to deal with is the issue of project cost pressures, and that is the blow-out in costs such as myki, the wholesale markets, the link, the HealthSMART and the Olivia Newton-John cancer centre, so we have had those cost blow-outs — —

**Mr PAKULA** — Come off it!

**Mr WELLS** — Do you want more information with regard to the cost blow-outs?

**Ms HENNESSY** — Are we going to interact here?

**Mr PAKULA** — We will have time during questioning, Treasurer.

**Ms HENNESSY** — We will have plenty of time to ask those questions.

**Mr WELLS** — Okay, that is fine. Maybe I need to re-emphasise that point: one of the biggest problems this budget is faced with, or the government is faced with, is the cost pressures and cost blow-outs left by an irresponsible previous Labor government. We are dealing with the issues of myki and the wholesale markets; these things are a financial mess that we need to deal with. The figures are around about \$2 billion that we are estimating at this stage.

In addition to that, we have had the \$2.5 billion in GST reduction, which has been difficult. We have had a shrinking of the pool of \$1.6 billion and then we have had commonwealth deferred payments of \$550 million — \$500 million for the regional rail and \$50 million for the cancer centre.

In terms of the fiscal strategy, what have we been able to achieve in this budget? We said that we would deliver a surplus of \$100 million, and we have done it. It is thin, but we have delivered an average of \$100 million — actually the average is \$164 million over the forward estimates period.

I think one of the significant things we have been able to do in regard to this budget is to slow the expenditure. As I said earlier, we had expenditure growing at 8 per cent and we have been able to slow it down to 3.2 per cent, so that is significant. We have delivered on savings of about \$2.2 billion. Running into the election we said that we would deliver \$1.6 billion, but as we got into the budget we realised that the finances were not as strong as we had hoped and we had to find another \$600 million. We have introduced a high-risk, high-value unit in the Department of Treasury. That means that those large projects that need to be ticked off have to go through the Treasury process, and hopefully when we do a project we will not have these massive cost blow-outs. We have been able to sustain the AAA credit rating, and we are emphasising the 2.5 per cent EBA wage rise limit for the public sector. If it is more, then we need to demonstrate productivity.

**The CHAIR** — Treasurer, I am sure you are coming to the conclusion of your presentation — —

**Mr WELLS** — I was just getting into it.

**The CHAIR** — Because I know a number of my colleagues are anxious to ask some questions.

**Mr WELLS** — All right. We will quickly go through these overheads then. This graph here is the surplus, the \$140 million, which we have said averages out at 164. Then we have the net debt, which I spoke about, flattening out at 5.9 per cent. The bottom line, the non-financial public sector net debt plus superannuation to revenue, is important. The last line, the 110.6 in 14–15 is significant because the Standard and Poor's trigger for ratings is between 130 and 140 in regard to Victoria. We are at 110, so that is good.

Growth and expenses, as you can see, in the previous period was increasing. It flattens out, at an average of 3.2 per cent. The spike in 11–12 is because of the flood payments and then it flattens out at an average of 3.2 per cent. Then there is the issue of the independent review, which I suspect will raise some issues. I am happy to leave it at that and take questions.

**The CHAIR** — Thanks very much, Treasurer. I know that there will be some robust questions and that you will respond in kind.

How have predictions concerning population growth shaped the budget for 2011–12 and the out years for the discharge of your portfolio responsibilities?

**Mr WELLS** — The first graph that I showed shows a significant increase in the population of Melbourne. What it shows is that in the last 10 years Melbourne has added about 600 000 to its population. That is more than any other state. Victoria as a total population has increased more than any other state except for Queensland over the same period. It is significant that people are choosing to come into Melbourne and Victoria to live. Strong population growth has obviously boosted employment and economic growth and it has helped to increase government revenue and the government's capacity to fund services. However, we recognise that population growth does not necessarily increase living standards per se, so we have to make sure that the right policies are in place. So what are we doing?

To improve living standards the government has to address the issue of productivity. To make sure that we have a robust economy, productivity must continue to improve. As I mentioned briefly in presenting the slide pack, the first thing that we have to do is reduce the cost of doing business with government. That is an important point. We have to reduce the red tape. It is easy for people in opposition and for governments to say, 'We are going to reduce red tape', but what does it actually mean? We have set a target of 25 per cent over three years, but more importantly we have commissioned VCEC to identify the main elements of the state-based reform agenda. This inquiry will focus on the improvement in productivity, because that is an important thing.

The other important task I have asked Treasury to perform is to go back on those previous VCEC inquiries and to find the recommendations VCEC has put forward that have not been taken up by various governments over a long period of time. That is an important point, because we do not want to be reinventing the wheel. If VCEC has made strong recommendations in some areas to enable the reduction of red tape and we have not taken them up, then we need to know why.

Public finances remain strong, tackling structural weaknesses in the spending growth. The budget takes important steps to improve the situation. We have said that we will have a \$100 million surplus. We have achieved that and made the savings of \$2.2 billion over the forward estimates period. The point that we made about reducing expenditure growth to an average of 3.2 per cent is important. We have been able to deliver this budget in difficult times but still maintain the AAA credit rating.

We have a strong reputation worldwide for Melbourne's livability and Victoria's livability. People want to come and live here. But we have to address the growth issues in regard to public transport and health and we have to make sure that community safety is one of our priorities, that we continue to grow and improve our situation as a great state. We also have to make sure that the cost of living is not put under pressure. The government has targeted a number of areas in regard to livability.

The government is delivering on its commitments to provide greater prosperity and new opportunities in regional areas. We have outlined the \$1 billion Regional Growth Fund over two terms of government, so obviously there is a lot of work to be done in this area but we are hopefully addressing it in part in this budget.

**The CHAIR** — Thank you, Treasurer. Deputy Chair?

**Mr PAKULA** — Thank you for your presentation, Treasurer. Thank you also, by the way, for reducing the size of this committee from 10 to 7 and reducing the opposition's representation on it. I make that point because of your earlier cheap shot at the shadow Treasurer. Let me ask you about the impact — —

**Mr WELLS** — I did not think it was a cheap shot; I was just making a point.

**Mr PAKULA** — So was I. Let me ask you about the impact on the net result from transactions if there were to be a 1 per cent increase in the official cash rate. What would be the net result on transactions in those circumstances?

**Mr WELLS** — Thank you, Deputy Chair. If you go to budget paper no. 2, page 55, table B.1, which I think we used to call the sensitivity table, you will see under 'Interest rates', which is the very last item, income from transactions in 11–12 will be 46 and expenses from transactions will be 22, leading to a net result from transactions of \$24 million. But in 12—13 income from transactions will be \$47 million, but expenses from transactions will be \$347 million so the net result from transactions will be a negative \$300 million. In 13—14 income from transactions will be a positive 45 — —

**Mr PAKULA** — Yes, I can read it.

**Ms HENNESSY** — We know what it says.

**Mr WELLS** — I am actually answering your question. Expenses from transactions will be 377, which will mean a negative \$332 million.

**Mr PAKULA** — And then up to negative 358.

**Mr WELLS** — And in 2014—15 income from transactions will be 44 and expenses from transactions 402. It is the interest rates that will have that impact.

**Mr PAKULA** — Just so I am clear, Treasurer, if interest rates go up by 1 per cent on the budget's analysis the budget will be in deficit by more than 300 million in each of the three out years? The budget will be in deficit by more than \$300 million in each of the three out years if interest rates go up by a mere 1 per cent? That is what the budget says. Is that what you are telling us?

**Mr WELLS** — The situation is that if interest rates increase we have that figure in the sensitivity table. If interest rates actually decrease then it is the transfers — —

**Mr PAKULA** — Which nobody is predicting at the moment. The prediction is that interest rates are going up, so if they go up 1 per cent the budget goes into deficit in the three out years. I suppose my follow-up question is: what are you going to do if interest rates go up 1 per cent to prevent the budget going into deficit of \$300 million, \$332 million and \$358 million over the three out years? What is your plan to deal with interest rates going up by 1 per cent, which may very well happen?

**Mr WELLS** — One of the things that we spoke about during the budget process and one of the things that the independent audit review said is that if there was another external fiscal shock to the budget it will be significant and having a surplus of \$140 million is paper thin. The reality is that we made an election commitment that we would deliver on the surplus and we have got there, but it is thin and we realise that. We had an awful situation. We took over a financial mess, and this is the first step — —

**Mr PAKULA** — No, you did not.

**The CHAIR** — Let the Treasurer respond to the question.

**Mr WELLS** — This the very first step in trying to rebuild the budget. You are asking what are our plans. The first set of plans that we have put in place is to reduce and slow the expenditure growth. That is what we have done in this budget and we will continue to do that. So the 3.2 per cent — —

**Mr PAKULA** — But even with that you go into deficit if interest rates go up 1 per cent.

**The CHAIR** — Let the Treasurer finish his answer.

**Mr WELLS** — Yes, I know, but we are doing more than just that. There is the slowing of the expenditure to try and get more cash into the budget. The second point is that we have made savings of \$2.2 billion so that is also significant. We are trying to get the high-risk, high-value section in Treasury and Finance so when we are building infrastructure we make sure that we have good value for taxpayers money so we are not having the cost overruns. The other important thing is that I think the independent audit commission has brought down a sensible report, but we now need to work with the audit commission to be able to — —

**Mr PAKULA** — That is the one you have completely ignored in the budget.

**Ms HENNESSY** — That is right.

**Mr WELLS** — The independent audit commission, which I think has brought down a sensible report — —

**Mr PAKULA** — Which you have done nothing about in the budget.

**Mr WELLS** — Pardon?

**Mr PAKULA** — Which you have done nothing about in the budget.

**The CHAIR** — Treasurer, please complete your answer, please.

**Mr WELLS** — What we will be doing is we will be working with the independent audit commission to make sure that we are able to make the budget more sustainable.

**The CHAIR** — Okay. Mr Morris.

**Mr MORRIS** — Thank you, Chair. Good morning, Treasurer.

**Mr WELLS** — Good morning, David.

**Mr MORRIS** — Last Sunday in the *Herald Sun* there was a report that within the first week of coming into office you spent \$20 000 on office renovations in Treasury Square. Given the necessary, in my view, focus on savings in this budget, can you explain what happened there?

**Mr WELLS** — Is that the *Herald Sun* article?

**Mr PAKULA** — Is this what you really want to talk about?

**Ms HENNESSY** — Surprise!

**Mr WELLS** — Is this the one titled ‘Treasurer quick to make his mark’?

**Mr MORRIS** — That is the one.

**Mr WELLS** — I read this article and found it quite amazing that one of the first decisions I made was to refurbish my office at \$18 000. I have to say that was news to me. I had absolutely no idea that that had taken place, so I asked Treasury for an explanation of what actually happened. It came about through an FOI by the Labor Party. What happened was that the Labor Party was sent a copy of an invoice, asset facilities management, outlining \$17 572 in expenses. So that was sent. But it is interesting to note that a covering letter went through to the opposition as well. I might, if you do not mind, Chair, read what that letter says, just to make sure everyone is very clear about what happened.

**Mr PAKULA** — Has this got anything to do with the budget, by the way?

**Mr WELLS** — I was asked about costs. You should not be embarrassed about your expenditure.

**Mr PAKULA** — I am not embarrassed. I am just amazed that the Treasurer does not want to talk about the budget and wants to talk about his office renovations.

**Mr WELLS** — This is an important question. Why would you want to be nervous? Why would you want to be embarrassed?

**Mr PAKULA** — I thought you might want to talk about — —

**The CHAIR** — Deputy Chair, you have had your go. Let the Treasurer respond to the question.

**Mr PAKULA** — That is fine, so long as this is the precedent, Chair, we will talk about anything we like in estimates. I am glad for the precedent.

**Mr WELLS** — I just find it amazing that Mr Morris has asked me a question about expenditure in my own office and all of a sudden the Labor members of the committee are going to water about it.

**Ms HENNESSY** — I would prefer to hear how you are going to maintain a \$100 million surplus, given your previous admissions in the last question.

**Mr MORRIS** — Treasurer, could I ask you to address the question?

**Mr WELLS** — I thank you for the question. The issue is that there was this invoice sent to the opposition but there was a covering letter from Treasury and Finance that was also sent to a Mr Gavin Jennings. It says:

Information provided outside of the act

Please note that the refurbishment work in the attached document was commissioned by DTF at the time of the change in occupancy of the Treasurer's office. The work was performed between the 30 November 2010 and 3 December 2010.

The Treasurer took possession of the office on 6 December 2010.

These works took place before I was actually even made Treasurer, so I had absolutely no idea that they had taken place. What is more deceitful and more dishonest is that the opposition gave this document to the *Herald Sun* but did not give the Treasury and Finance explanation document to the *Herald Sun*. They gave part of the document to the *Herald Sun* but did not give the full story. That is deceitful and it is dishonest. That is what is was.

**Mr PAKULA** — I think you have made your point that you do not want to talk about the budget.

**Mr WELLS** — No, you were deceitful and you were dishonest.

**The CHAIR** — Treasurer, I am going to move on.

**Mr WELLS** — Deceitful and dishonest.

**The CHAIR** — I am going to move on.

**Mr PAKULA** — Seriously.

**Mr WELLS** — And that is disappointing.

**Mr PAKULA** — You are embarrassing yourself.

**Mr SCOTT** — I refer you to budget paper 2.

**Mr WELLS** — Do you want me to table this document?

**The CHAIR** — You may.

**Mr WELLS** — I will table this document.

**Mr SCOTT** — Mr Wells, you are the Treasurer of this state. I refer you to budget paper 2, page 28 — a question relating to the budget — and the deferral of the interim dividend for 2010–11 from the metropolitan water businesses, and I ask: is it not a fact that if these dividend payments were not deferred, the 2011–12 budget would actually have been operating in deficit?

**Mr WELLS** — The situation is that we have had an extraordinary year when it comes to weather conditions. We had floods in September, we had floods in January — we had significant floods in January — and the problem we had was how do you determine the correct interim dividend if you are unsure of the income



of the water authorities? It was not a normal year. We have had so many years of drought and you were able to predetermine, pretty much, what the income was going to be, but due to abnormal weather conditions it was going to be very difficult to determine the revenue.

**Mr SCOTT** — On a point of order, Chair, the Treasurer seems to have misunderstood the question. It was a question not as to the cause of these delays but a question as to if the delay had not taken place, whether the current budget would be in surplus or deficit. I ask him to address the question.

**Mr WELLS** — With respect, I was actually explaining the reasons why.

**Mr SCOTT** — But that is not my question.

**Mr WELLS** — Yes, but I am going to get to it.

**Mr O'BRIEN** — On the point of order, Chair, part of answering such a question is to explain the reasons for the delay; otherwise you cannot put the actual answer in context. I submit that the Treasurer was answering the question.

**The CHAIR** — Let us be clear: if a member asks the witness a question, the witness is entitled to answer in their own way. Just because you do not like the answer, it does not mean it is not a valid answer. The Treasurer is entitled to give an explanation of the context of the question.

**Mr WELLS** — I will just refer Mr Scott back to budget paper 2 and, as he said, page 28, and the second paragraph which states:

The main driver of increased dividend revenue in 2011–12 is the deferral of the 2010–11 —

which you pointed out —

interim dividends from the metropolitan water businesses resulting from the potential for variability in profit forecasts due to the above average rainfall, continued water conservation behaviour and residential land development activity. It is proposed that a single dividend be payable in October 2011 by each of the metropolitan water businesses in respect of 2010–11 in the light of their full year results.

The advice that we had from DTF was that we were unsure of the results as of 30 June, so it was going to be deferred. I would also draw you to budget paper 5, appendix B, page 207, and the last paragraph.

**Mr PAKULA** — Does that not make our point? You have repaid dividends out from this year to next year in order to put next year into surplus and it would have been in deficit otherwise.

**Mr WELLS** — How many questions am I taking here?

**Mr PAKULA** — It is the same question.

**The CHAIR** — Deputy Chair, it is Mr Scott's question.

**Mr WELLS** — Yes, so why do you need to assist Mr Scott in your question?

**Mr SCOTT** — I have no need of assistance.

**Mr WELLS** — He obviously jumped in to assist you in the question.

**Ms HENNESSY** — You did not answer it.

**The CHAIR** — Treasurer, you would help the Chair if you would respond to Mr Scott.

**Mr WELLS** — Mr Scott or Mr Pakula?

**The CHAIR** — Mr Scott. Mr Pakula has not asked the question.

**Mr WELLS** — On page 207 — the last paragraph, Robin, it says:

Since the 2010–11 budget update there has ... been a downward revision of \$111.5 million attributed to the rephasing of dividends from 2010–11 to 2011–12 ...

So that would mean that the budget was still in surplus.

**Mr SCOTT** — By how much?

**Mr WELLS** — The difference.

**Mr SCOTT** — How much? I asked you a question.

**Mr WELLS** — Twenty-nine.

**Mr SCOTT** — So you are saying that the real surplus, without this accounting trick, is \$29 million?

**Mr WELLS** — There are a number of transactions which take place that make up the budget, so — —

**Mr SCOTT** — Just as a thing, I — —

**Mr WELLS** — Hang on; how many questions — —

**The CHAIR** — Mr Scott, this is not an inquisition. You have had several follow-ups so we are going to move on to Mr Angus. Thank you.

**Mr ANGUS** — Treasurer, page 21 of budget paper 2 states that you achieved a \$140 million surplus in 2011–12, averaging 164 million over the forward estimates. Can you please explain how you attained this net result given the nature of the difficult fiscal circumstances in which the budget was framed?

**Mr WELLS** — Revenue was revised down from 11–12 to 13–14, largely due to the GST grants, which I have outlined. In particular the GST downgrade has been \$4.1 billion, which has been a downward grade of 6.6 per cent over the five years, which is significant. That has been 2.5 per cent, due to the reduction in our share of the GST pool; and you will remember that we put a case to Canberra. We could not believe or understand why the downgrade to Victoria was so harsh. For every dollar that Victoria paid in GST we were receiving 94 cents in the dollar and that was downgraded to just 90 cents. We found that grossly unfair. As a result, with Treasury, we put forward a very strong case to Wayne Swan to say that the formula is out of date and it would constantly disadvantage Victoria. As a result, Canberra actually agreed and put on a new committee which includes John Brumby, the previous Treasurer of this state and the previous Premier.

One of the reasons why we have been disadvantaged is because if you have a state with a high number of remote areas then you receive a benefit, and I understand that. But then on the other hand, if you have city like Melbourne which has a high number of congested areas, which is also a significant cost, then we do not get the benefit but they do. If you have high wage growth as in the mineral states, then you receive a benefit. I would have thought that in Victoria where we have managed wage growth then you should receive a benefit, but you are disadvantaged because of that.

The other point is that in other states there are high Aboriginal numbers and there is a benefit. We understand that and obviously support it. But then in Victoria if we have a high number of non-English-speaking communities then we do not receive a benefit. There are those three main points which seem to disadvantage Victoria consistently. That was the unfair part.

The other part, as I said, is the \$1.6 billion shrinkage in the pool due to slower consumption growth over the time. This has been partly offset by state taxation in 11–12 and 12–13, and that is obviously because of a stronger labour market — with unemployment down to 4.5 per cent you would expect your payroll tax income to increase. We have anticipated increased grant revenue from the federal government for flood recovery and reconstruction costs, high investment income over 10–11 and 13–14, reflecting additional incomes from the SECV as well as rephasing projected dividends from the water authorities, which Mr Scott asked me about.

So despite the shocks to the revenue and reducing the surplus the government has achieved that \$100 million surplus in each year, averaging out at 164. We have slowed the expenditure growth, which we believe is a very strong point to make the budget more sustainable; we have focused on greater efficiencies across the public service, which is going to be, I think, welcomed by business communities because they want to do business

with government but it has to be at a reduced cost; and, as I said, we have delivered on our election commitment of \$1.6 billion of savings, but we have had to go further to be able to deliver that.

**The CHAIR** — Thank you, Treasurer.

**Ms HENNESSY** — Thank you, Treasurer. Just in light of your last comments, is it not a fact that the Victorian government will receive \$290 million more in GST revenues from the commonwealth than what was received in Labor's last year of office, and by 2014–15, \$2 billion more in GST revenues than in the last year that Labor was in office? That is in fact the case, is it not, Treasurer?

**Mr PAKULA** — It would not — —

**The CHAIR** — Just hang on, Mr Pakula. Ms Hennessy has asked the question. Allow the Treasurer to respond.

**Mr PAKULA** — I thought he meant us to listen to the question.

**Ms HENNESSY** — That is right.

**Mr PAKULA** — Rather than having a chat while it is being asked.

**Ms HENNESSY** — You make such a big deal of GST issues, one would have thought you would have been across these issues, Treasurer.

**The CHAIR** — Treasurer, would you now like to respond to the question?

**Mr WELLS** — All right. I would like to answer your question.

**Ms HENNESSY** — Good.

**Mr WELLS** — In regard to forecasts of Victoria's GST revenue — changes from the 10–11 budget update — the update forecast for 10, in 10–11, was \$10.978 billion. Change due to revised and new relativities from the grants commission is zero, obviously, because they had not taken an impact; but change due to weaker consumption and dwelling investment affecting the GST is a negative \$324 million. So the total change since the 2010 budget update is \$324 million. The budget forecast for 11–12 in that year is 10.654. Then if you go to 11–12, the one that will impact on us, the budget update forecast was \$11.756 billion, but the change due to revised and new relativities from the grants commission is 498.5 — —

**Ms HENNESSY** — That was not the question.

**Mr WELLS** — I am actually — —

**Ms HENNESSY** — The question was \$2 billion in 2014–15.

**Mr PAKULA** — It is actual GST revenue — —

**The CHAIR** — Mr Pakula, we cannot have three people asking a question at once.

**Ms HENNESSY** — I would just appreciate it if you would at least understand the question. It is \$2 billion in 2014–15 more in GST revenue.

**Mr WELLS** — Just let me continue. We are getting to the point so I will need to explain the background to it. Is everyone okay with that?

**The CHAIR** — Continue, Treasurer.

**Mr WELLS** — In 11–12 the 2010 budget update forecast was 11.756, but the changes due to revised and new relativities from the grants commission was \$498 million; obviously we said \$500 million. The changes due to weak consumption and dwelling investment affecting the GST pool was \$312 million, so the total change since the 2010 budget update is \$811 million. That means the 11–12 budget forecast is 10.94. The budget forecast for 11–12 in 2010 was 11.76, and the 11–12 budget forecast was 10.9. When we get to 12–13 the 2010

budget update was \$12.6 billion, and then if you take into consideration the relativities drop, that was a drop of \$720 million and then changes due to weaker consumption, \$311 million. That means that in 12–13 the overall change is \$1 billion. Can you believe that?

**The CHAIR** — Treasurer, I think Ms Hennessy is having trouble understanding what you are saying.

**Mr PAKULA** — No.

**Ms HENNESSY** — I am not having trouble understanding at all. I believe the Treasurer is in fact having trouble understanding what the basis of the question is.

**Mr WELLS** — No, I am actually getting to the point of answering your question.

**The CHAIR** — Treasurer, would you like to complete your answer? Ms Hennessy may have a follow-up question to clarify. Continue.

**Mr WELLS** — Sure. What I am doing is explaining the reasons why we are at this point. I can continue?

**The CHAIR** — I have asked you to continue, and Ms Hennessy will listen or not.

**Ms HENNESSY** — I am not the chair of this committee.

**Mr WELLS** — No, but I just need to give the background to be able to answer your question.

**The CHAIR** — Proceed, please.

**Mr WELLS** — In 12–13 the 11–12 budget forecast was 11.57, but the budget update forecast in 2010 was 12.6. I will skip 13–14 to speed up the process and go straight to 14–15. In 14–15 the 2010 budget update GST forecast was 13.672. The changes due to the commonwealth grants were \$656 million. The weaker consumption is \$310 million. That means that if you are adding two figures together it will be \$966 million in 14–15, which means that in 11–12 the budget forecast is \$12.705 billion; that is significant compared to the 2010 budget update forecast. Going across, if you look at the changes due to the drop in the Commonwealth Grants Commission funding, looking at \$2.544 billion, the drop in the consumption, the small pool, is 1.568, so the total change is 4.112. The reason why Treasury uses those figures is that there is an expectation of the growth in GST. That is what it forecasts into its budgets — the growth in GST. When you have a hit on GST, whether it be through the relativities formula or whether it be a reduction in the consumption across the country and the overall pool is being reduced, that is why we have taken a hit. Had the growth in GST continued to be what it had been in previous years, then we would not have had the negative figures in regard to the drop in consumption. That is why — —

**Mr PAKULA** — He is just trying to bamboozle the committee.

**Mr WELLS** — No.

**Mr PAKULA** — The fact is — —

**The CHAIR** — Ms Hennessy asked the question.

**Mr PAKULA** — It is growing more slowly, but it is still higher.

**The CHAIR** — Deputy Chair, you are out of order.

**Mr PAKULA** — It is still higher.

**The CHAIR** — You are out of order.

Ms Hennessy, you flagged you had a follow-up question. Would you like to ask that?

**Ms HENNESSY** — Yes. In noting that the GST revenues are still substantially higher than when Labor was in office and in noting the song and dance that you consistently make around GST revenue, I would like to ask

the Treasurer: have you in fact met with John Brumby since he has been appointed, along with Nick Greiner, to the commonwealth panel to review GST allocation formulas?

**The CHAIR** — This question is — —

**Ms HENNESSY** — No, I would have thought that was advocating to a Victorian who was best placed to shape this — —

**Mr PAKULA** — It seems this is the biggest issue and you have not even met with him!

**Ms HENNESSY** — I would have thought that given this was the biggest issue confronting the Victorian economy that you may in fact have done something. Have you done something?

**The CHAIR** — Order!

**Mr WELLS** — I am not used to this!

**The CHAIR** — That question has been ruled out of order.

**Mr O'BRIEN** — The government's commitment was to derive \$1.6 billion in savings in order to deliver on its election promises, for which I congratulate you in delivering this budget. However, the budget papers also state that total savings to be achieved now total \$2.2 billion, and I am referring to budget paper 3, page 13. Treasurer, could you explain the components of the \$1.6 billion in savings; and secondly, could you provide details of the further \$600 million in efficiency savings that have been allocated to the department?

**Mr WELLS** — Can I make just one point?

**The CHAIR** — I would like you to answer Mr O'Brien's question, please.

**Mr WELLS** — I am busting to tell you some information.

**The CHAIR** — I know you are; I can just tell!

**Ms HENNESSY** — If the question is not out of order, Chair, the question is — —

**Mr WELLS** — I am just busting to tell you some information.

**The CHAIR** — Mr O'Brien has asked a question. I have invited the Treasurer to respond to that question not to a preceding question.

**Mr WELLS** — All right, I will save it. In regard to the savings of \$2.2 billion and the question, when we started putting together our election commitments we believed, through the incompetence of the previous Labor government, it was spending just so much — —

**Mr PAKULA** — Is he inviting interjection now?

**Ms HENNESSY** — He is inviting; that is right.

**Mr WELLS** — I am just stating a fact.

**The CHAIR** — Treasurer, it would be very helpful to the Chair if you would answer the question asked by Mr O'Brien and not engage with other members of the committee. Thank you.

**Mr PAKULA** — Not provoke us.

**The CHAIR** — You do not need to — —

**Mr PAKULA** — We are easily provoked.

**The CHAIR** — So Treasurer, would you continue with your answer.

**Mr WELLS** — We sat down and said, ‘Righteo, what do we need to do to make government more efficient? Where can we find and cut the waste and mismanagement?’. We looked at a number of areas to come up with a figure of \$1.6 billion. It is important. The \$1.6 billion started as of 1 January this year. I wrote to the ministers and the departments to get this savings plan in place.

The areas we have targeted include the reduction in ministerial staff, and that is an important point. You just cannot have ministers running around with unlimited numbers of staff; it has to be accountable. We were fed up with the spin and the government advertising — I mean it was just a joke. Having premiers flying around in red helicopters — —

**Mr PAKULA** — You’ve got more media advisers than the last government.

**The CHAIR** — Deputy Chair, just — —

**Ms HENNESSY** — It is spin — —

**Mr PAKULA** — We have added it up. You’ve got more than we had.

**Mr MORRIS** — Again they start making noise when they don’t like the answer.

**The CHAIR** — Treasurer, would you respond to Mr O’Brien’s question, please.

**Mr WELLS** — Consultants. I mean we have a very good, highly skilled public service. We expect them to make the decisions. They do not need to be second-guessed by a range of consultants. At the end of the day we are paying department heads and internal department heads within departments and we expect them to be able to make decisions.

The government advertising and political opinion polling — holy smoke! Every time you make a decision you have to go out there and do political opinion polling.

External legal advice: it seems to me that every department has an internal legal unit, so why would you need to constantly get advice? There will be times when there are more complex cases when we do expect that.

**Mr PAKULA** — Are you going to keep doing that?

**Mr WELLS** — Government office floor space: we are tightening up on that. I notice that in the run-up to the election the previous government also acknowledged that there were savings to be found in office space.

Supply and consumables, promoting shared services, which I think would have bipartisan support right across the board, where you can receive greater efficiencies, and capping head office staff — —

**Ms HENNESSY** — In fact, it is Labor Party policy.

**Mr WELLS** — Which I think is very, very important.

In 10–11 we have savings of \$163 million. As I said, that started on 1 January; in 11–12, the savings will be \$331 million; in 12–13, \$350 million; in 13–14, \$358 million and in 14–15, it will be \$366 million, to give us a total of \$1.568 billion.

In regard to the additional savings — the \$600 million, which will be \$637 million — we have put those targets to the departments, and they have already been implemented. So on 1 July these departments that have been highlighted will have that money reduced in their departments. In 11–12, it will be 143; 161 in 12–13; 162 million in 13–14, and in 14–15, \$170 million, to give us a total of 637. So as I said, Chair, in the run-up to the election we had savings across the public sector of 1.6, but it was becoming obvious to me and others that we had to dig deeper in order to try to make the budget more sustainable.

**The CHAIR** — Thank you very much, Treasurer, and I will move to the next question.

**Mr PAKULA** — Treasurer, the now Premier was interviewed on *Stateline* on 6 November, and he was asked a question by Paul Austin, which was, ‘How do you bring down debt?’. His response was, ‘The first step

is not to allow it to go further'. So if the first step is not to allow it to go further, would you say the government has taken that first step in this budget?

**Mr WELLS** — I will just bring up the slide. I did not get to show this slide, but we will bring it up.

The situation with debt is that in 2002–2003 debt was paid down — total public sector net debt was paid down to \$3.5 billion. So when Kennett came in in 1992 he was facing a debt of \$31 billion, in nominal dollars. That was paid down in 2002–2003 to \$3.5 billion. Under Labor that debt skyrocketed to \$31 billion, in fact, I think it was \$30.7 billion — —

**Mr PAKULA** — In 2002–03 Labor had been in office for three years already. What are you talking about?

**Mr WELLS** — That is what I am saying. That is the point I am making. The Kennett-Stockdale payment — —

**Mr PAKULA** — Which ended in 99.

**Mr WELLS** — 1999, yes,

**Mr PAKULA** — Not 02–03.

**Mr WELLS** — No, but I am making the point that — —

**Mr MORRIS** — That is when the debt began.

**Mr WELLS** — The fact is that the debt in 2002–03 was 3.5 per cent. So the total public sector net debt was that figure.

**Mr SCOTT** — Not per cent. That is wrong.

**Ms HENNESSY** — That is wrong.

**Mr WELLS** — Total public sector net. Anyway it was \$3.5 billion.

**Mr PAKULA** — Billion? You just said, 'Per cent'.

**Mr WELLS** — Billion.

**Ms HENNESSY** — No, you said 'per cent'.

**Mr SCOTT** — You are confusing the nominal figure for the percentage figure.

**Mr WELLS** — Sorry, Robin. The figure is 3.5 billion in 2002–03, and it increased up to \$30.7 billion under the previous government. So when we came in we had escalating debt, which then, I guess, created more problems for putting the budget together. When you look at this graph, the situation in 14–15, the GST revision would be \$4.1 billion, the net investment in fixed assets — so there was a certain amount being invested in infrastructure, but the other part — probably half of it was cost blow-outs. Then you have interest expense on top of that, and in 14–15 the debt will increase by \$7.5 billion.

**Mr SCOTT** — So it is going up.

**Mr WELLS** — I am getting to your answer. We have an increase in debt of \$7.5 billion. The reason is the GST revision, in part, the cost blow-outs — half of that — and then you have the interest expense to have a situation of debt increase of \$7.5 billion, so they are the reasons why the debt has increased. Then we had to make a decision. We have an escalating debt increase. You have these problems that have been added to an escalating debt. So what do you do? Do you fix the debt issue in year 1? And if we had fixed the debt issue in year 1, it would have meant massive job losses — massive job losses like we have never seen in this state before — a massive increase in taxes and a massive reduction in services to Victorians.

**Ms HENNESSY** — Which is the effect of Vertigan, which you support?

**The CHAIR** — Just complete your answer.

**Mr WELLS** — We had a choice: fix the issue of debt in year 1, or implement our election commitments. We were elected to implement our election commitments, and that is what we had to do. What are we doing about debt? The first thing we had to do, and what this budget does, is to stabilise the debt. So the debt is 5 per cent, and then it is going to flatten out at 5.9 per cent of general government debt.

**Mr PAKULA** — How is that stabilising it?

**Ms HENNESSY** — That is not stabilising the debt.

**Mr WELLS** — It is 5 per cent and then it is stabilising at 5.9, 5.9 and 5.9, so we are stabilising the debt.

**Mr PAKULA** — So it jumps?

**Ms HENNESSY** — So it jumps, and you keep it at its jumps?

**The CHAIR** — We can only have one person speaking at a time. Treasurer, continue.

**Mr WELLS** — The debt stabilises at 5.9 per cent, and we said that very clearly in all of our documents. What are we doing to address the debt longer term? As I said, we are slowing the expenditure growth, which was important. We are implementing our savings policy, making sure that our infrastructure costs are not handled in the same incompetent way as the previous Labor government, and that is that we have the high-risk, high-value unit in Treasury, and that is that they will go through every part of a proposal to make sure that the cost-benefit analysis, the business case and the scoping is correct, because if it is not correct, then it will go back to the department to say, 'This is not sufficient to pass the test'. It is an important point and it has to be signed off by me. We just cannot go down the same path of having cost blow-outs like the previous government had. We have the situation of myki, Melbourne Markets, the desalination plant — the list goes on and on and on. I know you are embarrassed by it, and you should be embarrassed by it.

**Ms HENNESSY** — I am embarrassed by your debt projections.

**Mr WELLS** — You should be embarrassed by it, and that is why we have to put something in place to make sure that we have proper controls and rigour around future capital works in this state because at the end of the day what the taxpayer demands, and rightly so, is value for money.

**Mr PAKULA** — Just to follow that up: you said that if you had chopped into debt this year, you would have had massive service cuts and massive jobs losses. The independent review finalises its report in February next year.

**Mr WELLS** — This is a separate question.

**Mr PAKULA** — No, I am just following up. Is what you are saying that those debt reductions, those massive job losses, those massive service cuts, have just been put on hold for 12 months? Is that what you are saying: that you will start chopping into the debt next year and the year after? Are you guaranteeing that net debt is going to start to fall over the life of the government; is that what you are guaranteeing?

**The CHAIR** — Treasurer, you may dispose of this question as you see fit.

**Mr WELLS** — We have said over the forward estimates, over the term of this government, that we will stabilise debt.

**Mr PAKULA** — Stabilise; so you are not guaranteeing that debt is going to go down?

**Mr WELLS** — Over the term of this government we will be stabilising debt.

**The CHAIR** — There is never an especially good time to pause, but I am proposing to pause briefly now for 5 minutes only.



Before we proceed to the next question could I just remind witnesses that evidence is taken through the Chair and that they should respond through the Chair to the question. I remind members of the committee that we can only have one question at a time and not three or four at once.

I will ask the Treasurer: at the 2010 state election the government promised \$5.2 billion in recurrent expenditure and \$2.4 billion in capital expenditure. However the budget papers — that is, BP3, chapter 1 — state that this budget is delivering \$5.1 billion in output expenditure and \$1.1 billion in capital expenditure. Treasurer, will you please explain the variance?

**Mr WELLS** — Yes, sure. Thanks, Chair. So my answer will be through you as Chair, and the questions will also be through you?

**The CHAIR** — The questioners will ask the questions, and you will answer them through the Chair. Thank you.

**Mr WELLS** — I am just clarifying a point for the Labor members — —

**The CHAIR** — Treasurer, please do not engage with the members of the committee.

**Ms HENNESSY** — It's pretty simple.

**Mr WELLS** — That's what I would have thought.

In the run-up to the last election we had a system called the PRG system, which meant that all the election commitments would come through a particular committee, and we would go through and vet all of those election commitments. Then we obviously had the responsibility of doing the costings of those election commitments, which was a long and delicate situation. We promised \$5.2 billion in recurrent expenditure at the last election, and to get to the situation where we are in 5.1 of that 5.2 is quite an extraordinary situation for the forward estimates. I think it is a real tick for the hard work we put in in opposition. Of the \$5.1 billion, \$4.4 billion will be in output initiatives and \$575 million in revenue initiatives. In relation to the capital, the budget provides \$1.1 billion in total investment, TEI, in asset funding, and these initiatives are outlined in chapter 1, budget paper 3 — —

**Mr PAKULA** — You've finally figured out what TEI means, have you?

**The CHAIR** — Treasurer, just proceed.

**Mr WELLS** — What sort of stupid comment is that?

**The CHAIR** — I think it should be ignored. Treasurer, please proceed.

**Mr WELLS** — A number of capital projects will be funded in future years, listed in chapter 1 of budget paper 3. In many cases what that means is that we wanted to make sure the planning is correct and make sure that in some cases the feasibility studies are correct. It would be totally unrealistic to be able to fund all of our capital works program in year 1. That would not make any sense. As I said, we have funded the 1.1 of total estimated investments. We have outlined a number of roads, a number of bridges, a number of schools, a number of police stations. Next year it will come before the BERC process, and then we will work through the capital works program once again and tick them off. That will form year 2, year 3 and year 4. We will deliver on our election commitments both in the recurrent and capital.

**Mr SCOTT** — Treasurer, you said on Tuesday in relation to the Monash children's hospital that part of the funding for Monash will be in the second term of government. Is that true?

**Mr WELLS** — The situation with the Monash medical, I mean Monash Children's Centre — —

**Mr SCOTT** — Yes, stumble.

**Mr WELLS** — This will be built over two terms of government. We made that very clear. We put out the press release in the run-up to the election that it would be over two terms of government. We said that in opposition, and we are going to stick to that. So the situation is — —

**Mr PAKULA** — It is not what the Premier said the other day.

**Ms HENNESSY** — So who is right?

**Mr SCOTT** — So who is right— you or the Treasurer?

**The CHAIR** — Treasurer, please complete your answer.

**Mr WELLS** — In the 11–12 year, we have allocated \$8.5 million. That \$8.5 million is to purchase land. In this term of government over the forward estimates there will be a total of \$60 million that will be spent — that is, in doing the design work and getting it all ready. So the total amount of \$250 million will be over two terms of government.

**Mr MORRIS** — Just going back to the GST issue: budget paper 2, page 4, identifies clearly the reduction of \$4.1 billion over five years of GST income compared with the last budget update. Can you indicate to us what sort of impact the decision of the Commonwealth Grants Commission to reduce Victoria's relative share will have on the budget position across the forward estimates period?

**Mr WELLS** — As we have mentioned, the GST issue is a phenomenal issue. I guess I make this point that not once did I hear where the Labor Party stood — the opposition — on the GST. Were they going to support Victoria in fighting for a better deal on GST or were they going to back their Labor masters in Canberra? Not once did I read a press release about them fighting and standing up for Victoria. I found that quite extraordinary.

**Mr SCOTT** — We asked you whether you would stand up.

**Mr PAKULA** — We asked whether you had met with Mr Brumby. You will not answer it. You have been missing in action for a week.

**The CHAIR** — Deputy, if you interject, you will provoke the Treasurer to give a response.

**Mr PAKULA** — You do not think I am being provoked?

**The CHAIR** — I think Mr Morris asked the question.

**Mr MORRIS** — I would like an answer.

**The CHAIR** — Would you like to respond, Treasurer?

**Mr WELLS** — The situation for me was that we believed as a government that we had to get a better deal for Victoria in regard to GST. We were confused by the opposition, just could not understand where the opposition stood. Did they put a press release calling on the government to do more to get a better deal for the GST? No. Did the shadow Treasurer come out and make comments about supporting Victoria? They were gagged by their federal government colleagues.

**Ms HENNESSY** — That is just not true.

**Mr PAKULA** — Coming from someone who would not face the media — Bubble Boy — that is very rich coming from you, Treasurer. They hid you away for weeks.

**Mr WELLS** — They didn't say anything; they refused to come out and make comments about where we stood on GST.

**Ms HENNESSY** — You are the Treasurer and you refused to meet with VECCI.

**The CHAIR** — Ms Hennessy, could you just let the Treasurer respond?

**Mr WELLS** — It got to the stage where they even refused to give me a pair to go to Canberra.

**Mr PAKULA** — And you still went, because you were always going to go whether the you got a pair or not, and everybody knows it.

**Mr WELLS** — I noticed one of the interjections by Jill and by Martin was, ‘Have I met with John Brumby?’. Is that one of the questions you asked?

**Ms HENNESSY** — Are we having an engagement here or not? What are you, a man or an amoeba? Answer the questions.

**Mr WELLS** — So the question was, I have been asked twice through interjections, have I met with John Brumby? How very ironic, when the very first day they have met as a committee is today. How could I possibly have met with John Brumby when they have only just started their very first day?

**Ms HENNESSY** — You pick up the phone and you go out and you stand up for Victoria. That is what you do, you fool.

**Mr WELLS** — So they are saying have I met with John Brumby. The committee has only met today.

**Ms HENNESSY** — Absolutely. You pick up the phone and you go and advocate for Victoria’s interests. You do not hide in your ivory tower.

**Mr WELLS** — How ironic. Labor opposition wants me to meet — —

**The CHAIR** — Treasurer, would you respond to Mr Morris’s question and not to the interjections?

**Mr WELLS** — The Labor opposition wanted me to meet with John Brumby today instead of attending PAEC; that is quite interesting!

**Mr SCOTT** — That is arrogant! You could have met with him during the time you were hiding.

**Ms HENNESSY** — There is plenty of time.

**Mr WELLS** — In response to the question that Mr Morris put forward, the reduction in forecast GST grants is one of the main factors in increasing the net debt. I put up that slide before. That has had a real impact on that net debt because had we been able to use some of that cash coming in, we would have been able to use it for funding infrastructure. As I said, the net debt will increase over the forward estimates period. If the government were to offset the \$4.1 billion decline in its general purpose grants, it would have had to cut, as I said, either expenses or increase taxes by the corresponding amount, and we were just not prepared to do that. To the government neither of these options was acceptable, and I do not think the Victorian community would have been too impressed. As they went to the election they voted for a change; they voted for the Liberal-Nationals government. We said that we had that \$5.2 billion of election commitments, and we are very proud to have delivered on it. I think in the end we will stabilise the debt; but in answer to your question, the GST has had a significant impact on this budget, and we need to work hard to make sure that we can further stabilise the budget.

**Ms HENNESSY** — Treasurer, I refer to the promise contained in your pre-election costings that a coalition government would provide \$165 million for a new Royal Victorian Eye and Ear Hospital. I ask if you could take me to the page in the budget papers where I can find the funding that acquits that promise.

**Mr WELLS** — The Royal Victorian Eye and Ear Hospital is a \$165 million election commitment. That will be up for BERC consideration.

**Ms HENNESSY** — So it is not in the budget papers?

**Mr WELLS** — There is no funding — —

**Ms HENNESSY** — So there is no funding for it?

**Mr WELLS** — For the 2011–12 year. There is no funding for the 2011–12 year.

**Mr PAKULA** — Or in the forward estimates?

**Mr WELLS** — Yes, of course.

**Ms HENNESSY** — There is nothing in the budget for you to acquit that election promise?

**Mr WELLS** — That election commitment will be delivered in this term — —

**Ms HENNESSY** — Just with no money!

**Mr WELLS** — This election commitment will be delivered in this term of government. There is no funding in 2011–12, but when it comes up for the BERC process in 12–13 that funding will come out of the unallocated capital which we have put aside.

**Ms HENNESSY** — There is just no money there — —

**The CHAIR** — Did you have a follow-up question?

**Ms HENNESSY** — No.

**Mr ANGUS** — Treasurer, I just want to stick with the GST matter. Given the extent of the fiscal impact of the Commonwealth Grants Commission on the state budget — and that is particularly outlined in budget paper 5, page 160 — can you provide details of how the government will respond to the federal government's recently announced review into GST distribution to the states and the current horizontal fiscal equalisation methodology that is used?

**Mr WELLS** — While we understand the budget position is tight, the government expects the commonwealth to fulfil all its existing funding commitments to Victoria. The level of payments for a specific purpose as received by Victoria is determined by the commonwealth government, and funding arrangements by COAG. These payments are governed by a framework, so in principle they can be changed unilaterally by the commonwealth government. I guess we have already seen part of that when we have had the deferral of payments for the regional rail. We were expecting payments for the regional rail of \$500 million, but because of the Queensland floods that was deferred until 2015–16 — the \$500 million?

**Mr FITZGERALD** — Yes.

**Mr WELLS** — That is making it very difficult for us, but we are looking forward to participating fully in the GST review that Mr Brumby is part of and the terms of reference, which, as I said, reflect the concerns that have been put forward by the Victorian government. The review's terms of reference provide all the heads of treasuries to provide advice to the review, and I think that is important. Additionally the Premier and I will be liaising directly with the review panel, which will be good. As I said, we have Mr Brumby on that committee so we are able to obviously liaise through the committee on that. As I said in an earlier answer, the issue for us is that we believe that we were being consistently disadvantaged and that the formula had not been updated over the years. I understand that is difficult because you need to get the agreement of all the states.

When we went and put the case in Canberra — obviously Victoria puts forward a strong case, and we believe what we are putting forward is right and what is best Victorians, but obviously Queensland and the Northern Territory have varying views. I make the point again that it is okay to have the benefit of having high-remote areas but there is also a significant cost for Victoria through high congestion, and we need to be able to address that. Also the issue high wages — we understand that in the WA and in Queensland you have higher wage growth because of the supply-and-demand situation in relation to wages; it is very difficult. But we would also argue that if you are able to manage your wage growth, then it should also not be a disadvantage that you are able to manage that. We look forward to participating. I think the choices on that review panel, Mr Brumby, Mr Greiner and Mr Bruce — —

**Dr WILLIAMS** — Carter.

**Mr WELLS** — Mr Bruce Carter. I think there are three very good choices. I think that will ensure a good, fair outcome for all of the states. They will not all be happy, but as long as it is updated and we see it as fair, then we think it is a good thing. I guess the other frustration for us is that when you revise an historic figure, that makes it very difficult for us to be able to determine how much GST we are getting. So in regard to Jill's question, Treasury goes ahead and forecasts over the forward estimates period what it thinks it will receive in GST.

When you receive a whack like we have — and part of it is because of the revision of historical figures — then it makes it very, very difficult for us to determine. When it comes to forecasting it does put Treasury and Finance in a very difficult situation. So one of the things that we have pushed for, and we said very strongly in opposition, is that we need transparency on that formula. So if we have the transparency on the formula, and there is a change to an historic figure, we are understanding it and Treasury and Finance can make the adjustments over that forward estimates period.

**Mr PAKULA** — Treasurer, I want to refer you to page 155 of budget paper 5. The bottom paragraph of that states that ‘revenue from insurance contributions to fire services is anticipated to increase by \$88 million’, or 15.8 per cent. I am wondering why that revenue is increasing when you committed to abolish the fire services levy in line with recommendation 64 of the bushfires royal commission final report?

**Mr WELLS** — You are correct; in the run-up to the election we promised to abolish the fire service levy and move to, we argue, a fairer, more equitable system. We have also said that that new system will be revenue neutral. Whether we end up going to a property-based method or some other method, but I suspect it will be property based, it will be revenue neutral. Now we obviously will not be implementing it in 2011-12. We obviously will not be implementing it in 11-12. So yes, there has been the increase of \$88 million. When we go to do the calculations with Treasury for the period that we bring it in, we will make sure that there is a growth rate factored in to make sure that it is revenue neutral. I am not sure whether the Treasury people want to add to that?

**Mr PAKULA** — Sorry, Treasurer, before you pass over to the Treasury bureaucrats, if you go to the table on page 24, it shows that property owner contributions to fire brigades keeps going up over the forward estimates.

**Mr WELLS** — Yes.

**Mr PAKULA** — That would seem to suggest that you have scrapped your long-held opposition to abolishing the FSL and that you are not going to have any new system in place, certainly before 1 July 2012 and possibly not over the life of the government? You have got it in the forward estimates for the next four years.

**Mr WELLS** — Yes; that is a fair question. But these budget papers are based on the current policy of the government today.

**Mr PAKULA** — But I thought the current policy of the government was to abolish the fire services levy?

**Ms HENNESSY** — Is that not your policy?

**Mr WELLS** — It is our policy. But — —

**Ms HENNESSY** — But it is not — —

**The CHAIR** — Sorry, Ms Hennessy. Mr Pakula asked the question.

**Mr WELLS** — We need to be very clear about this point.

**Mr PAKULA** — I wish you would.

**Mr WELLS** — We made a commitment in opposition to abolish the fire service levy, and that is what we will do. We are going to abolish the fire service levy — no question about that.

**Mr PAKULA** — When?

**Mr WELLS** — We have a program, which we will finalise very shortly, to implement a new system. But when you are preparing these budget papers you have to prepare them on the information Treasury has at this point. So you cannot factor in — —

**Mr SCOTT** — No, but you have announced that policy.

**Mr WELLS** — You cannot factor in a system that we have not finalised on. That would be — —

**Mr PAKULA** — But you can factor in the abolition.

**The CHAIR** — Sorry, Mr Pakula; just for a moment. I think what the Treasurer is saying is that he is talking about a future change of policy. There is an election policy that he has alluded to, and he is talking about from a government implementation point of view — —

**Mr PAKULA** — I did not realise he needed your help, Chair.

**The CHAIR** — I am just trying to expedite the answer, really.

**Mr PAKULA** — I am sure the Treasurer will appreciate your assistance, Chair. You actually did explain it much more clearly than he could.

**Mr WELLS** — Can I just finalise that this policy of getting rid of the fire service levy will be abolished. Secondly, it will be budget neutral, and we have made that very clear. I might ask Dean to just talk about the figures here.

**Mr YATES** — Yes. The numbers are on page 24 of budget paper 5. The fire services levy is actually classified under ‘taxes on insurance’ not ‘property owner contributions to fire brigades’. That is actually the funding that comes from municipal councils.

**Mr PAKULA** — Sorry, taxes on insurance are also rising, though, from 1.63 to 1.74.

**Mr YATES** — Yes.

**Mr WELLS** — Yes.

**Mr PAKULA** — And that is the FSL?

**Mr YATES** — Yes, the FSL is — —

**Mr PAKULA** — The FSL is incorporated in that figure?

**Mr YATES** — Yes.

**Mr PAKULA** — Over the next four years?

**Mr YATES** — Yes.

**The CHAIR** — Until there is a change.

**Mr WELLS** — Yes, until there is a change, and then once we have made the change and once government decide on which model it will use, then that will be factored into the forward estimates. That will be a decision of government.

**The CHAIR** — I think that is now clear to the committee. Thank you, Treasurer.

**Mr O'BRIEN** — Treasurer, I refer you to your budget speech in which you detailed the government's concern about the poor productivity performance of Victoria over the past decade. You also touched on this in your presentation this morning. Can you explain to the committee how the government is going to address this important issue of productivity performance?

**Mr WELLS** — Can I bring up that slide in regard to productivity? This has been an important problem that the government needs to address — the issue of productivity. You will note on this graph that from 1990 to 95 Victoria had a productivity growth of 2.1 per cent. The nation's productivity was 1.7. So Victoria had a significant advantage compared to other states in that we were higher. In 1994–95 to 1999–2000 the Victorian productivity was 2.8 per cent, compared to the nation's average of 2.5 per cent. So once again we were above the nation's average. Then, with the change of government, in 1999–2005 and 2005–10 you will note that Victoria's productivity just plummeted. To have a productivity rate of just 0.7 per cent in that last graph when the nation's average was 1 per cent is not acceptable and should not have been acceptable to any government. We have some real concerns in order to address this.

**Mr SCOTT** — But you are forecasting slower productivity in the estimates period.

**Mr WELLS** — What we have said is that we need to reduce the burden of regulation, creating a more efficient and responsive public service. If small businesses are doing work or business with the government they expect that it is an efficient transaction. If I speak at a breakfast or a lunch one of the first things that a number of small businesses complain about is the amount of red tape that they are dealing with. A small business of maybe four people — —

**Mr SCOTT** — But, Kim, you are forecasting productivity in budget paper 2, chapter 7, during your term, so your actual — —

**Mr WELLS** — Am I answering the question?

**The CHAIR** — Treasurer, just continue to answer the question through the Chair to Mr O'Brien.

**Mr PAKULA** — Could the Treasurer answer this as part of his answer?

**The CHAIR** — I just think it is — —

**Ms HENNESSY** — It is your own forecast.

**Mr PAKULA** — Would you just deal with this as part of your answer?

**Ms HENNESSY** — Your own forecasts say there will be lower productivity.

**Mr SCOTT** — You have no confidence in your own policy.

**The CHAIR** — Mr O'Brien has asked the question. The Treasurer will answer the question through the Chair and other members courteously will allow him to do so.

**Mr PAKULA** — It just saves us having to ask a whole lot of questions about it.

**Mr WELLS** — I can understand that the issue of productivity is an embarrassment to the previous government.

**Ms HENNESSY** — What is embarrassing is that your own estimates say that it will decrease.

**The CHAIR** — Without interjection. Just proceed, Treasurer.

**Mr PAKULA** — Slower productivity growth, in your budget papers, in the out years.

**Mr WELLS** — I can understand that it is embarrassing — —

**Ms HENNESSY** — Yes, for you.

**Mr WELLS** — I can understand the embarrassment of the members about the poor productivity growth.

**Mr SCOTT** — But these are your forecasts in your budget. You haven't read your own budget.

**Ms HENNESSY** — The budget papers say that under your government there will be poor productivity growth.

**Mr SCOTT** — You are hopeless.

**Mr WELLS** — I understand that you are beholden to the trade union movement. I am just making a point about productivity.

**Ms HENNESSY** — It is hopeless. That is hopeless.

**Mr PAKULA** — Why do you always get bogged down like that?

**Ms HENNESSY** — Productivity is the single critical issue, Treasurer and you cannot do anything about it and your own estimates demonstrate that.

**The CHAIR** — Through the Chair, thank you.

**Mr O'BRIEN** — Chair, on a point of order. I have asked the Treasurer to explain how he is going to address this important issue, which those slides clearly demonstrate has shown reversing under the previous government.

**Ms HENNESSY** — Yes, and they will keep going down.

**The CHAIR** — Thank you. On the point of order, I will not take it as a point of order. It is restating the question. I invite the Treasurer to answer the question asked by the member through the Chair without responding to the interjections.

**Ms HENNESSY** — Helped by the Treasury secretary.

**Mr WELLS** — The issue for us is that over the last 10 years productivity has fallen, and it has fallen below the nation's average. For Victoria that is totally unacceptable. We do not have the minerals that WA and Queensland have so what we have to rely on is a good, efficient economy and one that is low cost for business to do business with the government. That is why we are addressing the situation of poor productivity.

As I said, in regard to productivity we have to improve competition. We want businesses, as they look around the nation, to say, 'We want to invest in Victoria'. Why? Because of a number of factors. Obviously the livability is part of it, but there are also the matters of being able to have low regulation, efficient transactions, making sure that the public service is highly skilled and making sure they are able to deal with business and support business. We have also said that we have a great high-skill education in this state and that is one of the bonuses for us. When WA and Queensland go to look for finance and insurance and that sort of skill, when you are talking about multibillion projects, they are doing business here in Victoria. That is important.

**Mr SCOTT** — That is a vote of confidence in the previous government's policies — to grow the finance and insurance industries.

**Mr WELLS** — BHP has its head office here in Victoria. It is here in Melbourne and that is important and that we grow and develop that, but it takes a high level of skills to do that. It is a matter of the government working with those areas to make sure that we are able to do that. So by reducing the red tape and the burdens by 25 per cent, improving productivity in the public sector — and we have already said, with the \$2.2 billion over that period — targeting and improving competition and investing heavily in education, in TAFE and skills, we will be able to do that. As I mentioned earlier, we are working VCEC very hard. I think it is a very good organisation to improve competition and efficiency in this state.

**Mr SCOTT** — Established under the Bracks government, as I recall. So a vote of confidence in the previous government's policies.

**Mr WELLS** — We will do that to continue to improve productivity.

**Ms HENNESSY** — Your own estimates anticipate your failure.

**The CHAIR** — Thank you very much, Treasurer.

**Mr SCOTT** — I will follow up on that previous question because, Treasurer, you seem to be blissfully unaware of your own budget papers. In budget paper 2, page 7 — and in budget paper 2, page 9, the forecast for economic growth — you have made productivity one of your key objectives. But you clearly admit the failure of your own policies before you begin because it states at page 7:

Growth in the out years is expected to be slightly weaker, consistent with slower productivity and population growth ...

which is slower productivity in the estimates period as a result of your own policies. Is not the last spiel we have just heard from you purely spin, or do you accept that your own policies will fail? What is your target for



productivity during that period? What is the actual number that you are intending to achieve as reflected in the budget papers?

**Mr WELLS** — Without doubt one of the government's priorities will be a productivity reform agenda. We have already started on that.

**Mr PAKULA** — Come on.

**Mr SCOTT** — But you fail your own test in your numbers.

**The CHAIR** — Hang on.

**Ms HENNESSY** — Your own estimates say that you fail. Saying it with this device is not an adequate answer.

**The CHAIR** — Ms Hennessy, I have shown great forbearance but the constant interjections are unacceptable. If a colleague of yours asks a question, allow the witness to answer, and do it with some respect.

**Ms HENNESSY** — I wish he would.

**The CHAIR** — Treasurer, would you like to respond?

**Mr WELLS** — The issue for us is the poor productivity that we have inherited from the previous Labor government.

**Mr SCOTT** — No, this is the estimates period of your government.

**Mr WELLS** — It is one of the things that we have picked up early. We have already started putting the reform agenda into place. We have already announced that we have already given references to VCEC to be able to move through this. As we have said, we are not satisfied with the 25 per cent cut in red tape; we want that figure verified. So it is not just an easy press release; we want it actually to be verifiable and make sure it is going to be through genuine reforms. As I said, we do not have the benefit of the resource states, with the minerals coming in, so we have to rely on other areas of competition to be attractive to those businesses coming in. That is one of those situations.

**Mr PAKULA** — Perhaps just explain the sentence then.

**Mr WELLS** — So as this policy is implemented, it will reflect those numbers in future budgets. I mean this budget — —

**Mr SCOTT** — But in this budget you have announced policies, and your own projections do not indicate that they succeed. So you have declared failure immediately. You have no confidence in yourself, or perhaps you are unaware of your own policies and their impact on productivity, because you seem blissfully unaware of the budget papers.

**The CHAIR** — Treasurer, would you like to respond to Mr Scott's follow-up question?

**Mr WELLS** — Sure. So the issue is that the — —

**Mr SCOTT** — Yes, I know you are fumbling.

**Mr WELLS** — The productivity — —

**The CHAIR** — Treasurer, do not be distracted; just answer.

**Mr WELLS** — No, I should not be distracted. Gee whiz.

**Mr SCOTT** — Gee whiz is right!

**Mr WELLS** — As we said, the productivity is one of the great issues — —

**Mr SCOTT** — Yes, but you have declared failure.

**Mr WELLS** — That this state — —

**The CHAIR** — Mr Scott, that is enough, all right.

**Mr WELLS** — Productivity is one of the great issues that this government has to face. For the last 10 years we have been consistently below the national average.

**Mr PAKULA** — And you are projecting to still be.

**Mr WELLS** — And that is a disgrace.

**Ms HENNESSY** — And you are saying we are going to drive it right down.

**Mr PAKULA** — And you are saying that is where you are going to stay.

**Mr WELLS** — And that is an absolute disgrace.

**Mr SCOTT** — Yes, you are an absolute disgrace.

**Mr PAKULA** — This is your budget. This is your budget!

**Ms HENNESSY** — It is your budget that is a disgrace.

**The CHAIR** — Treasurer, I think you have — —

**Mr PAKULA** — You wrote the budget papers.

**The CHAIR** — Treasurer, I think you have finished your answer.

**Mr SCOTT** — Yes, rescue him. Stop him digging.

**Mr WELLS** — Can I just conclude my — —

**The CHAIR** — All right.

**Mr WELLS** — To make it very clear. So these estimates are based on no change to policy implementation at this point. So as we develop, and as we move forward on this productivity reform agenda, the budget papers over the forward estimates will reflect an increase in productivity.

**The CHAIR** — That clarifies it satisfactorily. Thank you, Treasurer.

I will ask you to advise in relation to the detail in budget paper 2, page 21, that the increase in general government net debt over the forward estimates is partly due to the \$2 billion legacy cost overruns on major projects inherited from the previous government, which you have alluded to previously. Can you now update the committee on what the current position is in relation to these problematic projects which have been causing you some distress.

**Mr WELLS** — I guess one of the big issues from the previous government, and what we have inherited, is that they have little or no commercial sense in using taxpayers money to build infrastructure. The desalination plant — what a disgraceful exercise in just incompetence. I just do not know what rigour went around the size of that desalination plant. The impact of those increased water costs for ordinary Victorians, who are doing it pretty tough, and to have that for the next 28 years, it just does not make any sense. Then Victorians are hit with the smart meters, and I still am trying to come to terms with what is the benefit to the ordinary Victorian of the smart meter. I am still not convinced there is an actual benefit to the power user. So there has been an increase in cost — —

**Mr PAKULA** — So are you going to scrap them?

**Mr WELLS** — So there is an increase in cost — —

**Mr SCOTT** — So are you going to scrap them?

**Mr PAKULA** — Are you going to scrap them?

**The CHAIR** — Treasurer, just please answer my question.

**Mr PAKULA** — Are you going to scrap them?

**The CHAIR** — Answer my question, and ignore the interjections.

**Ms HENNESSY** — You cannot go in and go slap, slap, slap.

**The CHAIR** — No, Ms Hennessy; I have asked a question, and the Treasurer will answer it.

**Mr WELLS** — So we have the ongoing increase in power costs, and I still do not understand what the actual benefit will be. Then you have a situation with myki. With respect, I know the former Minister for Public Transport is part of the committee now, and it must have been frustrating for you, because it was not of your doing but you came in and had to deal with the mess.

**Mr PAKULA** — I will be fine, Treasurer.

**Mr WELLS** — Pardon?

**Mr PAKULA** — Do not worry about me.

**Mr WELLS** — No, but when you were before the committee last year you gave a commitment that it would be up and working by a certain date, and it was not. The situation is that Victorian taxpayers are being lumbered with the issue of myki, and that is a very difficult one to deal with. There will be a lot of decision making around that. So you have the situation of the Olivia Newtown-John wellbeing centre. They built the building but did not provide any of the funding for the equipment to go into the building. Why would you do that? Why would you not make sure that the equipment is there available, and the funding is there? You look at the Royal Children's Hospital — —

**Ms HENNESSY** — A bit like your response to the eye and ear hospital.

**Mr WELLS** — What is it — a \$1 billion project?

**Mr SCOTT** — Yes, is that not the same as your response to the eye and ear hospital?

**Ms HENNESSY** — Is that not the same as your response to the eye and ear hospital?

**Mr WELLS** — But they forget to put the \$24 million in for the ICT. Just those sorts of things make it very difficult.

**Mr PAKULA** — Have you not just been talking about things being funded in future budgets?

**The CHAIR** — Treasurer, without assistance.

**Ms HENNESSY** — You are hopeless.

**The CHAIR** — The Treasurer, without assistance.

**Mr WELLS** — And then you have the regional rail link. How could the previous government possibly get that so wrong? So when you come in to look at the costings for the regional rail link, you have a situation where you have a number of figures in front of you and you ask: why have these costings not been included with the total figure? One of the things that we are just dumbfounded about is in regard to the cost of the signals. There is \$450 million worth of signals that were not put in the original budget. How could you forget to put in \$450 million worth of signals? Even when you go to look to find out where the trains are that would actually run on these tracks, you ask: where are the new trains to run on these tracks?

**Mr PAKULA** — Hold on, we committed 40 new regional trains and you committed none. None, not one, and you still have not committed to build one.

**The CHAIR** — Treasurer, I have asked — —

**Mr PAKULA** — There were 40 new V/Locity trains in Labor's commitments, and you did not — —

**The CHAIR** — Deputy, enough already.

**Mr PAKULA** — Not one train.

**The CHAIR** — Enough.

**Mr PAKULA** — Not one train.

**The CHAIR** — Enough. The courtesy here is that the Chair is entitled to ask a question. I have asked the Treasurer a question and he is responding. When he has finished responding to my question I will call the next member of the committee to ask a question, and it will not be you, Mr Pakula.

**Mr WELLS** — I think the regional rail project is a good project; it is a very good project. To have a situation where the trains can come from Bendigo, Ballarat and into Geelong on their own rail line, into the city without being caught up in the congestion of city rail is a good idea. At the moment those rail lines have reached capacity, so we are not able to do it. But to have a situation where you do not have money for extra trains to run on those tracks makes no sense, so you are forever having to make adjustments.

**Mr PAKULA** — That is just not true.

**Mr WELLS** — The former Minister for Public Transport says, 'Well, we put in an order'. The problem is that when you put in an order you have to have money to actually pay for it.

**Mr PAKULA** — We did. It was all costed before the election.

**Mr WELLS** — We are dealing with that significant problem at the moment. There are significant cost pressures. The police LINK database. That is another financial mess. It seemed to be that over a significant number of years when it came to building or funding any sort of ICT it made it very difficult for the previous government to deal with it — anything to do with technology. The myki, the HealthSMART and the LINK police database are all problems that we have to deal with.

We have a situation with the Melbourne market, which I know the Chair has a great interest in. If you are going to build a brand-new market and you put it at Epping, I would have thought you would have at least signed up the stallholders before you made the move to make sure that you have a revenue stream. I would have thought that would have been part of it.

**Mr PAKULA** — You have told them all that you will not force them to move anyway. You are saying that they can all stay at Footscray.

**Mr WELLS** — This is the problem that we are dealing with. The previous government went ahead and built this building out at Epping. The stallholders are saying, 'We are not going to move', so why would you start building the new Epping building if you have not signed them up to move? If they were refusing to move, then wouldn't you stop building this to work out with them just what happens with the stallholders?

**Mr PAKULA** — Have you discussed this with the Minister for Ports? You might want to check with Dr Napthine.

**Mr WELLS** — This is going to be a very difficult situation. There are a number of black holes that we are dealing with. These are not easy, and we have received some criticism from the opposition saying that we are taking too long to decide, but the issue is that we need to make sure we get these right. We have the high-risk, high-value unit in the Department of Treasury and Finance. I might ask John Fitzgerald if he would like to make comment on the high-risk, high-value unit. He is in charge of that unit.

**The CHAIR** — Thank you.

**Mr FITZGERALD** — Thank you, Treasurer. Just a few words of background. A lot of research around infrastructure procurement and investment suggests that the time that you spend on developing good, sound

business cases and getting the right sort of governance arrangements in place, strong management teams et cetera, all translates to better outcomes, so that is clearly the global research in this area. What has been created under the leadership of the Treasurer is a process where Treasury will be much more involved in the rigour around strategic assessment of the investment in the first place, business cases, the right procurement approach, the right project team and governance arrangements to be put in place and for the Treasurer to have at those points the ability to decide whether or not he is happy with the business case, for example, and whether that goes forward to BERG for funding consideration. That process will then proceed through the tendering or the expression of interest to the market, the tendering approach and the final decision together with the responsible portfolio minister. We are building a lot more rigour, particularly around the front end of investment to try and improve the quality of the outcome, both in terms of time and cost.

**The CHAIR** — Thank you. That was elucidating. Can I just also have the opportunity to thank the Treasurer for the reference which he gave through the Legislative Assembly this week in relation to this committee having a look at some of these processes over the next 18 months. I think that will be a challenge for the committee and I hope we contribute to improving the delivery of these particular projects. I turn to the next question. Ms Hennessy?

**Ms HENNESSY** — Thank you, Chair. Treasurer, I would like to refer to your promise to introduce 940 new protective service officers on the public transport system. You costed this at \$181 million in your rigorous pre-election costings, but according to budget paper 3 at page 54, this will now cost \$212.3 million. I would like to ask: how on earth did Yates Partners mess this up, and is it not a fact that this money has been raided from the premium stations upgrade output?

**Mr WELLS** — Thanks, Jill. We are very proud of our 940 PSOs on railway stations, and I think this is a great policy. It is a policy that we will implement over four years. I think one of the big issues in Melbourne, and we are talking about livability and community safety — —

**Ms HENNESSY** — It is about the cost, Treasurer.

**Mr ANGUS** — Give him a chance.

**The CHAIR** — I think the Treasurer has only just begun, you might say, thank you, Ms Hennessy.

**Mr WELLS** — Thank you. I think this is a great policy, having 940 PSOs over the large regional railway stations and on those railway stations after 6 o'clock at night until the last train is a good thing. I have three kids. We all have kids here and there that go into the city at night. We all cringe when they go in by train.

**Mr ANGUS** — We do.

**Mr WELLS** — Especially me. I just do not feel safe. As parents do, they pick up their kids at 2 or 3 o'clock in the morning so that they are not catching public transport. We see this as a big issue.

**Mr PAKULA** — Trains do not run at 3 o'clock in the morning.

**Mr WELLS** — No, but the NightRider bus does.

**Ms HENNESSY** — What? So the PSOs are going to go on NightRiders?

**Mr WELLS** — No. I am just giving an example.

**Ms HENNESSY** — All right. Let's be clear. Let's not get all Darryl Kerrigan about this.

**Mr WELLS** — This is a very important policy. You are right. The funding of 181 million is what we costed in the run-up to the election. We acknowledge that very strongly.

**Mr SCOTT** — Was that done over lunch?

**Mr WELLS** — That was a situation that implemented the 940 PSOs to be implemented by 30 June 2015. The 940 were factored in and costed to be implemented — —

**Mr PAKULA** — I do not think you said that before the election.

**Ms HENNESSY** — I do not think you told the Victorian people that, Treasurer.

**Mr WELLS** — I am getting to the point.

**Mr PAKULA** — I do not think you did.

**The CHAIR** — Be patient!

**Mr WELLS** — Just wait for it. When I released the costings on 25 November — that Thursday afternoon at 2.30 — it had all of the costings in there, and the PSOs were going to be delivered over the forward estimates period. That means that the last lot of the 940 PSOs would have been delivered by 30 June 2015.

**Mr PAKULA** — How many? Nine hundred of them?

**Mr WELLS** — When we went through the BERC process, we looked at this election commitment and said, ‘No, we want greater certainty for the Victorian public. We want greater certainty for the Victorian taxpayer. We want greater certainty for those travelling on public transport’, so we have actually brought that election promise forward.

**Ms HENNESSY** — At the expense of premium station outputs.

**Mr WELLS** — We will deliver 940 PSOs by 14 November 2014, so the additional cost that you are referring to is the cost of bringing forward that election promise.

**Mr PAKULA** — And the premium stations?

**The CHAIR** — Hang on. The question was asked by Ms Hennessy, and the Treasurer is responding.

**Ms HENNESSY** — On premium stations, Treasurer.

**Mr WELLS** — To take it one step further, in regard to policing, you will notice that there is an increased costing for Victoria Police on the delivery of that election promise. We made an election commitment of 1600 police plus another 100 transit police. You will notice a slight increase in the cost of that election promise. Once again, over the forward estimates period, we said that we would deliver the 1600 police plus the 100 transit police by 30 June 2015. We went through the BERC — —

**Ms HENNESSY** — And the \$31 million cost blow-out on PSOs, who has been the victim of that?

**The CHAIR** — Ms Hennessy, I did not invite you to ask a supplementary question. The Treasurer has not completed his answer.

**Mr WELLS** — Once again, we said that we are going to bring forward delivery of the 1600 police and the 100 transit offices to 14 November 2014. It is a very good election commitment, and we are just bringing it forward. That is why there is an increase in cost. All of our election commitments in regard to railway stations and railway station upgrades will be delivered in this term of government.

**Mr PAKULA** — So the premium stations — —

**The CHAIR** — No, Mr Pakula. Ms Hennessy may have a follow-up question.

**Ms HENNESSY** — Treasurer, will premium stations be going ahead?

**Mr WELLS** — Every single one of our election commitments will be delivered as we set out in the election campaign, so we are doing it.

**Ms HENNESSY** — I did not ask about your election commitments; I asked about premium stations.

**Mr PAKULA** — Can we have just a yes or a no?

**The CHAIR** — Treasurer, have you completed your answer?

**Mr WELLS** — All of our election commitments in regard to railway stations — —

**Ms HENNESSY** — That is not the question.

**Mr PAKULA** — Will the premium stations — —

**The CHAIR** — This barrage is unacceptable!

**Mr PAKULA** — If he would answer the question directly, I would not have to go on.

**The CHAIR** — That is enough! Just let the Treasurer complete his answer.

**Mr PAKULA** — I wish he would.

**The CHAIR** — Ms Hennessy had the opportunity to ask a follow-up question — —

**Ms HENNESSY** — Which has not been answered yet, Chair. It has not been answered.

**The CHAIR** — You may not like this, but the witness can answer the question in a way that does not suit you. That is the nature of any question. The witness is entitled to answer in the way they see fit. The Treasurer will complete his answer.

**Ms HENNESSY** — It begs the question, ‘Why haven’t we had an answer?’.

**Mr WELLS** — In regard to the PSOs — —

**Ms HENNESSY** — Premium stations.

**Mr WELLS** — it is a very good policy. It is one that we will implement. As I said, the cost of bringing it forward is as you set out. That will be by 14 November 2014, so that is great. It is better than what we promised in regard to PSOs. With the police — —

**Ms HENNESSY** — Thirty-one million dollars. Who is the victim? Is it premium stations?

**The CHAIR** — I think you have completed your answer. Thank you, Treasurer.

**Mr WELLS** — I was just about to say that all of our election commitments in regard to railway station upgrades will be delivered in this term of government.

**Ms HENNESSY** — You promised the PTUA that you would honour the premium stations — another broken election promise. Perhaps we could get Yates Partners in to Treasury to assist with our next output.

**The CHAIR** — I am moving to the next question, and I call on Mr Morris. Mr Morris has the floor.

**Mr MORRIS** — Thank you, Chair. Treasurer, can we turn specifically to the desalination plant on page 127 of budget paper 5? Can you indicate for the benefit of the committee what impact the desalination project has on the public sector balance sheet over the period of the forward estimates?

**Mr WELLS** — The desalination plant has obviously caused this government an enormous amount of concern. The cost of the desalination plant is extraordinary. I do not understand how the previous finance and water minister could get this so terribly wrong. It will probably haunt the previous government for many years. Every time people look at a water bill, it will be remembered as the costs of the previous Labor government — —

**Mr PAKULA** — It will be remembered next time there is a drought, too, Treasurer, which will happen again, by the way.

**The CHAIR** — Treasurer, would you continue with your response?

**Mr WELLS** — Under the current accounting principles available, based on the PPPs, they are treated as finance lease arrangements. In the 11–12 budget, the estimated financial statements on the general government sector balance sheet in chapter 1 of budget paper 5 recognise the finance lease liability associated with the desalination plant. The key transaction that impacts on the balance sheet means that the Department of

Sustainability and Environment, on behalf of the state, will recognise a \$4.2 billion finance lease liability in net present value terms — approximately \$13.5 billion in nominal terms — on the general government sector balance sheet upon successful commissioning of the plant towards the end of 2011. I will repeat that: a \$4.2 billion liability that we have to take up because of the desalination plant. When people talk about increasing debt, part of it is the liability — —

**Mr SCOTT** — That is not debt. Debt and liability are not the same thing. Don't you know that? Don't you know the difference between debt and liability, Treasurer? Are you confused?

**Mr WELLS** — The finance lease is dealing with it. This value includes the construction cost plus other direct costs incurred by AquaSure, and the finance lease is to be repaid by DSE over approximately 28 years. The lease liability is directly offset by a sublease agreement with Melbourne Water, which we are aware of, which is shown as a repayable advance asset on the general government balance sheet, and the public non-financial sector recognises a finance sublease to DSE and a fixed asset, the desalination plant, from 2011 and 12.

So I guess the internal arrangements between DSE on behalf of the state, the general government sector — when you eliminate those out there for the state balance sheet — recognise a finance lease liability with AquaSure and there is also the recognition of the desalination plant as a leased asset from 11— 12.

**The CHAIR** — Thank you, Treasurer.

**Mr PAKULA** — In the budget speech, Treasurer, you said the government understands the cost-of-living issue and is focused on easing the pressure and not adding to it. The coalition also put out a bunch of advertisements in newspapers before the election where you said that one of the things you were going to do was keep supermarket prices down. This is just one example; there were lots of these out before the election. I am wondering if you can point to one initiative in your budget that is going to have an impact on the price of a grocery item in any supermarket anywhere in the state.

**The CHAIR** — I am not quite sure how this relates to the estimates — —

**Mr PAKULA** — Well, I am asking him to point to something in the budget — —

**The CHAIR** — I will invite the Treasurer to deal with the question as appropriate.

**Mr WELLS** — I just wonder if the Deputy Chair could just point to the section regarding grocery prices. I am looking — —

**Mr PAKULA** — That is what I am asking you to do.

**Mr WELLS** — No, just actually looking in the forward estimates, the issue of grocery prices.

**Mr PAKULA** — That is the point I am trying to make, Treasurer. You made a promise to keep grocery prices down. I am asking you to show me where in the budget you have done anything to acquit that commitment, and if you cannot, just say that you cannot.

**Mr WELLS** — I am just trying to find the issue of grocery prices. Is there a page number where it says grocery prices?

**Mr PAKULA** — This might be news to you, Treasurer: it is your budget.

**Mr WELLS** — Well, if I can find the issue of grocery prices — —

**The CHAIR** — Deputy Chair, you have asked the question. You have made the point.

**Mr PAKULA** — Well, the Treasurer is asking me questions.

**The CHAIR** — The Treasurer is seeking clarification, and I would invite the Treasurer to respond to the question. I actually note that I am not clear myself as to how it relates to estimates, but the Treasurer may dispose of the question as he sees fit.



**Mr SCOTT** — Help! Look at him smile.

**Mr WELLS** — Hey?

**Mr SCOTT** — Help!

**Mr WELLS** — No, we are just talking about Free Fruit Friday and important things for kids. So the issue of cost of living — we are talking about the cost of living — —

**Mr PAKULA** — No, we are talking about grocery prices — supermarket prices, Treasurer. Can you just show us how the budget keeps down supermarket prices? That was your promise.

**Mr WELLS** — Okay. Let us talk about the cost of living.

**Ms HENNESSY** — No, let us talk about supermarket prices!

**The CHAIR** — Enough! Come on, let the Treasurer respond. You have had a good go at it, both Ms Hennessy and Mr Pakula. You have asked the question about five times now. Let the Treasurer respond. I am asking the Treasurer to respond to your question.

**Mr PAKULA** — I want him to answer. Thank you, but — —

**The CHAIR** — You have asked the question! You have asked the question. Let the Treasurer respond.

**Mr PAKULA** — Chair, I just want him to answer my question, not one that he makes up.

**The CHAIR** — The Treasurer will respond as he sees fit.

**Mr WELLS** — I am just not used to this unruly behaviour on public accounts.

**The CHAIR** — Treasurer, will you pay the Chair the courtesy of responding through the Chair to the question and not engaging with the members of the committee. Thank you.

**Mr WELLS** — All right. I just thought I would just make the point.

**The CHAIR** — Treasurer, you have just heard my request.

**Mr WELLS** — I guess the issue of the cost of living and the production of food and those sorts of very important things, two of the main components in regard to those would be water and power. Very important points. So you look at the dilemma that this government faces coming into the election. You have the significant cost of the desalination plant and the massive cost to business and consumers in regard to the cost of water that this state is faced with, so of course there is going to be an impact on any sort of business right across the state. You have an increase in the cost of power due to the situation of smart meters, so it is increasing the cost, something that the previous government has saddled us with, and that is just a difficult situation.

**Ms HENNESSY** — I don't think Aldi has a smart meter.

**Mr WELLS** — So what are we doing about the cost of living? There are the power concessions, which I think are very important. Eight hundred and fifteen — —

**Ms HENNESSY** — Woolworths is going to get a power concession, is it?

**The CHAIR** — I am just going to intervene here, because I have been invited to by the deputy. The Deputy Chair asked a particular question about election promises. It is quite clear that election promises may be related to the estimates as provided in the budget by way of the government implementing election promises, but as I understand, the specific question is not addressed in any way by the estimates before this committee. It is as a courtesy to the questioner, the Deputy Chair, that I have invited the Treasurer to comment on the broad area of cost-of-living issues because the question asked falls outside the estimates process.

Deputy, you may either accept or not that the Treasurer is trying to respond as best he can to your question, and as far as I am concerned, advertising a general election is unrelated to the estimates process. Thank you. Treasurer, complete your answer.

**Mr WELLS** — Okay. I guess the point that we are making is that we have a significant package for the cost of living, which we are dealing with in regard to power and other concessions with utilities, and that is an important part of this budget — a significant part of this budget. We are also dealing with what we have inherited from the previous government in regard to higher water costs and higher power costs than what they should be, so this government is working very hard to address the issue of cost of living.

**Ms HENNESSY** — Another broken promise.

**The CHAIR** — Thank you. The next question, Mr Angus.

**Mr ANGUS** — Thank you very much, Chair. Treasurer, the budget papers refer to the interim report of the Independent Review of State Finances in budget paper 2, page 5. Could you please elaborate on the report's key finding that the state's budget position was unsustainable and what measures has the government taken in this budget to address this issue?

**Mr PAKULA** — You cannot even organise yourselves for Dorothy Dixers!

**Mr WELLS** — I have got bits of paper here; I am getting there.

**The CHAIR** — Thanks, Treasurer; when you are ready.

**Mr WELLS** — In opposition we committed ourselves to an independent review of all the finances. I think that was a good, responsible election commitment, and I was very pleased to be able to implement that as Treasurer. To get three people of the standing and stature of Dr Mike Vertigan, Professor Ian Harper and Don Challen was an outstanding step forward for their being to be able to head up this review. They brought down the report in April — —

**Mr SCOTT** — And it is dead on arrival, isn't it, Treasurer?

**Ms HENNESSY** — Dead on arrival. Not implemented.

**Mr WELLS** — That was an outstanding report that they brought out.

**Mr SCOTT** — So do you agree with its targets? Do you accept them?

**Ms HENNESSY** — Growing debt.

**Mr WELLS** — So what they have said is that the budget — —

**Mr SCOTT** — Do you accept the targets? Do you actually accept these targets?

**The CHAIR** — Enough interjecting! Treasurer, just proceed, without interruption.

**Mr WELLS** — What they said was that the budget position was unsustainable, and particularly since the global financial crisis. I am wondering if we can bring up that graph of the expenses and revenue? Just the one with the expenses.

**Ms HENNESSY** — If we accept that, do you accept the targets that they set?

**Mr WELLS** — If I can just come back to this particular graph. The expense growth on average over the past 10 years under Labor had been growing at 8 per cent. If you are growing at 8 per cent, you would expect that your revenue growth would be higher than that. If it is not higher, then you are obviously going backwards; your budget is unsustainable. Something has to happen and — —

**Ms HENNESSY** — So do you accept the Vertigan recommendations? Do you sign up to them?

**Mr SCOTT** — Do you accept those recommendations? You can have a gross operating surplus of 0.5 per cent to pay for infrastructure.

**Mr WELLS** — The previous Labor government did not address this underlying problem of having an expense outstripping revenue on average over 10 years. It makes no sense.

**Mr SCOTT** — Is general government net debt going to be equal to zero over 10-year rolling periods, Treasurer?

**Mr WELLS** — When you are in business — —

**Mr PAKULA** — Why did you not front the media about this report?

**Mr SCOTT** — Why do you hide?

**Ms HENNESSY** — Yes, why have you not stood up — —

**The CHAIR** — Ms Hennessy, will you just pause for a moment while I am speaking? Members on my left are having difficulty hearing the Treasurer's answer.

**Ms HENNESSY** — Lucky them.

**The CHAIR** — And so am I. I am having difficulty because of your constant interjections and the barrage of interjections coming from my right. I will ask you to desist and allow the Treasurer to fulfil his obligation to answer a question asked by a member of the committee. Treasurer, proceed.

**Mr WELLS** — Chair, if you were in the private sector, if you were a small business, and you were running your business — and I understand that this is difficult for the Labor Party because not many of its members have been in the private sector. They have either been union hacks or they have been part of the — —

**Ms HENNESSY** — That is not difficult at all. You are a fool!

**Mr WELLS** — The situation is that they do not understand that part of the program, that you have to have a healthy revenue projection and growth and make sure that that is far greater than the expenses so you have got a profit and you can invest in the future.

**Ms HENNESSY** — So you have signed up to growing debt in complete contradistinction of the Vertigan recommendation?

**The CHAIR** — Ms Hennessy, are you deaf?

**Ms HENNESSY** — No, but sometimes I wish I was!

**The CHAIR** — Ms Hennessy, enough! Treasurer, complete your answer please.

**Mr WELLS** — The issue has been the 8 per cent of expansion and the 7.3 per cent revenue, as I have outlined. There has been a reliance on those one-off payments from the commonwealth in regard to the BER and it is very unwise for governments to rely on that and to use that for ongoing expenditure.

**Mr PAKULA** — But you still are.

**Mr SCOTT** — You are.

**Ms HENNESSY** — And then some.

**Mr WELLS** — That means to have that negative balance is very difficult. We are taking measures to build up the surplus, as we have said. We have taken measures to slow the growth of expenditure. We are in a difficult situation with the EBA, but we have said it is 2.5 per cent plus productivity — —

**Mr PAKULA** — The EBA. Which one?

**Mr WELLS** — The EBAs.

**Mr PAKULA** — The EBAs.

**Mr WELLS** — Across the forward estimates. It is not going to be easy but we want to be seen, and we will be seen, to be negotiating fairly and responsibly across the public sector. It is very important.

**Mr SCOTT** — Treasurer, are you proposing to undertake a post-budget roadshow to meet with international rating agencies and other international stakeholders, and if you are, when and where are you proposing to go?

**Mr WELLS** — Which budget paper is that in?

**Mr PAKULA** — Come on; it is about the budget, Treasurer.

**Mr WELLS** — Over the forward estimates? I was just wondering where that is.

**Mr SCOTT** — It is about the budget. Are you suggesting that you as Treasurer or the Department of Treasury and Finance will not be engaging with international stakeholders, the bond market or rating agencies in the period post the budget? There is debt financing within the budget. Are you seriously suggesting that? Is that seriously your contention from that pathetic snide remark? Is that serious? Are you serious as Treasurer?

**Mr WELLS** — That is a very hurtful remark.

**The CHAIR** — Mr Scott, you know better than that.

**Mr WELLS** — I am very hurt by those comments.

**The CHAIR** — Treasurer, just let me deal with this.

**Mr PAKULA** — It was a smart-aleck answer.

**The CHAIR** — Let me deal with this, please.

**Mr WELLS** — I was just answering the question.

**The CHAIR** — Treasurer, you have not been assisting the Chair by engaging with members of the committee — —

**Mr SCOTT** — Hear, hear!

**The CHAIR** — Albeit that they have been acting in a fairly provocative way.

**Mr WELLS** — Correct.

**The CHAIR** — But it is a two-edged sword, Treasurer. It is a two-edged sword, so I will ask the members of the committee to display some courtesy to the witness, and refrain, Mr Scott, from those sort of interjections, which I find unacceptable. Treasurer, you have been asked a question in relation to the roadshow. Certainly it does not fall within the estimates that are before us, but you may dispose of the question as you see fit.

**Mr SCOTT** — It relates to the estimates.

**Mr WELLS** — I will remember not to have another private conversation with Mr Scott in future.

**Ms HENNESSY** — What is that about?

**Mr PAKULA** — What does that mean?

**Mr WELLS** — No, he knows what I am talking about. The situation is that in previous years for as long as I can remember after the budget the Treasurer has travelled overseas. Mr Lenders, Mr Brumby and Mr Stockdale travelled overseas to make sure that the financial cities, the financial companies and those big investment banks are well briefed on the budget. That has been a very important part of previous Labor and Liberal governments. At this point I have not decided whether I will go or not.

The reason for that is that the finances and the budget were not as strong as I had hoped at the start of the year, and so we have been working around the clock from December to put this budget together. The decision regarding whether I travel on a roadshow will be made at a later date so no decision has been made on whether I go or not. Can I just assure the committee though that TCV will leave, probably early next week, to go to those financial centres which is crucial. We have to make sure that we sell our budget and get the message across to those people to make sure that they are willing to continue to invest in this great state of ours. People have to be assured. We have the AAA credit rating reaffirmed by Standard and Poor's and by Moody's, so that is a good thing, but we have to get out and meet so TCV will do that.

My job over the next few months will be to make sure that the community fully understands this budget, and we are also dealing with some confusion by opposition members where they have misread figures so it is important that I am here to make sure that we get that message across.

**Mr O'BRIEN** — Treasurer, I refer you to your budget speech and budget paper 2, page 9, which provides the latest Treasury forecasts for a number of key economic indicators, including gross state product growth. Could you please explain why the budget forecast for GSP growth has been reduced to 2.5 per cent compared to 3.5 per cent in the budget update?

**Mr WELLS** — Can we bring up the slide on economic projections? When I gave the overview I made it very clear that one of the factors that we had coming in with the GSP was that we had 2 per cent in 2009–10 and the 10–11 forecast of 2.5 per cent had actually been downgraded a full 1 per cent on the budget update from 3.5 to 2.5 per cent. Then we had the 3 per cent, and then flattening out at 2.75. That is reflected with the revisions by the ABS.

The 2009–10 state accounts and the September quarter national accounts contained significant revisions to most components of the GSP, so with the information which was available at the time of the 10–11 budget update, DTF was concerned about the nature and magnitude of those revisions and it sought further advice from the ABS. Additional information was given by the ABS after the budget update and reassured DTF of the nature of those revisions.

The DTF has estimated that revisions alone — the ultimate revisions — accounted for about half a per cent decrease in the 10–11 GSP growth forecast. Since the budget update, the December quarter of the national accounts was released providing additional information on performance of the economy during 10–11. More recent data confirmed much weaker business investment than DTF had expected in the budget update, so the main driver was the business investment. DTF has liaised with the ABS to understand better the nature of the weakness, and page 11 of budget paper 2 details the intelligence gained from those discussions. With the permission of the Chair, I ask the department head to comment further on the GSP figures.

**Mr HEHIR** — I might make a comment about the 10-11 forecast and the out-year forecasts. One of the dilemmas that we have faced, and I think it is a dilemma facing a number of jurisdictions around the country and probably in the commonwealth as well, is the dichotomy between employment growth numbers and GSP numbers that have been around recently. When we undertake our forecast for GST we have got to rely largely on the sort of data that is being produced by ABS around the real economy, and that is around what is happening with expenditure growth, what is happening with production and incomes and those types of things. When you look at that and take into account the revisions to the data that the ABS put out in November, it was pretty clear to us that 3.5 per cent was not a sustainable number and 2.5 per cent looked a lot better.

But then you look at the employment growth number and it is inconsistent with that because the employment market has been booming. Usually you do not have employment growth of the magnitude we have been getting without an associated impact on output, so there is a bit of a disconnect between those two figures at the moment. That is our best-guess estimate of what will happen at the end of the year, but I think when we talk about the numbers we tend to think that it is likely that the GSP numbers that the ABS use will probably be revised up in the out years.

When you get to the out years, the drop from 3 per cent to 2.75 per cent was largely driven by the revisions that the ABS did and they were revisions which made us look at productivity in particular, and that was discussed before in another section. When we looked at productivity it seemed to us that our underlying assumptions

around productivity were probably a bit high compared to trends in the past. We have adjusted that down a bit to take account of history.

When we think about productivity and think about real GSP growth, GSP is roughly a combination of productivity and labour force growth. If you look at those numbers there what we are basically saying is that we are suggesting that, rough rule of thumb, you are getting 1.75 per cent growth from the employment-grown labour market and about 1 per cent growth from productivity, which is a bit of an improvement on what we have seen in the recent history close to the trend of the decade or something like that. You are seeing some uplift in the productivity that we are forecasting in the forward years but down on what we thought was the trend average when we looked at the longer-term history.

**The CHAIR** — Thanks very much, Treasurer. We are just about out of time, but I will allow one final question.

**Ms HENNESSY** — Treasurer, I refer to your promise contained in your pre-election costings that a coalition government would provide \$2 million for a helipad for the Ballarat hospital, and I would just like you to take me to the page in the budget papers where I could find the funding that acquits that promise.

**Mr WELLS** — Yes, sure. As I mentioned before in the capital projects, we have not announced every single project in 11–12. There is a certain amount of money that we have put aside in unallocated capital, so next year when BERC process starts those election commitments that we have not delivered on in regard to capital works program 11–12 will be delivered in 12–13, 13–14, and that money will come from unallocated capital. So with the helipad at Ballarat, that will be up for future BERC processes, but the money has been set aside for that helipad.

**The CHAIR** — I am going to make a conclusion at that point, but before I do, I note there will inevitably be some unasked questions which the committee would have been keen to have asked, so they will be given to you at a later date from the committee as questions on notice. That now concludes the budget estimates for the portfolio of Treasurer. I thank the Treasurer and all the departmental officers in attendance for their patience and consideration; it was a useful session. I think it is important to note that this is the first hearing in this round, and I thank you, Treasurer, for your forbearance. The committee requests that written responses to outstanding matters be received within 21 days.

In conclusion I would like to reiterate my concern that a number of departments have failed to meet the expectation of the committee, and I would be grateful, Treasurer, if you could pass that message back to some of your colleagues. Thank you very much.

**Mr WELLS** — Thank you, Chair.

**Committee adjourned.**