

VERIFIED VERSION

PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

Inquiry into budget estimates 2013–14

Melbourne — 10 May 2013

Members

Mr N. Angus
Ms J. Hennessy
Mr D. Morris
Mr D. O'Brien

Mr C. Ondarchie
Mr M. Pakula
Mr R. Scott

Chair: Mr D. Morris
Deputy Chair: Mr M. Pakula

Staff

Executive Officer: Ms V. Cheong

Witnesses

Mr M. O'Brien, Treasurer,
Mr G. Hehir, Secretary,
Mr D. Webster, Deputy Secretary, Commercial,
Ms M. Skilbeck, Deputy Secretary, Budget and Finance, and
Mr B. Flynn, Deputy Secretary, Economic, Department of Treasury and Finance.

The CHAIR — I declare open the Public Accounts and Estimates Committee hearing on the 2013–14 budget estimates for the portfolio of Treasurer. On behalf of the committee I welcome the Honourable Michael O'Brien, MP, Treasurer, and from the Department of Treasury and Finance, Mr Grant Hehir, Secretary, Mr David Webster, Deputy Secretary, Commercial, Ms Melissa Skilbeck, Deputy Secretary, Budget and Finance, and Mr Brendan Flynn, Deputy Secretary, Economic. Members of Parliament, departmental officers, members of the public and the media are also very welcome.

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

Members of the media are requested to observe the guidelines for filming or recording proceedings in the Legislative Council committee room. No more than two TV cameras are allowed at any one time in the allocated spaces. May I remind camera operators to remain focused only on those people speaking and that panning of the public gallery, committee members and witnesses is strictly prohibited. Filming and recording must cease at the completion of this hearing. I am also pleased to say that these hearings are now being webcast live on the Parliament's website.

All evidence taken by this committee is taken under the provisions of the Parliamentary Committees Act, 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. The committee has determined that there is no need for witnesses 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 for fact verification 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 five days of receipt.

Following a presentation by the Treasurer, committee members will ask questions relating to the inquiry. Generally the procedure followed will be that relating to questions in the Legislative Assembly. I ask that all mobile telephones be turned off or to silent. 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 Treasury portfolio.

Overheads shown.

Mr M. O'BRIEN — Thank you very much, Chair, and members of the Public Accounts and Estimates Committee. I am very pleased to be here with you this morning. This is a significant budget for Victoria at a time which is very difficult financially around the country and indeed around the globe. Notwithstanding those difficulties this budget forecasts a growing economy, growing employment, growing surpluses and major new infrastructure for Victoria. We are forecasting an operating surplus of \$225 million in 2013–14. We are forecasting the unemployment rate to fall from the 2012–13 estimate of 5.75 per cent to 5.5 per cent in 2013–14 and then further to 5 per cent towards the end of the forward estimates.

There is a record government infrastructure investment program of \$6.1 billion in this budget. We see major investment in health and hospitals, including \$426 million in capital works in 13–14. We see an allocation of \$580 million in education asset and output funding. We are predicting the gross state product to grow to a healthy but still below trend of 2.25 per cent next year and then to rise to a trend of 2.75 per cent across the forward estimates. Our net debt to GSP will be 6.4 per cent next year, but will fall to 5.4 per cent by June 2017.

The key to this budget, of course, is responsible financial management. Through cutting the cost of running government we have been able to invest more in services and infrastructure. You can see how the forecasted surpluses are set to rise across the out years. That is very important when it comes to our debt position; it is very important when it comes to funding future infrastructure programs. You see net debt ticking up slightly and then coming down, both in dollar terms and also in terms of debt to GSP, which is one of the key markers not only

for government but also for many of the ratings agency. We see that very significant government infrastructure investment program rising from \$5.4 billion this year to \$6.1 billion and then \$6.6 billion.

You would be aware, Chair, that there has been a significant change to accounting standards, which affects not just this state government but all state governments; it deals with how superannuation liabilities are recorded in the accounts. As Victoria is the first state to hand down a budget, it means we are the first to have the full effect of these changes to AASB 119. The effect of that on our accounts is pretty much to take about \$600 million off our operating result from 2013–14 and beyond.

That is not money that is actually lost; it is simply an accounting treatment, but it does mean that our operating result is around \$600 million less than it might otherwise have been. To enable an apples with apples comparison, there is a measure in this budget that we have termed ‘government fiscal result’, which is the result that would have applied had the new AASB 119 not come into effect. If people want to compare what we had forecast last year, under the old accounting standards, with what we are delivering this year, under the new accounting standards, the government’s fiscal result would be the appropriate measure to do that.

One of the keys to the government’s approach to financial management has been to try to constrain expenses growth and make sure that our expenses growth does not exceed our revenue growth. We saw on average for the 10 years before we came to office expenses growth run at about 8 per cent, whereas revenue growth on average had run at about 7.3 per cent. If your expenses growth continues to outstrip your revenue growth, it will end in structural deficit. On coming to office the coalition has reduced expenditure growth, and we are forecasting an average of 2.7 per cent over the forward estimates.

Revenue growth has certainly been hit since the coalition came to office. We have had significant GST write-downs, including around \$7.5 billion worth of GST write-downs since the coalition came to office, which is an exceptional amount in any circumstances. In terms of the 2013–14 budget, we are predicting a slight strengthening of revenue — certainly nowhere near pre-GFC days. We are expecting an average revenue growth of about 4.1 per cent over the forward estimates, so very much lower than the 7.3 per cent that was the average under our predecessors, but we do think there are some strong signs the economy is starting to return in terms of its strength, and that will obviously flow through to revenue.

We are keen to make sure that we can get our infrastructure better funded — and better funded by surpluses rather than increasing debt. As you can see from this slide, on current forecasts we expect to have our infrastructure programs funded by surpluses rather than by debt by 2015–16. That is very important for not only keeping our debt manageable and seeking to reduce it over time but also to ensure that we have greater flexibility in our budget capacity.

Victoria has a very strong budgetary position compared to other states, Chair. Only Victoria and Western Australia are forecasting operating surpluses right across the forward estimates. Victoria does not have quite the mineral resources or the royalties revenue that WA has. We have a more diverse economy, but it is a testament to the strength of the Victorian economy that in these difficult times, with the high Australian dollar and carbon taxes that have hit our manufacturing industry by raising the cost of electricity, which is a key input for them, we have managed to maintain a strong budgetary position and have those forward estimates with surpluses rather than deficits. So the economy has been quite resilient.

We are expecting GSP growth to be below the 20-year average but improving. Of course, remember, the 20-year average includes a lot of that pre-GFC boom time — the bubble, almost, if you like — so we think this is a steady rise, but it is a sustainable rise. It is not going to be the sort of debt-fuelled bubble that we have previously seen. Unemployment rate — low compared to the 20-year average, and that is something I think all Victorians will welcome. As I said, it is 5.5 per cent in 2013–14 and falling over the forward estimates.

Inflation is at 2.5 per cent right across the forward estimates. We think that is quite a positive thing. When inflation is right in the middle of that Reserve Bank band of 2 to 3 per cent, it does mean that there is less incentive for the Reserve Bank to seek to raise interest rates to deal with inflation. So a very moderate and steady outlook for inflation is good news for interest rates, good news for investment and good news for homeowners and their ability to meet their mortgage payments.

Victoria is performing better than many other states, and we stripped out WA here because of the particular circumstances of WA and the mining activities as perhaps a little bit of an outlier, but we are ahead of the curve

in terms of real gross state product and employment growth. Looking at some of the macro figures, you can see GSP rising to 2.25 per cent next year and increasing after that; employment growing; unemployment falling; CPI remaining level; wage price index remaining stable; and population growing. So we have actually revised up our population growth forecasts, which is a reflection of the fact that Victoria is a great place to live. Many people want to come here, but that means we do need to build for that growth, which is why we are running a record infrastructure program, including in this budget the commitment to delivering stage 1 of the east–west link, linking the Eastern Freeway to CityLink. It is a massive infrastructure project. It is the sort of thing which will really make an enormous difference in terms of productivity and livability and create around 3200 jobs during construction.

We are very keen to continue the planning and development of the Melbourne Metro rail tunnel and have set aside some money so we can further do that. There is \$110 million for the planning and development of the port of Hastings, which complements the \$1.6 billion expansion of the port of Melbourne. We are also increasing investment in our roads. We have the level crossing removal program; \$280 million in additional funding for restoration, maintenance and upgrade works on roads; improving public transport; \$179 million for eight new X'trapolis trains fitted out in Ballarat, so, great for regional jobs and great for Melbourne commuters; \$100 million on the Frankston line; \$25 million on the Dandenong line, \$25 million for new buses; new railway stations at Grovedale, at Epsom and at Southland shopping centre; revitalising Ringwood station — massive investments in public transport.

In terms of health care, there are really significant investments in recurrent funding for health — \$1.2 billion extra over four years. You can see from the next chart that we have been continually raising not only our output expenditure but also our asset expenditure in the health sector since coming to government. Similarly for education — very significant investments in this budget, including \$200 million for the TAFE structural adjustment fund and \$203 million for the school capital program. The government's TAFE reforms have already seen increases in enrolments in those top A and B-banded courses — the sorts of courses that have a better prospect of jobs at the end of them and the sorts of courses that will better match the needs of the Victorian economy. So the government's TAFE reforms are already having a very beneficial effect in terms of encouraging investment in those areas. We are seeing additional assistance for Victorian families — significant investments in disability services and significant investments in child protection, building on the \$336 million in additional funding provided in last year's budget as well.

Chair, just to wrap up, we are trying to manage cost of living pressures or assist with that. Reforms target the first home owner grant for newly constructed homes so we can increase that supply of housing, get more jobs in the housing and construction sector and reduce supply pressures. We are increasing funding over four years to accommodate the growth in eligible concession card holders, spending more money on water cycling and supporting our waste and resource recovery policy. There are also the fire services levy reforms, which for the first time will mean 400 000 Victorian pensioners and veterans will receive a \$50 concession on paying their fire services levy. In addition to that, Victorians who have been insuring and doing the right thing and paying house and contents insurance will get a significant reduction — in fact not just on average: I would say almost all Victorians who have been fully insuring their home and contents will see a fall in the amount they pay under the government's fire services levy reforms.

The CHAIR — Thank you, Treasurer. In the context of the 2013–14 budget, can you outline to the committee the government's planned asset investment in the coming year, and in particular significant capital infrastructure projects which will either be commenced or completed in that period?

Mr M. O'BRIEN — Certainly. Thank you, Mr Chairman. This is, I think, an enormous budget in the capital infrastructure investments area, particularly the new focus on transport, including roads and public transport, and in health. We are seeing enormous investments in new hospitals and rebuilding hospitals — the Monash Children's hospital, a 230-bed, world-class paediatric facility that will be built at the Monash Medical Centre. It says a lot about the strength of Victoria that we will have not just one but two world-class children's hospitals to look after our kids.

We are rebuilding the Royal Victorian Eye and Ear — the Eye and Ear is an icon; it is one of the world's great specialist hospitals. We have got a massive program to rebuild that and expand its capacity. There is the continuing Victorian Comprehensive Cancer Centre, a \$1 billion project. We are seeing the Box Hill Hospital expansion, which this government has increased the scope of. We are seeing in this budget an expansion of the

Northern Hospital and additional mental health beds at the Werribee Mercy Hospital. We are seeing a new Waurin Ponds community hospital being built and the reinstatement of acute health services at Numurkah. In the health area, this is a really significant series of investments that we are making, which we believe will not just set up the state for the next year or decade but in fact for generations to come — the sort of investment in the bricks-and-mortar hospitals with all the new beds and opportunities for access to health care that flow from that will be very significant.

In road and rail I have outlined in my presentation some of the public transport initiatives, but certainly in road we are not only seeing things like strengthening of the West Gate Bridge and additional road maintenance, but it is very hard to look past the east–west link. That will be the biggest single infrastructure project that Victoria has really undertaken — \$6 billion to \$8 billion. It will change the way we move around Melbourne and around Victoria. What CityLink did for Melbourne in the 1990s we believe east–west link will do for Victoria today. While it is a significant scale project, the cost of not acting in terms of lost productivity, in terms of hurt and diminishing our livability as a state, and in terms of the additional cost that will ultimately attach to this project if it is not done today, if it is put off for years and years, that cost will simply go up and up and up. The government needs to act now. We have a large state with a growing population. We need to build for that growth, and a major infrastructure project such as the east–west link is a significant part of that.

The CHAIR — Thank you, Treasurer. Deputy Chair?

Mr PAKULA — Thank you, Treasurer, and congratulations on the new role.

The CHAIR — It could apply both ways, couldn't it?

Mr PAKULA — I am just having a look, Treasurer, at the presentation you gave, the net result from transactions and the surpluses for both the 2012–13 and 2013–14 years — 177 and 224. A few days ago, I think on 7 May, there was a story in the *Australian* and in other daily newspapers as well about the health benefit levy that you have applied to Tabcorp and Tatts of \$82 million over the 2012–13 year, which is a full year of the levy, despite the fact that those two organisations only operated the machines for 46 out of 365 days. Your spokesman in that story says that you basically had no choice. Can you just explain to us how that could be the case that you had no choice but to levy two corporations for 365 days when they only operated the system for 46?

Mr M. O'BRIEN — Thank you, Mr Chair, and through you I congratulate the Deputy Chair on his new role as well.

The provisions of the health benefit levy are set out clearly in the Gambling Regulation Act 2003.

Mr PAKULA — Yes.

Mr M. O'BRIEN — As you would be aware, treasurers and other ministers do not have personal discretion in terms of how the law applies or whether people pay their taxes. People have to pay their taxes, people have to pay their levies in accordance with the law as stated. I will be deliberately circumspect in answering this question given that I have read the same media reports as other members of the committee have no doubt read, which has flagged the potential for litigation, and I am not prepared to prejudice the interests of the Victorian public or the Victorian taxpayers by saying anything which could prejudice the state's position. But I will repeat what my spokesperson said, which is that we are applying the act as it is stated. We are not about to make amendments to an act to benefit particular corporations. I think that is not in the interests of Victorians to make special amendments to acts of Parliament that apply taxation to benefit one or two corporations at a significant cost to the public revenue. We have acted in accordance with the act and the legislation that sets out the obligations.

Mr PAKULA — Just to follow up, Treasurer, thanks for the answer, but I would suggest to you that if it is the government's view that it effectively has no choice but to charge the full year's levy, I put it to you that that has not always been the case, because in last year's budget in the statement of finances the forward estimates for this levy for the financial year that we are currently in show that what you are anticipating collecting from the health benefit levy was not \$82 million but \$15 712 000. In other words, when the budget was framed last year under the same piece of legislation, it was Treasury's expectation that all that would be levied would be the pro rata amount. Can you explain how things have changed from last year's budget to this year's budget?

Mr M. O'BRIEN — I thank the Deputy Chair for the supplementary question. The 2012–13 budget papers showed an amount which was inconsistent with the requirements of the Gambling Regulation Act 2003. That was an error, and that error was corrected in the budget update. So when you look at the budget update papers, in December last year that error — —

Mr PAKULA — But the act was the same when the last budget was drawn up.

The CHAIR — We will have the answer from the Treasurer, please.

Mr M. O'BRIEN — So that was an error that was identified, and that error was corrected in last year's budget update.

Mr PAKULA — Why were the companies only notified last week?

Mr ANGUS — How many questions are you going to have?

The CHAIR — Hang on. Mr Pakula, this is not a free-for-all. You have had your question and a supplementary. We will move on to Mr Angus.

Mr ANGUS — Treasurer, I refer you to budget paper 4, page 40, and indeed a matter that you touched on in your presentation and in a couple of comments that you made earlier. I ask you how will the funding towards the east–west link benefit Victorians?

Mr M. O'BRIEN — I thank Mr Angus for his question. We need to keep improving our competitiveness as a state. We need to keep improving our productivity. We also need to protect our livability. When you look at what happened in the 1990s when CityLink was first proposed — and I understand it was opposed by the opposition of the day — you do wonder where we would be today as a state had we not had a government prepared to take that long-sighted, long-term vision and say we need to act to make sure that we can build the infrastructure to meet the needs of a growing state. In fact you do not have to look back too far to realise what it would be like if we did not have CityLink, because you might remember last year — in October, I think it was — the two CityLink tunnels had to be closed down and Melbourne went into gridlock. It was absolute chaos. That would be, arguably, the daily existence and daily experience of Victorians if we did not build these sorts of long-term, large-scale transport infrastructure programs.

Having undertaken considerable work and research and preparation and planning, we are now committed to delivering stage 1 of the east–west link. Your question gives me the chance to respond to some of what I think are some misunderstandings about the government's contribution towards this program. Some people have identified the \$294 million or so that is listed as a line item in the 2013–14 budget as the limit of the state government's contribution. That is wrong. That is an incorrect understanding of how the budget papers work. In fact the government has already factored into the budget, over the forward estimates and beyond, the extent of what we estimate will be the state's contribution towards east–west link. That is in the budget.

What we are not prepared to do is publicly disclose what our estimate of that contribution is, because to do so would simply give bidders a leg-up at the expense of Victorians. We are not prepared to do that as a government. We are determined to make sure that we run this major project, as coalition governments seek to run major projects, efficiently and to deliver maximum value for money. But when it comes to the benefits of this project, it would be cheaper not to do a tunnel option; it would be cheaper to compulsorily acquire houses on Alexandra Parade or to put something through Royal Park. But we are not prepared to do that. We are prepared to make what we think is the more responsible decision and to undertake a tunnel project, going underneath Alexandra Parade, going underneath Royal Park, and preserving and protecting those important areas while making sure that we can build road infrastructure to meet the needs of 21st century Victoria.

Mr SCOTT — Treasurer, can I ask you to turn to budget paper 2, page 5, and table 1.2? If I take you to that table, and you may not have it available but there was a similar table on page 5 of the same budget paper, which was table 1.1. Both measured the aggregate value of estimated savings and targeted revenue measures. The wording was slightly different but it was essentially exactly the same thing. However, the table that appears in this budget does not disaggregate saving and targeted revenue measures between the two, whereas the previous table provided a disaggregation, including a disaggregation of the savings measures into the three then tranches of savings announcements, being the first budget, the second budget update and the second budget. Can you

provide that information in disaggregated form for savings? Now there are five separate savings tranches: three that were identified in the last budget plus the subsequent budget update and this budget. Could you provide that information to the committee over the forward estimates period in a form similar but including the additional information, which would now be available?

Mr M. O'BRIEN — I would take the committee to BP3, page 61, and also BP3, page 62. BP3, page 61, table 1.19 contains revenue initiatives, and it sets out very clearly, I would have thought, line by line, what the revenue initiatives are in the budget.

Mr SCOTT — It is not the same; you are actually confused. You are actually confusing it.

Mr M. O'BRIEN — Table 1.20 contains the efficiency expenditure reduction measures that are also there, so — —

Mr SCOTT — No, you are actually confusing the issue. To be helpful to the committee, and to not have an argument about apples and oranges, the table there has individually identified the impact of saving measures from previous budgets and budget updates in addition to this current budget. I know the information for the current budget in the form that is presented in budget paper 3 is available, but I am asking specifically for that information that is presented in the last budget. So you are confusing two issues. I say that honestly — I am not trying to have a go — but that is a separate issue.

Mr ANGUS — We are dealing with this year's budget, are we not?

Mr SCOTT — This is the impact of previous budget decisions on the current estimates. So you are confusing two issues.

Mr M. O'BRIEN — The advice I have had is that the line where it refers to previous savings and targeted revenue measures effectively is simply an aggregation of the measures that have already been presented and were already set out in previous budget papers. In order to keep budget papers manageable and to focus on new initiatives, which is what a budget is about, there has been no change that I am aware of to the previous measures that have already been put in place. We simply record that those measures that have been previously put in place continue to have impacts on the budget, but obviously we set out very clearly what the new measures are.

Mr SCOTT — As a simple point of order, Chair, it would be pointless for us to have these hearings if we could not seek further information or seek clarification about financial matters that have material impacts on the budget beyond what is presented in the budget papers — that is exactly what PAEC hearings are for.

Mr ONDARCHIE — On the point of order, Chair, the Treasurer said that information has already been presented. I suggest Mr Scott go looking for it.

Mr SCOTT — No, I am absolutely certain it has not.

The CHAIR — If it was a point of order — and it was phrased that way — then you get one go at it and we do not have a debate about the point of order. The Treasurer may wish to take the matter on notice or he may choose not to at his discretion.

Mr M. O'BRIEN — I do not think it is helpful or in fact reasonable to ask me to reiterate material which has been in previous budget papers and which presumably has been the subject of PAEC hearings in the past. I am here to talk about the 2013–14 budget.

The CHAIR — Members, let us get it straight right from the start that we are not going to go backwards and forwards. It is a formal hearing, there is a process we need to follow and that is not free-form discussion. Mr Scott, I would suggest at the conclusion of the hearing that if you wish to ask for that information, then the committee may choose to formally seek that information.

Mr SCOTT — You have asked me a question, and with all due respect to the Chair — —

The CHAIR — You asked the question, you have effectively asked a supplementary question and while you may not be thrilled with the response, you have had the response, so in the context of these hearings — —

Mr SCOTT — With all due respect, Chair — —

Mr ANGUS — Let the Chair finish.

Mr SCOTT — No, I asked with all due respect if the Chair could indulge me, and I believe he had finished. This is billions of dollars of measures, literally the impact of your out years beyond which it does not appear in a previous budget because it goes through further years and there have been further measures. We are talking about literally billions of dollars, and the information is not presented in the budget papers but has effectively been represented in previous budget papers. If this is not a matter for PAEC and if it did not require — —

The CHAIR — Mr Scott, you have had your question and have had your supplementary. You may wish to come back to the matter when you next have the call. In the meantime I am going to move on.

Mr D. O'BRIEN — Thank you, Treasurer, I refer you to pages 63 and 69 of budget paper 2, and I ask if you could expand on how keeping net debt under control and maintaining Victoria's AAA credit rating is providing a benefit to Victorians?

Mr M. O'BRIEN — The coalition government is very keen to make a priority of responsible budget management, and that includes making sure we can keep debt at a manageable level. We have a AAA rating and a stable outlook from both key ratings agencies — that is, Standard & Poor's and Moody's. It has been confirmed that those ratings have not changed as a result of the budget, and as I have said these are fairly difficult times for a number of governments across the country and I am sure that when we see the federal budget come down next Tuesday night we will see further evidence of some financial difficulties.

However, we have been making strenuous efforts to make sure we can keep our budget in balance here in Victoria, and part of that is debt. We want to have both major capital and major infrastructure investments but to do it affordably. By strengthening the budget position and by strengthening our surpluses over time, we have set out to increasingly be able to fund more and more of that infrastructure program from our budget surpluses rather than adding to debt.

Mr PAKULA — Are you saying that you have read Vertigan? That is good.

Mr M. O'BRIEN — This budget forecasts that next year we will see net debt at 6.4 per cent of GSP — that is, 6.4 per cent of gross state product — but falling to 5.4 per cent by the end of the forward estimates. We think that is a very responsible position to take. If you just load up on debt, you simply put a noose around your neck.

Mr PAKULA — That is exactly what you are doing.

Mr ANGUS — I want to hear the Treasurer.

The CHAIR — Order!

Mr D. O'BRIEN — I asked the Treasurer a question, and it is good to hear from a Treasurer who can deliver a surplus as promised.

The CHAIR — Order! Members, please! Has the Treasurer finished?

Mr M. O'BRIEN — No, I have a little more to add. The important thing about maintaining AAA is that, if we were to lose the AAA rating, it would impact on our borrowing costs. It impacts on the interest payments we have to make to service our debt, and that is a year-on-year cost to our budget. So if we do not engage in responsible economic management, we will lose AAA and that means we are paying more and more money. That is less money for schools, less money for hospitals and less money for roads every year because we are paying higher debt payments.

Mr PAKULA — Even less money.

Mr M. O'BRIEN — We need to keep the debt at a manageable level and have a clear path to reduce it. That is what this budget delivers.

Mr D. O'BRIEN — Thank you, Treasurer.

Ms HENNESSY — Treasurer, if I can refer you to budget paper 4, page 40, it is the east–west link, phase 1. You have told us there was a business case for this project, but can you confirm for us or tell us whether or not that business case recommended building the eastern section of the project first?

Mr M. O'BRIEN — Thank you, Ms Hennessy. This is a project with a very strong business case, and it is supported absolutely. This project is supported by the business case. This is a transformational project for Victoria.

Mr PAKULA — That was not the question.

Mr ANGUS — It is not your question, Mr Pakula.

Mr PAKULA — Nor is it yours!

Mr M. O'BRIEN — It is a transformational project for Victoria, so it does come at a higher cost than if we decided to put a freeway through Royal Park, or through Alexandra Parade, but we are not going to do that.

Ms HENNESSY — Did the business case say that?

Mr M. O'BRIEN — We are going to make sure that we protect the livability of those areas and have an absolutely vital transport connection between the Eastern Freeway and CityLink.

Ms HENNESSY — Did the business case say start at the east first?

Mr M. O'BRIEN — People have been talking about this project for decades and this government is determined to make sure that we get it done.

Mr PAKULA — Did it say start in the east?

Mr ANGUS — Stop interrupting; it is not your question.

Mr D. O'BRIEN — It is a lot more useful than a desalination plant or a north–south pipeline.

The CHAIR — Order! Mr Pakula, we are not going to have a free-for-all. We have the opportunity for a supplementary, which is an indulgence but I am happy to have it. But let us just have the Treasurer answer the question. The answer will be quicker if there is not chipping away from the committee.

Mr PAKULA — If he would answer it, we would not have to chip away.

Mr ONDARCHIE — The term 'business case' is foreign to the Labor Party.

Ms HENNESSY — Did it say 'Start at the east first'? That is all I would like to know.

The CHAIR — Ms Hennessy, what part of 'not chipping away' do you not understand? We are not quite an hour into what is going to be a long two weeks, so let us just get it right, okay?

Mr M. O'BRIEN — The business case was done for the eastern stage of the east–west link and strongly supports that project.

Ms HENNESSY — Oh, right.

Ms HENNESSY — I have a supplementary, through the Chair, for the Treasurer. When will you release the business case?

Mr M. O'BRIEN — Business cases traditionally are not released. I am pretty sure the former government did not release the business case for the desalination plant. It is standard practice that business cases are not released because of the commercially sensitive confidential information.

Ms HENNESSY — Is it your intention to never release the business case for the east-west tunnel?

The CHAIR — Ms Hennessy, you get one supplementary.

Mr M. O'BRIEN — This is standard operating procedure, which has operated under both the former Labor government and under this government. We are not prepared to put the interests of Victorians at risk by giving a leg-up to commercial bidders. We will protect — —

Members interjecting

The CHAIR — Order! We have had the answer.

Mr M. O'BRIEN — From memory, one other project which did not have a business case released was myki.

Ms HENNESSY — But you were going to be different, Treasurer.

Members interjecting

The CHAIR — Order! All of you, order! The Treasurer has concluded his answer.

Mr ONDARCHIE — I refer you to budget paper 3, page 48. I wonder if the Treasurer could outline the funding in the budget for the West Gate Bridge and how that compares to funding provided in previous budgets.

Mr M. O'BRIEN — Thank you very much, Mr Ondarchie, for that question. I do appreciate it. This is a significant budget when it comes to the West Gate Bridge. We have funding of the amount of \$32 million for the West Gate Bridge for strengthening and defect remediation. The West Gate Bridge is one of our most significant crossings from the west to town. We need to make sure that it is strong and that it can maintain the traffic levels safely that it currently bears and will bear into the future. We think it is an absolutely critical crossing for Melbourne, and we are investing \$31.7 million in this budget to reduce the risk of unplanned lane closures by addressing fatigue-related maintenance requirements. The commonwealth is also contributing \$32 million, so this is a really significant investment in the strength and the future of the West Gate Bridge.

It is fair to say that other governments have sought to invest different money in the West Gate Bridge for different purposes. There was the \$20 million the former government proposed for LED lighting — I think some referred to it as fairy lights — to decorate the West Gate Bridge. That was seen as being the priority of those in government at the time. Our view is rather than investing \$20 million in fairy lights for the West Gate, we would prefer to invest \$32 million in strengthening the West Gate to keep it open, reduce the risk of unplanned lane closures and help western Melbourne and western Victoria get full value out of that magnificent asset.

Mr PAKULA — Minister, you have talked on a number of occasions about the projects, including East-West Link, where the funding is TBC and you have explained it is because you do not want to tip the tenderers off. There are a number of projects in that category in the budget. From memory, there is the eye and ear hospital, there is the Monash Children's, there is Southland station and there is East-West Link — all TBC. But obviously in framing the budget, as you have already said, you have made allowance for it, so where in the budget is the money that forms this big TBC pool?

Mr M. O'BRIEN — Governments from time immemorial have operated contingencies and have — —

Mr PAKULA — Could you just show us where it is — where in the budget papers?

The CHAIR — Is that a supplementary question?

Mr PAKULA — No, I am just trying — —

The CHAIR — No, so listen to the first one, please.

Mr PAKULA — Okay.

Mr M. O'BRIEN — Governments from time immemorial have operated contingencies and have had pools of unallocated capital. That is no different in this budget from previous budgets. We will continue to operate with contingencies, continue to operate funds of unallocated capital which will be drawn down at the

appropriate time. But as the Deputy Chair flagged, we are very determined we are not going to give any commercial party a leg-up at the expense of Victorians.

We are going to run these major projects, and the Deputy Chairman mentioned Monash Children's hospital — a fabulous hospital. It is a 230-bed facility to meet the growing needs of Melbourne's south-east and eastern Victoria. You will have the Southland shopping centre train station. Obviously we are in negotiations with the private owners of Southland. Generally train stations are built on Crown land so it is quite easy to get that done. When you are dealing with a private owner of the land it is obviously a more sensitive commercial negotiation. That is continuing apace, but we are not prepared to spend \$1 more than we have to to deliver these projects to benefit Victorians. I understand that members of the committee might like things spelt out in chapter and verse, but we have to act in a prudent way to protect the interests of taxpayers.

Mr PAKULA — That is fine, Treasurer. I am not debating that point with you. But this goes back to an inquiry that all of us except Mr Ondarchie were involved in on this committee about infrastructure. Because there is no doubt that in regards to all of those projects the relevant department, whether it be the Department of Health, department of transport or DTF would have prepared budget bids, so you would know what the costings are and you would know what the government departments' bid for these projects would be upon which approval was granted to put them in the budget. Even if we accept your assertion about not tipping off the tenderers, when the tenders are leased and the contracts are closed, will the government be releasing the original departmental costings and bids, because in the absence of that how is there any rigour on departments to do these costings properly if they know they are never going to be in the public domain?

Mr M. O'BRIEN — The government will continually make sure that we are delivering value for money on major projects. Something that the coalition government prides itself on is being able to — —

Ms HENNESSY — The public can never test that.

Members interjecting.

The CHAIR — Order!

Mr M. O'BRIEN — Delivering major projects on time and on budget is — —

Mr PAKULA — But how will we know what the budget is? You will not tell us what it is.

Mr ANGUS — Listen! The Treasurer is trying to explain it to you.

Ms HENNESSY — You will not release any business cases.

Mr D. O'BRIEN — You certainly will not get a lesson from Wayne Swan.

The CHAIR — Members, we are here to discuss the Victorian budget, not any other budget, and we are here to listen to the Treasurer. It is very hard to listen to him when there is a lot of yelling from this side of the table.

Mr PAKULA — I am just trying to work out how we are ever going to know what the original budget looks like.

Mr ANGUS — Listen to the Treasurer; he is about to tell you.

Mr PAKULA — All right, I will listen.

The CHAIR — If you listen to the response, you will at least understand the thinking.

Mr M. O'BRIEN — We will continually make sure that we get value for money out of these major projects. We are not prepared to release information which will jeopardise — —

Mr PAKULA — No, afterwards. Afterwards, Treasurer.

Mr ANGUS — Listen! Stop interrupting him.

The CHAIR — Order!

Mr PAKULA — He is deliberately avoiding the question.

Members interjecting.

The CHAIR — Order! You do not get 17 goes at the question.

Mr PAKULA — I just want the one go answered.

The CHAIR — We are operating under the standing orders of the Legislative Assembly. Those standing orders provide that the Chair cannot provide direction to any minister in answering a question.

Mr PAKULA — I am not asking you to.

The CHAIR — The Treasurer will respond to the question in the manner that he sees appropriate.

Mr M. O'BRIEN — We are quite willing to provide information as appropriate at the appropriate time in relation to the scope and scale of projects, but we are not — —

Mr PAKULA — But not the original budget.

Ms HENNESSY — It means, 'Trust us; we are not going to tell you anything'.

Members interjecting.

Mr D. O'BRIEN — Labor can never deliver on time or on budget.

Mr ONDARCHIE — It is no surprise prudent financial management is foreign to the Labor Party.

Mr PAKULA — It is just unbelievable! We are never going to be told what the budget was.

Mr D. O'BRIEN — \$300 billion accumulated debt is coming.

The CHAIR — I am quite happy to stand here all morning. I am sure the Treasurer is quite happy for me to stand here all morning, because every minute I stand here is 1 minute less in which people to have the opportunity to ask questions.

Mr ANGUS — Treasurer, I refer you to budget paper 3, page 22, and I ask you: what capital investment in hospitals is in the budget and, specifically, which projects will be occurring in 2013–14?

Mr M. O'BRIEN — Thank you, Mr Angus, through you, Chair. This is a major budget when it comes to helping infrastructure. This is absolutely one of the largest programs we have seen. When you look at the sorts of projects that are being built, being completed or commencing construction in this budget, it is really going to be something that sets Victoria's health system up for many, many years to come. We have \$629 million of funding included in this budget as the total estimated investment for new projects. Those include the new Monash Children's hospital, as I said, a 230-bed, world-class paediatric facility in Melbourne's south-east; the redevelopment of the Royal Victorian Eye and Ear Hospital; and the new Waurn Ponds community hospital, which is a very significant investment in Geelong and the Surf Coast. We are seeing an increasing population down there. We have not only an increasing population but an ageing population, and as the population ages the demands on health services will grow. It is a great thing that people are living longer, but it does mean that people tend to need more care towards what is now an extended end of life. That means we have to build the right facilities to make sure we can meet that growth in demand. We will also see in this budget substantial redevelopments, including the expansion of the Northern Hospital and the Werribee Mercy mental health service expansion.

Mr ONDARCHIE — A good initiative.

Mr M. O'BRIEN — I am sure Mr Ondarchie would be pleased with this. The government is committed to growing health services in areas where Victoria is also growing. The northern and western suburbs — not areas, I should say, that the coalition has traditionally had a large lower house presence in — —

Ms HENNESSY — Why should that make a difference in terms of whether or not — —

Mr ANGUS — Do not interrupt him!

Members interjecting.

The CHAIR — If I need to keep standing up, I am going to go for a walk.

Ms HENNESSY — You will be back, though.

The CHAIR — That will be more minutes that we have lost. Let us just have one question and one answer at a time.

Mr ANGUS — And no unnecessary interjections.

The CHAIR — Including from you, Mr Angus.

Mr M. O'BRIEN — I make the point that these areas, which have been somewhat neglected under the previous government, are now, finally, receiving the investments they deserve, and it took a coalition government to do it. Can I say that it is not just about building new hospitals and expanding hospitals; it is also about making sure that we have the right equipment. We are seeing a \$60 million program of medical equipment and statewide infrastructure replacement for our hospitals, making sure they have additional funding to get the best technology, to replace technology, to upgrade technology and to ensure that Victorians get the best of care.

Mr SCOTT — I refer the Treasurer to the questionnaire that has been returned from the department, and to pages 34 to 37, where staffing for the department is outlined. There are significant staffing reductions in a number of cases, and if you go through the number of staff who have been downsized, reduced or whatever euphemism you want to use —

Ms HENNESSY — Reprioritised.

Mr SCOTT — it is significantly higher for VPS staff, ordinary public servants, compared with executive officers. If you go to all cases in DTF, there is a reduction overall of 15 per cent across the whole department, but executive officers are only reduced by 9 per cent. In all other cases for the agencies, although there are staff reductions, there are no reductions in the number of executive officers. I would just like the Treasurer to explain to the committee why in reducing staff the number of executive officers are disproportionately protected in this process? Will this continue from 30 June 2012 to 30 June 2013, and is this a policy you will continue over the estimates period?

Mr M. O'BRIEN — Can I perhaps remind the committee that the government's sustainable government initiative involved a program of voluntary — and I emphasise the word 'voluntary' — redundancies. This was not a case of people being told they were required to leave. This was a question of people taking advantage of an opportunity that was provided by the government to decide to move on. So this was done on a purely voluntary basis.

Mr SCOTT — On a point of order, Chair, the committee has actually just reported on this in the outcomes report and all departures were not voluntary. The witness is actually not being factually accurate.

Mr D. O'BRIEN — That is not a point of order.

Mr SCOTT — It is actually, because the standing orders require a witness to be factually correct unless —

Members interjecting.

The CHAIR — Hang on. Mr Scott, let us make sure that, in your words, we are comparing apples with apples. The outcomes report referred to the 2011–12 year.

Mr SCOTT — Yes, which included that.

The CHAIR — The figures in the questionnaire relate to the 12–13 year and prospects for the 13–14 year. Let us not get the two confused.

Mr M. O'BRIEN — Outside any particular program there are always times when government departments will undertake some officer-targeted separation packages. That is in the normal course of business. I can give you one example, Chair. When particular agencies have, for example, presided over some of the Labor government's messes and this government is cleaning them up, we are obviously not going to have the same people running the show, are we, Chair? It would be very silly to have the same people running the show who created the mess in the first place.

Members interjecting.

The CHAIR — The Treasurer needs the opportunity to answer the question, but I do ask the Treasurer not to provoke the non-government members of the committee.

Mr M. O'BRIEN — I will return to the other version of Michael O'Brien, thank you, Chair.

Members interjecting.

The CHAIR — Order! The Treasurer will be heard in silence.

Mr M. O'BRIEN — This is a program which was absolutely essential to getting the budget back into balance, to ensuring that the structural deficit we inherited from Labor, where revenue growth was being outstripped by expenditure growth year on year on year and was leading the state's finances into a black hole was arrested. We make no apology for saying we will make sure we will run our public sector as efficiently as possible while protecting and, in fact, enhancing front-line service delivery. When you look at the tables, you will see that, for example, in DTF there is one secretary. He is sitting right next to me. I am not sure if members of PAEC think DTF would function better without a secretary. But obviously we have a very lean structure in DTF. I think that my department leads by example in terms of delivering excellent value, excellent service, to Victorians and doing it for the lowest possible cost. I think DTF in that regard is setting an example and those figures are reflected in the response to the PAEC questionnaire.

The CHAIR — A supplementary, Mr Scott.

Mr SCOTT — So do you make no apology, then, for disproportionately — —

Members interjecting.

Mr SCOTT — No, it is a question. I am allowed to — —

The CHAIR — Order!

Mr SCOTT — On a point of order, Chair, you are about to cut me off.

The CHAIR — No.

Mr SCOTT — So you do not want this explored. You do not want me to explore the issue of whether executives are being disproportionately protected ahead of ordinary workers?

The CHAIR — Mr Scott, a supplementary question is an opportunity to tease out information. You do not start a supplementary question with the words, 'So you make no apology'. That is not a supplementary question and I am going move on.

Mr D. O'BRIEN — I would like to ask about GST forecasts and refer you, Treasurer, to budget paper 2, pages 4 and 30. Could you explain to the committee the forecasts of GST revenue and how it has changed since the last budget?

Mr M. O'BRIEN — I thank Mr O'Brien for his question. Victoria's expected GST revenue has been downgraded by an additional \$1.5 billion between 2012–13 and 2016–17 compared to the budget update. Since December last year GST revenue forecasts have declined by \$1.5 billion. Around two-thirds, or \$1 billion, of this downgrade reflect a weaker outlook for growth in the national GST pool. One of the reasons for that is that

the economy is not strengthening as fast as Canberra had anticipated in their forecasts, which feed into the GST forecasts that are given to the states. But also we are seeing a shift in people's expenditure. There is a shift away from items that have GST on them towards items that do not have GST on them. As a result of that, that increasing proportion of consumption that is directed at non-GSTable items — health and education and items like that — means there is less growth in the GST pool.

The other issue of course is the slice of the cake, if you like, that Victoria gets from the GST. This year we are getting around about 92 cents in the dollar of GST. Next year that falls to 90 cents. So only 90 cents in every dollar of GST generated in this state will find its way back to Victoria. By contrast, Queensland will be receiving around \$1.06 for every dollar of GST they generate next year. It is not a fair system. We are a large state with a growing population. We have infrastructure needs; we have service needs. At the moment the GST is not assisting us to meet those needs through an unfair distribution system.

There are some obvious anomalies in the GST formula. One, for example, is that there is a bias against rail projects in favour of road projects. For example, around two-thirds of the money the commonwealth is giving to Victoria to support the regional rail link gets clawed back by the commonwealth through the GST. They give you \$3 and they take back \$2 because they treat rail projects less favourably than they do road projects. I raised this with Mr Swan in Canberra at the treasurers meeting. I said, 'Victoria's government has got major infrastructure programs in road and rail that we would like to be getting on with, but you have an unfair system'. The answer was, 'We are not looking to change it at this stage. We have to wait until all states agree on everything'. There is no leadership. So we have this unfair GST system.

Another example is when the intergovernmental agreement was signed, I think it was in 2000, pertaining to the introduction of the GST, states agreed to abolish a number of inefficient taxes. The Kennett government commenced that process, and I acknowledge that it was concluded under the former Labor government. Victoria got rid of those inefficient business taxes — and not just business taxes but also the bank account debits tax and stamp duty on non-marketable securities. Victoria abolished a whole range of different taxes in accordance with that GST agreement. Other states did not. Other states still have those taxes and are still getting the money from those taxes. In fact New South Wales has just announced it is going to keep those taxes for some time to come to pay for other schemes.

But it gets worse than that because not only does Victoria not get the revenue, having abolished those taxes, but the GST formula says, 'Victoria made a policy choice to get rid of those taxes'. It does not acknowledge that we were acting to fulfil an agreement that we made with the commonwealth. It says, 'That was a policy choice, so because you have chosen not to levy those taxes we are going to take further money off you from the GST'. Our system, frankly, is broken at the moment. It rewards bad economic behaviour. It does not reward good economic behaviour. It is biased against rail projects, it is biased against Victoria, and it needs to be fixed.

Mr D. O'BRIEN — Victoria needs its fair share.

Mr M. O'BRIEN — Absolutely, we need our fair share.

The CHAIR — I will take that as an editorial comment on a supplementary question.

Ms HENNESSY — That is a kind way of describing it, Chair. Treasurer, I refer to your presentation, particularly the forecast, or the out-years, around share funded from operating result in 2015–16 and 2016–17 around net infrastructure investment. You would be aware that on 11 April there was a newspaper article — I think it was an AAP piece that ran in the *Australian* — which said that you had not read the Vertigan report. It is a bit difficult for us to understand that, because it has been denied to us on the basis that it was a cabinet-in-confidence document. We were wondering, have you read the Vertigan report yet?

Mr M. O'BRIEN — No.

Ms HENNESSY — Are you able to explain to us then why its release would be denied on the basis that it was cabinet in confidence? Surely it either went to cabinet or it did not.

Mr M. O'BRIEN — Documents go to different committees of cabinet and are still cabinet-in-confidence documents.

Mr PAKULA — So it did not go to cabinet.

Ms HENNESSY — So it never went to cabinet.

Members interjecting.

Mr ONDARCHIE — Treasurer, I am glad to have the opportunity to talk about what is occurring at the commonwealth level because that is what I wanted to ask you about. I refer to page 40 of budget paper 4. When is funding for the east–west link required from the commonwealth to progress it, and when do you expect the commonwealth will come good with that? Has it committed to that funding?

Mr M. O'BRIEN — I thank the member for his question. The east–west link is not just a Melbourne project or a Victorian project; it is a nation-building project. It is one of the most significant pieces of infrastructure that this country will see. When it is a nation-building project and will help connect two of Australia's main freeways, then there is a need, we believe, for the commonwealth to actually back this project. The Victorian government will invest a significant amount of money in the east–west link and in making this happen. We will have more on the table. Without disclosing the sums, I can assure the committee of that. Being aware that it is a parliamentary committee, I am not about to mislead it. We will be investing significantly more money in this as a state government than we are seeking from the commonwealth. We are seeking from the commonwealth \$1.5 billion for a project which we believe will be in the range of \$6 billion to \$8 billion.

We have seen the commonwealth government put money into other projects in other states. They have done so without business cases and for projects that are much lower down the Infrastructure Australia assessment ranking than is the east–west link. We need the commonwealth to back this project. If the commonwealth does not back the project with \$1.5 billion, it will inevitably delay the project and it will increase the cost of the project. If we delay this, it will increase the cost. It will also mean that the disbenefits of the congestion and the lack of productivity that the current road bottlenecks create will continue and in fact will expand. It will also mean that the productivity benefits of having that smooth connection between the Eastern Freeway and CityLink will be deferred. So we need the commonwealth to back the most significant infrastructure program that Victoria, and arguably Australia, has seen for quite some time. This is a nation-building project. The commonwealth government has an obligation to do the right thing by Victoria to support this project, and we will continue making the case that it needs to do so.

We are very pleased that the federal opposition has made a clear and unambiguous commitment that it will support Victoria and the east–west link and will contribute \$1.5 billion towards it. I would really rather this not be a political football match. I would rather that the Gillard government back us. If the Gillard government stood up tomorrow and said, 'We will support this project', that would be terrific outcome. It would mean that Victorians would know that both sides of politics in Canberra were actually committed to Victoria and to building infrastructure in Victoria. That is not the situation at the moment, but I do hope the position will change.

Mr PAKULA — Treasurer, can I just take you back to the presentation where you talked about net debt and your comments in support of it where you — and I do not want to verbal you — basically talked about the importance of bringing debt under control. The presentation shows that the government's estimate over the forward estimates is that debt will top out at \$25.1 billion in 2014–15 and then start to come down — I think I am reading that correctly. It caused me to go and look at the last two budgets — Kim Wells's first budget and Kim Wells's second budget — to find out what the estimate was then. The first budget, the 11–12 budget, said debt would rise to, I think, about \$23 billion in 2015 and then start coming down, and last year's budget said that debt would rise to \$23.8 billion in 2015 and then start coming down, and this year's budget says that debt will rise to \$25 billion in 2015 and then start coming down. So already between this government's first budget and its third budget, you have moved the estimate of where debt will start to peak up by \$2 billion. So if your first budget was wrong about that and your second budget was wrong about that, why is this budget going to be any different when you have already moved the debt peak out by \$2 billion over just two years?

Mr M. O'BRIEN — This government makes no apology for having a record infrastructure program, and we are creating record surpluses in the future to pay for it. I did take the committee through, in my presentation, the chart which demonstrated the funding sources of net infrastructure investment. It quite clearly showed that over the next two years some of that program will be funded from the operating result, some will be funded

from an increase in borrowings. But the reason why we are getting the budget back under control, the reason why we are creating those large surpluses in the future, is so that our future infrastructure programs can be entirely funded from the operating surplus, which will then lead to the paying down of debt. It may be that some people would rather us not build major projects, not build — —

Mr PAKULA — Are you saying your first two budgets were — —

The CHAIR — Order!

Members interjecting.

Mr PAKULA — Your debt projections could be wrong; why is this one going to be any different?

Members interjecting.

The CHAIR — Let us cool it down a bit.

Mr M. O'BRIEN — We are absolutely undertaking a record infrastructure investment program. We are taking revenue and expenditure measures to increase surpluses over time. As I think I might have mentioned before, we also had \$1.5 billion of GST write-down since last December. It may be that some people think that that can be wished away; I wish I could wish it away, but I cannot. We have to deal with these realities — it is called responsible financial management — so we are prepared to make sure we will have a strong infrastructure investment program, we are putting revenue and expenditure measures in place to increase the surpluses, and as that chart clearly shows, we will fall — our net debt will fall — from 6.4 per cent of our GSP next year to 5.4 per cent by the end of the forward estimates. In doing so, we are delivering a record infrastructure investment program for the state.

Mr PAKULA — Minister, I know what the chart shows — I am simply making the point that your first two budgets said that too, and they have both been proved to be wrong. But anyway you say now that in future you are going to find all your infrastructure out of surplus. Do the debt projections incorporate east–west link and any debt that might be incurred in the building of that?

Mr M. O'BRIEN — I can say that the budget does fully incorporate what is the estimated government contribution from Victoria towards east–west link.

Mr PAKULA — So the debt profile includes east–west link?

Mr ANGUS — Are you doing another supplementary?

Members interjecting.

The CHAIR — Order! I think it is your turn, Mr Angus.

Mr ANGUS — Treasurer, I refer you to budget paper 3, page 52, and ask you to outline to the committee how the government is funding Bayside rail improvements on the Frankston line?

Mr M. O'BRIEN — Thank you very much, Mr Angus, I appreciate that.

Ms HENNESSY — Got a hardware business.

Mr M. O'BRIEN — We are very proud of the fact that we are investing \$100 million to improve — —

Mr PAKULA — You have just taken it from the maintenance budget.

Members interjecting.

The CHAIR — Members, the Treasurer has the call. I am sure he will resume when he has the opportunity to not be spoken over.

Mr M. O'BRIEN — The Frankston train line is one of the busiest on the network; it carries around 60 000 passengers each weekday. It was a train line that was neglected. It was neglected for 11 years, and the

people on that train line received a poor quality of service. Since coming to office, the coalition government has been investing in more maintenance so that, for example, the railway system does not pack up on hot days the way it used to every summer under the former government. We are putting money into those less than glamorous but absolutely essential items of maintenance — the sleepers, the ballast, making sure that the wiring works properly. It is not a perfect system, but it is much stronger now than it was when we came to office, and this extra \$100 million investment in the Frankston line will be actually a huge step-up in improvements for the people who use that line. Under the former government Frankston train line punctuality was just 65.5 per cent in June 2010, and in the past year punctuality on the line has increased to 91.2 per cent — —

Mr PAKULA — Because you added 5 minutes to the timetables.

Mr ANGUS — Perhaps you should answer that, Mr Pakula.

Members interjecting.

Mr PAKULA — It is a great trick: extend the timetable by 5 minutes and — voila! — they are on time.

The CHAIR — While I appreciate that the Deputy Chair has an interest in transport, the question was asked of the Treasurer.

Members interjecting.

The CHAIR — The question was asked of the Treasurer, and the Treasurer will answer it.

Mr M. O'BRIEN — This is an essential investment in the Frankston line — —

Ms HENNESSY — To prop your guys up.

Mr M. O'BRIEN — It is disappointing that some commentators have seemed to be opposing it; in fact, some commentators have been misreading, I think, the budget papers. There was one person who claimed there was only \$10 million being invested in the Frankston line.

Mr PAKULA — This year.

Mr M. O'BRIEN — I hear the Deputy Chair's interjection, but the comment was, 'So of the \$100 million for the Frankston line, there is actually only \$10 million in the budget' — that was in fact I think a tweet from the Deputy Chair, believe it or not.

Members interjecting.

Ms HENNESSY — On a point of order, Chair, would the Treasurer like to table the document from which he reads — —

Mr SCOTT — Which he quoted.

Ms HENNESSY — He quoted from a document. If he could table that — —

Mr ANGUS — He is referring to his notes; he is allowed to refer to his notes.

Ms HENNESSY — Excuse me, Neil, I did not actually ask you.

Mr D. O'BRIEN — Are you asking for Mr Pakula's iPhone to be tabled?

Ms HENNESSY — I am asking for the Treasurer's PPQs to be tabled.

The CHAIR — Points of order are done once. I will rule upon that. From my perspective here the Treasurer was referring to notes; he was not reading from a document.

Mr M. O'BRIEN — So, Chair, BP3, page 52, makes it quite clear. Bayside rail improvements: \$10 million, \$65 million, \$25 million. That adds up to \$100 million, a \$100 million investment in Bayside rail, in making sure that those 60 000 people who use that line every weekday will get a much better service, a more punctual

service, a cleaner, safer, better service. This is the sort of thing that communities who have been neglected, with poor service over the years, can look forward to when there is a coalition government.

Mr SCOTT — Treasurer — through the Chair — in your presentation you twice made reference in terms of the boom times prior to the GFC to a bubble, and obviously you are referring to the revenue generated for the Victorian economy. A bubble economy obviously has a specific meaning in economics, and you are a very senior economic commentator as the Treasurer and someone with a very important position within the community and within the society. A bubble refers to an asset bubble — that is the generally understood presumption — and that has very serious impacts on the Victorian economy. Is it your belief that there was an asset bubble, or is an asset bubble, in Victoria — because you have twice made reference to it in terms of the boom?

Mr ANGUS — Has that got anything to do with the budget papers?

The CHAIR — Order! I will allow the question.

Mr M. O'BRIEN — My reference was quite clearly in relation to what happened preceding the global financial crisis, and I would have thought this committee, Mr Chair, of all committees would have a very thorough and in-depth understanding of the causes of and what led to the global financial crisis, and if people do not believe that there were causes of the GFC — —

Mr SCOTT — No, I just asked about Victoria.

The CHAIR — Order!

Mr M. O'BRIEN — — as a consequence of overinflated assets, then I would be quite surprised by that.

Mr SCOTT — That was not the question. That is quite an a misrepresentation of the question. Could you respond to the question, which you did not — —

The CHAIR — Order!

Mr ANGUS — The minister has answered the question.

Ms HENNESSY — He has not — —

The CHAIR — That comment was not identified as a point of order, so I will not treat it as such. But it is clear to me that the Treasurer was identifying time lines and placing upon a time line when the bubble comment may have applied to. I think the question was answered. I will allow a supplementary.

Mr SCOTT — You did not directly address the issue about which I asked you, because you are talking in the context of Victorian revenue, and I understand international events have impacts on Victorian revenue, but I asked you specifically whether you believe that there has been an asset bubble within Victoria or there continues to be so. So I would ask you to respond directly to that aspect of the question.

Mr M. O'BRIEN — Mr Chairman, I think when you look at the impact of the GFC on the equities market in Australia, of which Victoria is a part, when you look at the impact of the GFC on the property market, which has seen very slow growth — in fact less than growth; we saw some retreats. If anybody thinks that Victoria is somehow immune to what is going on in the rest of the world and that when global stock markets crash and the Australian stock market crashes that does not have an effect on Victoria and Victorian revenue, then I would be quite surprised.

The CHAIR — Thank you, Treasurer. I think this is an appropriate time to take a 10-minute break, so we will cease the hearing now and resume at 11.00 a.m. If everyone is ready, we will resume the hearing. I will go to Mr O'Brien.

Mr D. O'BRIEN — Thank you, Treasurer. Just before the break I touched on the interstate comparisons of commonwealth government funding. I would like to refer to budget paper 4, page 7, and ask you, Treasurer, if you could elaborate further on any relevant interstate comparisons of commonwealth government funding for infrastructure projects.

Mr M. O'BRIEN — Thank you, Chairman, and I thank Mr O'Brien for his question. It is fair to say that historically Victoria has not received a fair share of infrastructure grants from the commonwealth government. For example, our share of national road funding has been well below that of New South Wales and Queensland and our population share. Victoria's share of the current Nation Building Program 1 is just under 16 per cent, compared with New South Wales, at 33 per cent, and Queensland, at 29 per cent. I have already flagged with the committee the problems with the regional rail link funding, where the GST distribution formula inequities mean that for every \$3 that the commonwealth provides us towards the regional rail link, it claw back \$2 — or \$2, at least, is lost to Victoria through the GST.

So as a consequence Victoria has had significantly less funding than, frankly, we need and deserve, and that is a major problem when we have a large and growing state. Victoria has a population growth of 1.7 per cent; we have the highest population growth of all the non-mining states, and in many ways that is a vote of confidence. It is a good thing that people want to come and live in Victoria — we are a very livable place — and population growth does help generate economic activity. But it also means that there are obligations on the government to fund — to fund infrastructure and to fund services. And because the state government is not in charge of population or immigration policies, there is a need for Canberra to recognise that with so many people wanting to come and live in Victoria they need to give Victoria a fair share of infrastructure funding.

So we are seeing continually Victoria being short-changed by the federal government — whether it is GST, whether it is infrastructure payments or other payments. That is why I think that the East-West Link will be such a big test of the commonwealth's commitment to backing a major Victorian project. Will it be prepared to back the project, or will it turn its back on us? I really hope that it is the former. This is a critical project for Victoria. It creates 3200 jobs, protects our livability, drives productivity.

Not that I make a habit of reading the *Daily Telegraph*, but it was drawn to my attention yesterday that there was a front-page exclusive and there it is: the F3–M2 link has been given the green light. It says that the federal government is providing hundreds of millions of dollars to New South Wales to provide a major tunnel linking two major roads. This was a project which was quite down the list of Infrastructure Australia, and certainly way below East-West Link. And we are not even aware that a business case has been completed on this particular project. So my concern is that if the federal government is prepared to give hundreds of millions of dollars to a road project in New South Wales, in the politically sensitive western suburbs of New South Wales, to a project which is not high on the Infrastructure Australia agenda, and if it is not prepared to back East-West Link — which is much higher up, is ready to go — then it says a lot about the political priorities of the federal government.

Mr D. O'BRIEN — Thank you, Treasurer.

The CHAIR — Ms Hennessy.

Ms HENNESSY — Thank you very much, Chair. Treasurer, I just want to ask you a question about the Melbourne Metro tunnel. Last year you budgeted \$50 million of your own money and the commonwealth gave Victoria \$40 million. What happened to that \$40 million? Is it the case that you spent the commonwealth's money but kept your own?

Mr M. O'BRIEN — Thank you, Chairman. I thank Ms Hennessy for the question. The commonwealth and Victoria have been working together to progress work on planning and design and scoping for the Melbourne Metro project. Moneys were provided in the budget in relation to a number of potential issues that could arise once, for example, corridors were determined. When a reservation is set aside for a particular corridor — be it for a major road project or for a major rail project — that can trigger compensation claims from affected landholders. They can have a right to require the government to purchase their properties immediately those reservations are declared, because obviously it could have an impact on the value of them. So my understanding is that moneys were set aside in the budget to deal with those matters when they arose.

They have not arisen yet, so moneys remain in the budget. However, in this budget the government has announced that it is bringing forward \$10 million to support the further design and planning works needed to progress the Melbourne Metro tunnel. This is a terrific project and one that we want to see progressed, but it is a much larger engineering and technical feat, if you like, than the east–west link. The time line for this project

being even ready to go to market is years away compared to the east–west link which is ready to go to market, we believe, by the end of this year, or during this year. They are both terrific projects.

Mr PAKULA — It is a matter of choice. That was your choice.

Mr M. O'BRIEN — We do want to support — —

Ms HENNESSY — No. 1 for Infrastructure Australia.

Mr D. O'BRIEN — It is the federal government's choice to fund Sydney projects, not Victorian.

Mr PAKULA — You chose to — —

The CHAIR — Order! Once the Treasurer has concluded his answer, Ms Hennessy can ask a supplementary question.

Mr M. O'BRIEN — You cannot wish away the fact that there are major technical planning and engineering issues to be dealt with. It is not a case of snapping your fingers and saying, 'I really wish Melbourne Metro was ready to go today, therefore it is ready to go today'. The fact is that it is not, but we are prepared to put the money into the work to get it ready as soon as practicable. The one lesson that we can learn as a state from the litany of major project disasters we saw before the coalition came to office is that a failure to do your homework will bear a huge cost on Victorians. We are not prepared to make those same mistakes; we are not prepared to go down that same path.

Mr PAKULA — Or release the business case, or release the — —

Mr M. O'BRIEN — We will make sure we do our homework.

Members interjecting.

The CHAIR — I had just sat down, too. I will not expect the Treasurer to respond if he keeps getting talked over.

Mr M. O'BRIEN — The government will make sure it does its homework and does its research, and a project of the scale of Melbourne Metro will require an enormous amount of preliminary and precursor work before it is ready to proceed to tenders and construction. But we are committed to doing that work and that is why we have allocated money in this budget to do that.

Ms HENNESSY — So what did you spend the commonwealth's \$40 million on?

Mr M. O'BRIEN — Money still remains in the budget for the purposes, for example, of meeting claims from affected land-holders once corridors and reservations are determined, so — —

Ms HENNESSY — But was it your 50 million?

Mr M. O'BRIEN — That money — —

Members interjecting.

The CHAIR — Order . Everyone!

Mr M. O'BRIEN — Moneys are given to us for particular and agreed purposes with the commonwealth. Those moneys will be expended in accordance with those agreed purposes. We are not about to start diverting moneys that are given to us for specific purposes to spend them on other things. That would not be the right thing to do and we will not do it.

Mr ONDARCHIE — Treasurer, I agree with you, Victoria is a great place to live. I refer you to budget paper 4 — —

Members interjecting.

Mr ONDARCHIE — I am sorry you do not all agree with me that Victoria is a great place to live. I ask the Treasurer how the capital program affects regional and rural Victoria.

The CHAIR — Which is a great place to live.

Mr M. O'BRIEN — Thank you, Chair, I do appreciate that. This is a very strong budget for rural and regional Victoria in particular. I have identified some of the major hospital initiatives that we are undertaking in this budget. They include progressing the \$630 million Bendigo Hospital. This is going to be a fabulous facility for northern and central Victoria. Because of the way we have been able to run the public-private partnership model, because of the way we have been able to run the tender process, we are getting additional value for money out of this project. We are getting things which were not part of the original scope of the project delivered because we have been able to drive that extra value. They are things like multistorey car parks; things like helipads, which are very important for air ambulances. We are getting all of these sorts of things as part of the \$630 million Bendigo Hospital project.

We are seeing the reinstatement of acute health services to Numurkah. Numurkah hospital was badly affected by the floods that Victoria incurred, I think it was about a year or so ago. We are getting those services back to Numurkah. We are seeing money available for radiotherapy services in Warrnambool, which will be really important for the entire south-west coast. Can I say that the Premier has been a particular champion of this project, as the member for South-West Coast. This is something that the local community around Warrnambool has been driving for many years, and we are very pleased that in this budget the coalition government can deliver on those promises. I understand that there is some support from the private sector as well. I think the last piece of the puzzle will be seeking some federal government support for reinstatement of full radiotherapy services in Warrnambool.

The Waurn Ponds community hospital is a really important thing that is happening there. We have growing communities around not just Geelong but also the Surf Coast Shire and beyond. To have a new hospital facility there to service those growing needs will be terrific; it is the delivery of a further election commitment of the government. We have a very active local member there in the member for South Barwon, who has been very keen to push this issue, and we are very pleased to be able to deliver that.

Even with projects which might be seen to be Melbourne-focused, such as the construction of eight new trains for the metropolitan rail system, the fit-out will be done in Ballarat and the Ballarat manufacturer there, Alstom, will be able to secure I think it is over 130 jobs as a result of the state government making sure we are getting the fit-out for these eight new trains done in Ballarat; so a great outcome there.

We are seeing a big increase to road maintenance and restoration funding which is particularly critical to country Victoria. People in country Victoria have to drive longer distances — they are more affected by the state of the roads — and we are really beefing up money into road maintenance there, including money for the sealing of the Omeo Highway. We think this is a very positive outcome for rural and regional Victoria.

TAFE is an important element of rural and regional Victoria as well and we are putting \$200 million into a TAFE structural adjustment fund to help support our TAFE institutes and make sure they can continue providing great training to young Victorians, particularly those in rural and regional Victoria. As I showed in my presentation, the government's reforms have already led to a real shift in the types of courses that are being undertaken. We are seeing more apprenticeship courses, trade courses, nursing courses — courses that have fabulous job prospects at the end of them.

Under the former government's reforms, where there was full deregulation, what you saw was the market essentially respond by throwing all sorts of incentives to Victorians to do all sorts of courses that did not necessarily lead to jobs at the end of them. You were more likely to get a free iPad at the end of your course than you were a job. We did not think that was the right way to go. It was basically a bit of a hoax on those young people, who were convinced to do these courses without having a prospect of a job. We would rather see Victorians move into courses where there is a far better opportunity for them to build a career and get ahead in life once they have done it. So this is a very strong budget for rural and regional Victoria.

Mr PAKULA — Treasurer, Last year at this hearing I asked the then Treasurer, the member for Scoresby, about the fire services levy. Just for some context, what I asked was whether the Victorian community could be provided with an assurance that no-one who presently makes a contribution to the fire services levy will have to

pay more under the new scheme. At the time the Treasurer indicated that there was still work being done. Obviously what was behind my question was the fear that people would be paying the levy through their council rates in the future and that insurance companies would basically jack up premiums to take up the slack so that people end up getting slugged twice.

Now, yesterday in the *Weekly Times* there was a story about exactly that problem, with home insurers slugging 40 per cent premium increases. Now that the scheme is more fully formed, I ask again: can the government assure Victorians that no-one who has been paying the levy will end up paying more when you combine their premiums and the fire services levy that they will be paying through their rates?

Mr M. O'BRIEN — The fire services levy reform is a terrific reform, not only to put our fire services — the Country Fire Authority and the Metropolitan Fire Brigade — on a firmer financial footing, but it is also a much fairer way to fund them, and it delivers significant benefits to all Victorians. As a result of the changes, no longer will only those people who have fully insured their buildings and contents have to pay to contribute towards the upkeep of our fire services. Those people who were fully insuring were not only paying the insurance; they were paying the fire services levy; then they were paying stamp duty on top of that; and they were paying GST on top of that. So you had a tax on a tax on a tax. That has been abolished. That has been swept away. The government is not recovering the additional revenue from that GST and stamp duty. That amounts to about an \$80 million tax cut to Victorian families and Victorian businesses.

We are also — in doing so — expanding or introducing, for the first time, concessions: 400 000 Victorian pensioners and war veterans who get municipal rate concessions will now be eligible for a concession for the first time. We believe that many pensioners were very diligent and very careful, and they were good insurers; they would insure their homes and their contents. So they were paying the levy, they were paying the tax on the tax, and they got no concession for it. Because the coalition government is conscious of the cost of living pressures, we are introducing a concession for the first time that will benefit 400 000 Victorians.

Can I also say that this is a policy which was endorsed and recommended by the Victorian bushfires royal commission. The VBRC found that it was not a fair way, it was not a sustainable way, to fund our fire services under the old insurance model. The VBRC recommended this change. We committed to implement all 67 recommendations of the royal commission, and this is one of them.

Now I am happy to address the specific question of the deputy chair. There may well be, for example, companies that have been underinsuring to date. They have not been insuring the full value of their buildings or their contents. If you have been underinsuring in the past, it means you have been under-contributing to the fire services, and that is not fair. So this system is about making sure that, because every Victorian benefits from our fire services, every Victorian property owner will make a contribution. When you broaden the base of the contributors, you can lower the rate. This will deliver massive savings to many sectors of Victoria, including homes, including farming communities and including many businesses.

As I said, not only is there the benefit of the tax cut and the concessions, but when you look at average prices, I think in metropolitan areas it goes from around about \$190 down to about \$140, so it is about a \$50 reduction. The reduction in country areas is even greater: it is about a \$100 reduction in country areas. So we think this is a fairer policy. This is about delivering tax reform and increased concessions and ensuring that because all Victorians benefit from our fire services, everyone can make a fair contribution to fund them.

Mr PAKULA — I listened very closely, and I did not interrupt you, Treasurer, and there was a neat trick there, where you said you would answer the specifics of my question; but you did not. So let me just be clear with you again. I am not necessarily talking about business, but Victorian homeowners who have been paying their insurance and paying their fire services levy diligently over the years; can you assure us that none of those people are going to wake up after the new FSL comes in and, when they look at their insurance premium and their council rates and the fire services levy contribution to that, see that they will end up paying more — those who have been doing the right thing?

Mr M. O'BRIEN — I made the point — I thought I made it clearly; I am happy to reiterate it — that if people have been underpaying or underinsuring —

Mr PAKULA — That is not the question. I am not asking about people who have been underinsuring — —

Mr M. O'BRIEN — then they may well have to pay more, but that is not unfair. The other point — and this is a critical point — is that the government has introduced this reform to benefit Victorian families, to benefit Victorian businesses, not to benefit insurance companies. For that reason we have set up and legislated the fire services levy monitor, Professor Allan Fels. Professor Fels is well known as being a great watchdog, a great consumer champion. We have given Professor Fels significant powers, which he is already using, to obtain pricing information from insurance companies. We have given him, through the legislation, significant power to take action, including fines of up to \$10 million against insurance companies that engage in price exploitation. So any insurance company that thinks they can take the reduction or the removal of the fire services levy from insurance premiums and pocket any of that will have to contend with Professor Fels, who has a range of strong legislative powers and the capacity to initiate action that could lead to \$10 million fines. This is a great reform. It is a great reform because it is going to benefit Victorian households and Victorian businesses. It is not being done for the benefit of insurance companies, and we have Professor Fels there to act as a watchdog to ensure that Victorians get the benefit of this reform.

Mr PAKULA — So we can take that as an assurance that no-one who has been doing the right thing will end up paying more?

Mr M. O'BRIEN — Some people have been underinsuring. Some have paid no insurance. They will pay more.

Members interjecting.

The CHAIR — There are 36 minutes left. We just lost a minute of it with that, so let us just move on.

Mr ANGUS — Treasurer, I want to follow on from this matter. I refer you to budget paper 5, pages 23 and 172, in relation to the fire services property levy, the CFA-MFB funding and so on. You have outlined some of the issues for Victorians in the forthcoming year. Can you advise the committee how the community is going to be informed about these changes?

Mr PAKULA — By listening to PAEC.

Mr M. O'BRIEN — I thank Mr Angus for his question. This is a significant reform, because it does affect every single Victorian. Whether they are directly a property owner or whether they are a tenant, they will be affected by this. We feel as a government we do have an obligation to make sure that the people are properly informed. We do not want to have the American system — I do not know if this still exists, but I am told it used to exist — where only households that were insured would have a little badge or some indicator on their front gate to indicate that they paid their insurance. The fire brigade would turn up and only put out those houses. If your neighbour next door did not have the badge, then their house would burn down. We have a communal aspect to service from and support for our fire services. The CFA and the MFB serve and protect all Victorians. For that reason it is vital that all Victorians make a contribution to making sure they are properly funded.

I make the point that the Victorian government will remain the biggest single contributor to the budgets of both fire services. Out of the budget we pay 12.5 per cent of the MFB's annual budget; we pay 22.5 per cent of the CFA's annual budget. The Victorian government is not stepping back. We are continuing to support them. In fact when you see this year's budget you will see increased support for the CFA in particular.

We do need to make sure that people are aware of the changes. People need to be vigilant to make sure that their insurance company, for example, has taken the fire services levy off the premium, because this is about making sure that they get the benefit of these significant reforms. The government has been working with local councils, which will be collecting the new fire services property levy through the rates. There will be material that will be provided to ratepayers through the councils. We have started to run some radio information material advising people of the change and where they can get more information. There is a new website that has been constructed. There will be some pointer advertisements in newspapers as to where people can get more information, and we will be looking at potentially running some television commercials as well to advise people where they can get more information so they can better understand this very important reform.

We do think this is a great reform for Victorians. We do think they need to understand what has happened, why it has happened and how it affects them, but I am very confident that Victorians will react well to a reform which sees their fire services put on a far better financial footing. They will react well to a policy which

implements a key recommendation of the Victorian bushfires royal commission, and they will react well to a policy which will mean for the vast majority of Victorians that they will be significantly better off as a result.

Mr SCOTT — Treasurer, I take you again back to budget paper 2, page 5, and also the comparison with the material that appeared in the last budget paper. If you add in the savings that were announced in the budget update to the column that appeared in the previous budget paper for ‘subtotal savings’ — —

Mr ANGUS — What page of the previous budget paper?

Mr SCOTT — Page 5 of budget paper 2.

The CHAIR — The previous budget paper?

Mr SCOTT — It is both, actually; budget paper 2, page 5, for both. To assist you, Treasurer, I have calculated — and the reference, if you are interested, for the budget update is page 124 of last year’s budget update — the figures for 2013–14, 2014–15 and 2015–16. To try to help you disaggregate those figures, the figure for 2013–14, if there has been no change, is \$1.565 billion of savings. I am not going to have a semantic argument about whether it is cuts or savings; let us just go with your terminology for the moment. In 2014–15 it is \$1.951 billion of what we regard as cuts. In 2015 it is \$2.291 billion. Obviously there would be no figure for 2016–17 — it was the previous year obviously — however, if it had not even increased from the previous year, which they all do, it would be \$2.291 billion of what we would regard as cuts. You have not disaggregated those figures here, and I am sure Grant Hehir would know this information. Are the amounts contained in those figures more or less than those figures from the previous budget and with the additional information from the budget update for savings?

Mr M. O’BRIEN — I thank the member for his question. He has referred to budget papers which I do not have the benefit of having in front of me — in terms of previous year’s budget papers. I am happy to consider that matter, take it on notice and respond as appropriate to the committee.

Ms HENNESSY — You cannot tell us what your cuts are?

Mr SCOTT — To seek clarification as a way of follow-up, are you seriously suggesting to the committee that the secretary of the department who is sitting next to you and the various officials — we have a phalanx of officials from the Department of Treasury and Finance in this room from whom he could seek assistance — are not able to provide to this committee at this moment what the impact of previous cuts are?

Mr ONDARCHIE — Point of order, Mr Chairman.

Mr SCOTT — Let me finish. This is a reasonable question.

Mr ONDARCHIE — Chair, I believe the minister has been asked and has answered the question. I am not quite sure what Mr Scott is trying to achieve here.

The CHAIR — I am happy to allow —

Mr SCOTT — It is not even a point of order.

The CHAIR — You are right: it is not a point of order. I will allow Mr Scott to continue and complete his question.

Mr SCOTT — Is it seriously the contention that you are bringing before this committee that you are not able to provide at this point, with the phalanx of people who are out there who would have provided this information in order to generate that figure in the budget — I am sure the person who did it is present and could provide assistance; I am sure that the secretary of the department in fact would be — —

Mr ANGUS — He said he would provide it.

Mr SCOTT — No, he did not say that.

Mr ANGUS — Yes, he did. He just said it before.

The CHAIR — Order! I think we have the thrust of it.

Mr SCOTT — No, I have not finished, Chair, with all due respect.

The CHAIR — Then I would ask you to conclude your question.

Mr SCOTT — That you cannot provide the information, which is literally billions of dollars of cuts and where it resides in the budget, and you cannot provide the committee, which is charged with informing the Parliament and the public — —

The CHAIR — Order! We have the thrust of the question, Mr Scott. I am sure the Treasurer is keen to provide accurate information to the committee, but I will ask him to respond.

Mr M. O'BRIEN — Without wanting to be inflammatory, the way in which the question was asked was a fraction convoluted. To ensure that I can provide an accurate answer and discern exactly what the question was, I have elected to take it on notice, because I think that will provide a better and a more accurate answer to the committee.

Ms HENNESSY — No-one can tell us how much the cuts are? Just the state budget, but no-one can tell us how much the cuts are.

Members interjecting.

The CHAIR — We will return to questions.

Mr D. O'BRIEN — I also refer to page 3 of budget paper 2, and I would like to ask the Treasurer about the projected surpluses. How do those projected surpluses affect the state's net debt forecasts? And if I could also ask you, Treasurer: what would have occurred if the government had not taken the steps to get expenditure under control over the past two and a half years?

Mr M. O'BRIEN — I thank Mr O'Brien for that very pertinent question. As I have said, we need large operating surpluses in order to fund our infrastructure investment without the need for further borrowings. We do see that other governments around the country, and particularly in Canberra, have basically run up the white flag on fiscal responsibility. We were promised a federal surplus this year 'come hell or high water', and obviously we are not going to get one. In fact I think we have seen the projected federal deficit — it is now a deficit — go from \$12 billion last week to \$17 billion this week. Goodness knows what it will be by Tuesday night.

Economic management is not about destiny, it is about choices, and governments do make choices about whether they are prepared to manage their budgets responsibly or not. We are not prepared to run up the white flag on economic responsibility in this state. That is why upon coming to office we inherited a budget which was in structural deficit. We had seen year on year on year — —

Members interjecting.

The CHAIR — The Treasurer and I can sit here until 12 o'clock if that is what the committee really wants us to do. But I think it would be better if we actually got the outcomes that the committee set out to get when we established this hearing in the first place.

Mr M. O'BRIEN — We did inherit a budget which had had expenditure growth exceed revenue growth year on year on year, and that was a structural deficit. In fact it would have been a nominal deficit in dollar terms had it not been for fiscal stimulus payments from Canberra. This was a budget which was in deficit. We came to office saying we would fix it up.

Members interjecting.

The CHAIR — If we do not have silence, we will have a break.

Mr M. O'BRIEN — In order to arrest this unsustainable pattern of expenditure growth exceeding revenue growth year on year on year, the government took action upon coming to office. In addition to the measures that

we took, we were of course hit by further GST write-downs, which affected not only my predecessor, Kim Wells, but also have affected me as Treasurer in terms of the extra \$1.5 billion. We have seen \$7.5 billion come off the government's budget in terms of GST revenue since this government was elected to office.

Despite that, we have managed to get the budget back into a real surplus — not a phoney one, a real surplus — and are expanding that over time with a record infrastructure program. If we had not taken that action, if we had kept spending on same trajectory it was when we came to office, Victoria's net debt would be at 17 per cent of gross state product at the end of these forward estimates — 17 per cent. As it is, we will be down at 5.4 per cent because we have taken corrective action. If we had not taken that corrective action, we would be back up there at 17 per cent. That is heading back to the Cain and Kirner days.

Members interjecting.

The CHAIR — My recollection is that Mr O'Brien actually asked this question.

Mr M. O'BRIEN — We were not prepared to let that happen, Chair. That is not appropriate. It would be putting a debt noose around the necks of the next generation, and that is not fair.

We have taken action to put the budget back into real balance, into real surplus. I note the Leader of the Opposition said he welcomed the government's surplus in the budget, so that is terrific. But it is hard to welcome a surplus when you oppose every single measure the government has taken to get it back into surplus. We have taken some difficult decisions, and we have been opposed by certain members of the Parliament every step of the way, but when you see this government's budget this year, it has a \$225 million surplus when other states and the commonwealth are largely in deficit, bar WA. When you see that the debt profile is coming down over the forward estimates, down to 5.4 from 6.4 per cent, and you see that massive infrastructure program that Victorians are getting, then you will see that those are the hallmarks of good economic management.

Ms HENNESSY — This is not quite a Dorothy Dixier in those terms but a genuine quest to attempt to understand some of the patterns that are included in the payroll tax information in budget paper 5, page 173. Just genuinely attempting to understand what this pattern means and what you say will drive the growth back to 6.1 per cent, effectively, if I am reading it right, it says that payroll taxes have been weaker because recent employment growth was skewed towards industries that are largely exempt from payroll tax, and it cites health and the social assistance industry. Then you have an assertion that payroll tax is meant to recover and grow by 6.1 per cent. You say there that this change is transitory and waning, so I am just trying to understand: is it that you say that health and the social assistance industry, as it is referred to in the budget, is likely to contract or that there will be growth in the industries that are liable to pay payroll tax?

Mr M. O'BRIEN — I genuinely thank the member for the question; it is a good question. No, we are certainly not predicting any contraction in the health or social services industries. In fact we are continually budgeting for further investment in those industries to recognise the increasing growth and increasing demand for services in those areas. What we are expecting, though, is that those areas of the economy that have been particularly hard hit by factors such as the high Australian dollar — we think they are expected to recover to some extent, as a result, and this would be something which I think everyone would welcome. We would like to see some greater support, greater growth in manufacturing, and our professional services sector, which has been one of the great strengths of this economy, still has room to grow. We are still hoping that agriculture can continue to grow.

It is not a question of any sector contracting; it is a question of some expanding more than others because they are coming off a relatively lower base because of some of the economic challenges they have specifically faced in recent years.

Ms HENNESSY — So those sectors you cited — professional services and agriculture and manufacturing, being sectors that are going to grow and then help generate that 6.1 per cent growth in your payroll tax projections — what does it do to the budget if those projections are wrong, if that growth is not as grand as you would like to anticipate it to be?

Mr M. O'BRIEN — Thank you. I suppose I could be wrong because they could be too conservative and there could be more money coming in — —

Ms HENNESSY — Yes, and they could tank.

Mr M. O'BRIEN — I think the lesson of Treasury forecasts is that it is important that forecasts err on the side of caution. I think we see in the federal government at the moment, which had some extraordinarily bullish revenue forecasts, which have not come anywhere near being fulfilled — mind you, the commonwealth government is still getting revenue growth — —

Ms HENNESSY — Yes.

Mr M. O'BRIEN — But just not at the — —

Ms HENNESSY — But ours is a conservative projection. That is what your evidence is: that 6.1 per cent is a conservative projection.

Mr D. O'BRIEN — It is a conservative government.

The CHAIR — I think the first question was the supplementary.

Mr M. O'BRIEN — Chair, as you and the committee would understand, as Treasurer I do not sit there and decide what the economic growth forecasts are. I very much receive that information, which is determined by the very best professional advice of the Victorian Department of Treasury and Finance. I think that over many years and over many governments of all political persuasions DTF has had a great track record of being prudent in its forecasting, and as a result, I think Victorians can take great confidence in the soundness of the forecasts that are contained in this budget, as indeed they have in previous budgets.

Mr ONDARCHIE — Treasurer, I refer to budget paper 2, pages 44 and 45. Are there any relevant interstate comparisons which can be made with regard to the fiscal indicators such as the operating surplus, which I note the Leader of the Opposition said on Jon Faine's program that he welcomes?

Mr M. O'BRIEN — I thank Mr Ondarchie. I think one of the obvious points of comparison is the operating surplus or deficit of a particular government. You can look at it in nominal dollar terms, but probably the best way to look at it is in comparison to that state or territory's gross state product. It is a proportion of your budget operating position compared to the size of your economy.

In 2013–14, at this stage, Victoria will be projecting, say, an operating surplus, as will WA. There has been a strong claim that Tasmania thinks it will be able to squeak into an operating surplus in 13–14, and I certainly wish them luck in that. Other states have not had such a positive situation. Queensland in particular is facing some very difficult challenges; I think they are a matter of public record. But I note that the government there is taking action to try to bring the budget back into surplus.

You have to acknowledge that there are some difficult times across the country, but the point I would like to make to the committee is that governments should not be hostage to those times. You can choose to use tough times as an excuse to run up the white flag on your budget and on your debt, or you can cut your cloth to fit. What we have sought to do as a government is deal with the revenue shocks that have come to us in relation to GST in particular and make changes, make adjustments in our budget so that we can keep the budget in balance, keep growing surpluses, keep funding infrastructure, and reduce debt over the forward estimates.

The CHAIR — Thank you, Treasurer. Deputy Chair?

Mr ANGUS — He is too busy tweeting.

Mr PAKULA — I will be careful how I phrase this question, and you may want to — —

Mr M. O'BRIEN — Uh-oh!

Mr PAKULA — No, you may want to hand it off to the secretary. The Department of Treasury and Finance received the questionnaire, which we received the response to last night — quite late by the way. There was not in the questionnaire any question in regard to entertainment expenses, overseas travel, legal expenses, which had been contained in the questionnaire for the two previous years. But I wrote to the secretary some time ago on behalf of the non-government members, asking that question and asking the secretary to bring that

information to the committee, so I am wondering whether the government — whether it be yourself, Treasurer, or Mr Hehir — has the information that I requested in that correspondence that I sent about comparative entertainment, overseas travel and legal expenses from this year to last in the Department of Treasury and Finance.

Mr M. O'BRIEN — I am happy to refer that matter to the secretary for a response.

Mr HEHIR — This is with respect to 12–13 and 13–14?

Mr PAKULA — Yes.

Mr HEHIR — Entertainment expenses were 60 000.

Mr PAKULA — Can you give us the two years?

Mr HEHIR — Sixty thousand in 12–13, and our forecast is the same for next year. Overseas travel — 180 000, and again the forecast is the same, so our estimate for this year and our forecast for next year are basically the same. Legal expenses — 3.1 million for both years again. That is our estimate for this year and we will be keeping it roughly the same for next year, and for contractors we have got 18.9 million as our estimated outcome this year and falling to roughly 15 million next year.

Mr PAKULA — I think we had them in the questionnaire, didn't we — consultants and contractors?

Mr HEHIR — They are the questions that you asked, yes.

Mr PAKULA — Thank you for actually bringing that information. I hope other secretaries do likewise.

The CHAIR — No supplementary on that?

Mr PAKULA — Actually an answer, for a change.

Ms HENNESSY — That is right. That is all we want.

The CHAIR — I think you have done pretty well this morning.

Mr ANGUS — Treasurer, I refer you to budget paper 2, page 34, and I ask you how the reforms to the public-private partnerships policy have affected this budget and what will be the impact on Victorians?

Mr M. O'BRIEN — I thank Mr Angus for the question. The government has made an announcement in terms of reforming our public-private partnership policies in this state. We want to use PPPs to deliver high-quality infrastructure and services to the Victorian community. The key reforms include adopting modified financing structures, using an affordability benchmark and including a greater range of services. I will give you one example. The previous government had actually undertaken a pilot program of having some school maintenance undertaken through a PPP, and one of the experiences we have seen is that when we had floods in Victoria last year and those floods affected a number of state schools, we had state schools that were operating under the PPP maintenance services model return to full action significantly ahead of schools that were under the old traditional model. My feedback is that a number of principals are very pleased. They can concentrate on being educators and running schools rather than being the handyman in chief and working out who is going to fix the sticky window, who is going to fix up the tiles in the bathroom and who is going to make sure the air conditioning gets serviced when it needs to get serviced, so we think there is an opportunity to look at expanding the role of public-private partnerships in services because in the school space, for example, it lets principals and teachers get on with educating rather than having to worry about maintenance, and where you get better services as a result at a better price, that really is a win-win situation, so we are certainly looking at including a greater range of services in PPPs.

We are also looking at streamlining PPPs for smaller scale projects so that you can have a cost structure for PPPs that is basically proportionate to the type of activity that is being tendered and also reducing the cost of bidding for projects. It can be a very expensive process for companies — usually it is a consortium of companies — to bid for a PPP. If we can try to streamline and reduce the bidding costs, that will encourage more companies to participate. As a result you get more competition and you get a better outcome for

Victorians. So we think this will have a very positive impact on Victorians because projects will be able to deliver better value for money for the community. We can tap the very best private sector innovation, we will see services improved by making the private sector accountable for performance, and as I said, it allows those state employees, state public servants, to focus on doing what they need to do rather than some of the ancillary activities as well. I also think it is more likely that projects will be delivered on time and on budget. Under the changes once a project is approved for PPP delivery the government will reflect in the budget the expected PPP capital cash flows for that project as a finance lease liability. For the 2013–14 budget the East-West Link, or the eastern section of stage one is being budgeted for under this new approach, as it will be delivered as a public-private partnership.

Ms HENNESSY — Treasurer, if I could just refer you to BP 4, page 3, which makes reference to the regional rail project: you would be aware that in last year’s Auditor-General’s annual report he made the following comments at the time of the preparation of his report some 17 months after the announcement of the review findings:

... a new budget for the RRL has yet to be announced. Its finalisation was, in part, dependent on the negotiation of commercial arrangements with the contractors for the works packages. The negotiations were completed during 2011–12.

The Auditor-General then says:

A current budget is an important element of effective project management and its absence means that monitoring, accountability and the ability to achieve value-for-money outcomes from the regional rail link project are diminished.

Have you released an update of the budget yet?

Mr M. O’BRIEN — I remind the committee, of course, that the original budget for the regional rail link was only \$4.3 billion when we came to office.

Ms HENNESSY — Have you released a current budget, as the Auditor-General asked you to?

The CHAIR — Order!

Mr ANGUS — Just let the minister finish.

The CHAIR — Order!

Mr D. O’BRIEN — The Auditor-General learnt a lot of lessons from your government.

The CHAIR — Order!

Mr PAKULA — It is actually a really simple question.

The CHAIR — Order! Yes, I am sure it is a simple question but we will ask the Treasurer to answer it, not anyone else around the table.

Mr M. O’BRIEN — Thank you, Mr Chairman. So when we came to office we looked at the scope of the regional rail link project in the budget — the budget for that project — very importantly and pertinently, and there were a couple of problems, one of which was that the budget did not include any rolling stock — —

Ms HENNESSY — Have you released a current budget, Treasurer?

Mr M. O’BRIEN — Very hard — —

Mr ANGUS — You asked a question; now listen to the answer.

Mr M. O’BRIEN — Very hard to run a train system — —

Ms HENNESSY — Have you released a current budget?

Mr M. O’BRIEN — without trains.

Members interjecting.

The CHAIR — Order!

Mr PAKULA — Does your Bayside improvement include rolling stock, your Frankston line stuff include rolling stock?

The CHAIR — Order!

Mr PAKULA — Of course it doesn't.

The CHAIR — Order! There are 7 minutes to go. Surely we can just keep it cool for — —

Ms HENNESSY — A yes or no answer would actually cut it here, Chair.

Mr ANGUS — Stop interrupting and you will hear what the answer is.

The CHAIR — Order! The purpose of these hearings is not to extract yes or no answers. The purpose of these hearings is to give the committee a greater understanding of the underlying issues regarding the budget.

Ms HENNESSY — Okay, Treasurer, give me a greater understanding of whether or not — —

Members interjecting.

The CHAIR — Order! We have a question and we are now asking the Treasurer to answer it.

Mr M. O'BRIEN — So the government had to significantly reconfigure the budget and scope of the project to account for the fact that if you want to run a train line you need to have trains. It seems to be something that eluded the previous government. Also, we have significantly reconfigured and improved the scope of the project by having two grade separations at Anderson Road, Sunshine —

Mr PAKULA — Which I announced.

Mr M. O'BRIEN — which were never part of and never funded by the former government.

Ms HENNESSY — How can we possibly quantify its contribution to the state if you will not release the budget?

Mr M. O'BRIEN — So here is a project that we have significantly expanded the scope of by providing the budgeting for rolling stock.

Ms HENNESSY — How would we know?

Mr M. O'BRIEN — We have removed the two key level crossings in the western suburbs of Melbourne. Again, it takes a coalition government to remove level crossings in the western suburbs of Melbourne.

Members interjecting.

The CHAIR — Order! If the Treasurer is not allowed to answer this question without further interjection from Ms Hennessy, I will move on.

Mr M. O'BRIEN — We have ensured that the project's scope has been managed tightly and we have subjected the project's procurement processes to the rigours of the government's high-value, high-risk process. I note that the Auditor-General was complimentary in his report tabled in Parliament this week of this government's high-value, high-risk approach.

With contracts now awarded and construction under way, the government can advise that the project's revised budget is now \$4.8 billion. There is a \$3.2 billion commonwealth contribution — although, as I said, two-thirds of that money gets clawed back from Victoria — and a \$1.6 billion contribution from the state. This revised budget takes into account market pricing as well as appropriate risk provisions. We consider that this is an excellent outcome for taxpayers and we will continue to manage the project and its scope tightly to ensure that the project is delivered on time and on budget.

Mr D. O'BRIEN — Treasurer, I would like to ask you about investments in the future of Victoria's education system. Specifically I would like to refer to budget paper 3, pages 7 to 10 and ask: how is the government investing in the future of the Victorian education system?

Mr M. O'BRIEN — This is a key budget in terms of improving outcomes for Victorian students, whether in kindergartens, whether in primary or secondary schools or whether in vocational education and training. There are a number of highlights in terms of support and increased funding in this budget, which I am delighted to take the committee to. One is \$38.2 million to support additional students with moderate to severe disabilities in the program for students with disabilities, as well as \$12.7 million to provide transport assistance for additional students with disabilities to attend specialist schools. It is very important that we support particularly those students who have got disabilities or other learning difficulties to reach their maximum potential. In that regard I think Victorians generally will welcome the fact that the Minister for Education announced a new purchase of land for the construction of a specialist autism school in the western suburbs of Melbourne.

Mr D. O'BRIEN — Mr Finn is very pleased. He has worked hard for that.

Ms HENNESSY — That is factually incorrect. It is being built on existing — —

Members interjecting.

The CHAIR — Order!

Ms HENNESSY — It is being built on an existing school. I am merely making the point that the Treasurer — —

Members interjecting.

Ms HENNESSY — It has been under construction for a year and a half.

Mr D. O'BRIEN — You continue to talk down the west instead of hearing about this initiative for autism children in the west.

Ms HENNESSY — So where is the new land that they have purchased for the autism-specific school?

Members interjecting.

The CHAIR — It is indeed unfortunate that we had that interjection from my left because, had that not occurred, I am sure that the speed with which the Treasurer was concluding his answer would have allowed another question. Unfortunately I think the Treasurer will have time to conclude his answer and then the hearing will be concluded.

Mr M. O'BRIEN — We think funding to support the creation of new specialist schools for students with special needs is absolutely critical to giving all our children the opportunity to reach their maximum potential. We are very proud of the fact that we are investing in these new schools, particularly in the western suburbs of Melbourne and the growing areas there.

The budget also provides \$34.3 million for an additional 1000 early childhood intervention service places each year. Again, that is 1000 of our kids who will get greater support — early intervention — to help get them on the right track and help stop the development of problems which could really interfere with their learning. We all acknowledge how important good education and learning are to quality of life and the opportunity to make the most of yourself. We think if we can get greater support into earlier intervention for children who have specialist issues or specialist needs to deal with, we will get a much better outcome for them and for their families.

There is \$20.6 million for Student Support Services to provide effective support for vulnerable students, and also \$15.7 million to lift school performance and student learning outcomes by improving the quality of teaching in government schools. The government is very keen to make sure we can continue to lift the level of outcomes we get in all of our schools, but obviously we have a primary responsibility as the government for government schools and students in government schools. I am a great supporter of government schools and I know that our kids do get a great quality of education there, but we do need to improve it. The world is not

slowing down, it is speeding up. We need to keep improving, we need to keep pace with changes, we need to get the best quality of teaching possible into our schools. We do need to have investments to support our teachers to do better, because our children will be the primary beneficiaries of that. We think there are some very significant reforms there.

There is also of course the \$203 million for the school capital program. That will be money for new schools and the purchase of land to build new schools. Doreen secondary college is the — —

Members interjecting.

Mr M. O'BRIEN — There are some significant investments. Acknowledging the time, I will not continue to talk about the TAFE performance and the \$200 million structural adjustment pool that we have there. But this is a budget which really does make significant investments to ensure that children, from childhood to adulthood, can get a great quality of education that will not only help them as individuals and help their families but help strengthen Victoria as a state.

The CHAIR — Thank you, Treasurer. That concludes the consideration of budget estimates for the Treasurer's portfolio. I thank the Treasurer and his departmental officers for their attendance today. Where questions were taken on notice, the committee will follow up in writing. We ask that we have a response within 21 days to enable consideration of the responses as part of the estimates reporting process. That concludes the hearing.

Witnesses withdrew.