

MELBOURNE PRESS CLUB

Press Club Lunch May 2004

Speaker: John Brumby

Ian Henderson (IH): Our guest speaker is well known to you all. John Brumby is a familiar face and 11-year veteran of State Parliament during which time he has experienced the rough and smooth of politics. The rough – well, six years as Opposition Leader to Jeff Kennett. The smooth – five years in government, four of them as Treasurer. Mr Brumby is widely credited with developing the focus on regional Victoria, which contributed in no small measure to the Bracks government's stunning victory against the odds in 1999. The business of budgets, of managing the purse strings if you like, is as old as the concept of money itself. Four hundred years ago Frances Bacon wrote that "Money is like muck, not good except it be spread." And indeed John Brumby has been spreading it around this week, spending it on hospitals, schools. But it's also true of money that there never seems to be enough of it. And there are always many more interest groups queuing up for their share. Farmers, some disability groups and pensioner drivers feel they're still waiting in the queue after Tuesday's budget. One final thought on the subject from a man who is now learning a little about politics and whose approach to problem groups has characteristically been to terminate them. Arnold Schwarzenegger, before his elevation to Governor of California, had this to say: "Money doesn't make you happy. I know have fifty million dollars, but I was just as happy when I had forty-eight million." He should be so lucky. But it might be a handy line to trot out, Treasurer, when you're next dealing with a public service wage claim. Ladies and gentlemen, please extend a warm Press Club welcome to the Treasurer of Victoria, the Honorable John Brumby.

The Hon John Brumby (JB): Ian just very kindly offered me his glasses on the way, but you can see I won't need them for just a moment. I do want to thank Ian for his introduction. I understand I missed all the gags about the Upper House and I am sorry for being a little bit late here today, but we did have to keep an eye here on the numbers in the Lower House as well. I'm going to go through a slide presentation today so...everyone can see all right up the back? It's 20-20 vision that you'll require. I know some old gags about can people hear me up the back and someone stands up and says 'yes but I'll gladly swap places with someone who can't.' But you can see OK? Yep. OK. Arnold Swarzenegger. I don't think there's any similarities at all with Victoria, although he was quoted, if I remember, correctly at one stage in the State Parliament by someone then in a prominent position on the other side. Now look, if I could just go to the budget today and the presentation. I know some of you have seen presentations in the lock-up and some of you were part of presentations yesterday morning and lunchtime. So I've tried to mix up the presentation a little today but you will find that there is a little bit of overlap about the key elements of the budget and the presentation I'm making. We're certainly leaving plenty of time for questions and I'll also be putting a little bit more of a focus today on what we're doing in provincial and regional Victoria because that's part of the broader audience over the internet today.

It is fair to say, I think, the budget's been well received. This is, as Ian said, my fourth budget. It is the Bracks Government's fifth budget. We say that the budgets do get better every year. I've got to be careful about saying that because the first budget was bought down by the Premier. But this has been a budget which is very well received. It's a budget really which, I guess, is in three parts. Firstly, it is a budget which puts families first. Secondly, it's also a budget which we believe is good for business, investment and jobs. So it incorporates all of the measures which we announced in *Victoria, Leading The Way* two weeks ago. And it's also a budget which is absolutely true to our commitment to country Victoria. And again, as Ian said in his introduction, that's been a key element of the Bracks Government, governing for the whole State and you'll see that come through in all of the elements of the budget we released on Tuesday.

If I can go to the slides now, I'll run through these and then, as I said, plenty of time for questions and discussion. The main themes: I think you've seen the main themes of the budget. I will be introducing a few new slides today on the issue of Victoria getting its fair share from the Commonwealth. And this is an issue which is topical at the moment. And I think it's fair to say with the Federal budget being released next week it will continue to be a current and topical issue. But the main themes - strong financial position, strong economic fundamentals - it does deliver. As I've said, for provincial Victoria it does provide record infrastructure investment and I will, as I said, show those slides on getting our fair share and then I'll just quickly go to the budget highlights because you're familiar, I think, with most of those.

Budget operating statement. I just want to stress this. Very, very strong set of numbers and I don't think there has been anyone in the commentary since the budget who's disagreed with that view. Strong budget numbers. Five hundred million-dollar plus surplus. Revenue up by four and a half percent. Expenses by four point two. Put into bigger context, we've got an economy which will grow in real terms by three and a quarter percent in 04-05. Inflation on the Reserve's estimates will run at about two, two and a bit. So you've got nominal GDP at five-five and a half percent. So these are very strong numbers. They're very secure numbers. They're very responsible numbers for the State.

Another way of showing that is just the surplus running forward. We do always budget above our hundred million-dollar operating surplus requirement. We do that. We build in a bit of a buffer because circumstances can change. So you can see things like slowdown in the world economy. You can see changes in interest rates. You could see changes in the housing market. So we always build in a little bit above that one hundred million dollar buffer and that's been a prudent policy of the government and I've got a slide in a moment to show you why that's been important for us.

The numbers going forward. Just another way of looking at them. We sign off on AAS31 and that, as you know, is signed off by the Auditor-General. All of the assumptions behind that. We are the only government in Australia to do that. Most of the other governments, with the exception of ACT, report on GFS, which is the ABS data, the ABS descriptor and a strong surplus on the GFS. And if I was to put in a third line there, it would be another measure, which is GFS cash balance. And again on the cash balance, we are running a surplus every year going forward. So you can say of the Bracks Government, in every year we've been in government and in this year and in every year going forward, we've been able to record a surplus, a strong surplus on all of those measures.

Got a slide here on low net debt and that's a slide that shows when we were elected debt was close enough to five billion dollars and today it's just under two. And you'll

see there going forward, it creeps up by about seven hundred million dollars, stays about one percent of GDP. You've got a couple of bookkeeping transactions going forward to do with Spencer Street and some motor vehicle leases. So essentially no change in net debt going forward.

And I just want to – I'll show you a slide after that because a lot of people ask me at the moment. Look economy's going good, the budget's good. Why aren't you borrowing more for capital works? And I guess my answer to that is twofold. Firstly, we get a benefit from paying down debt and the benefit we've got as a state from paying down close to three billion dollars of debt is about one hundred and eighty million dollars a year in savings. So one of the things with this budget people have said to me... how do you manage to increase spending, cut taxes and still produce a good surplus? And that's a fair question. And I guess there's really three answers to that. Firstly, there's this slide ...so compared with four budgets ago, five budgets ago we've now got one hundred and ninety million every year in our bottom line which is available for things like nurses and teachers and police. So in a sense we're able to do more because we're not spending money on debt interest.

Second thing, which has been important in our budget numbers, last year we went out with a wages policy. We said three percent. And a lot of people said you can't do it. It's too tough. You won't achieve it. Look at NSW. Look at WA. By and large we have achieved it. And the savings to the budget from the bottom line of that are again very, very significant. And we always said if we could achieve a decent wage outcome that would give us the resources to give back into service delivery improvements. And again we've done that in this budget.

And I think the third thing if I can just say, the strength behind this budget, we were elected in 2002. We made 137 what we call LFS commitments - Labour's Financial Statement recurrent spending commitment -things like more teachers, more police, more nurses. In our first budget, we delivered a fair swag of those and we put all of the money to pay for the rest of the promises in the forward budget estimates in the contingency. So in a sense they were all paid for in our first budget. And so when people look at this budget and say 'well, gee you're cutting taxes (which we are), you're doing more particularly in health, record spending in health, 1.6 billion over four years and you're returning good surpluses. How does all that happen? How do you achieve that?' The answer is there's a lot of factors, but predominantly it goes to sound financial management: to paying down net debt, responsible wages policy and paying for our election commitments up front in the budget contingencies. And so that's why we're able to deliver such strong numbers.

Another way of showing that – this is comparing last year's budget with this year's budget - the red line there is what we expected net debt to be last year. The blue line is what it will be as a result of this budget, and again it just shows you that the financial position of the State is very strong indeed. It is stronger this year than we had anticipated it would be at this time last year. And to make the point, all of those savings on debt represent debt interest savings and we're able to put them back into improved services.

Indicators of ...all of these are contained in the budget papers and I think the point is it doesn't matter which one you pick out here, whether it's borrowing costs, whether it's total liabilities, whether it's long term borrowings. In all of these areas we have seen strong improvements since the election of the Bracks Government.

Taxes are important and our policy on this has always been to try and get our Victorian taxes at or about the national average. And we've been pretty true to that. You'll always get a tiny bit of movement around the curve as other States change

their tax arrangements. You'll see that we've been for a lot of the 90's recovering from the recession of the early 90's. Some heavy taxing under the Kennett Government, a bit lighter towards the end and we've been bouncing around at or about the Australian average. As a result of this budget, and I should say the recent NSW mini-budget we estimate that our taxes as a share of GDP will now be 0.2 percent below the national average. Why is that important? We think it's important to Victoria because we want to maintain our position as the pre-eminent driver of investment and jobs in Australia. We do need to be competitive. The world is more competitive. And that tax advantage is significant and more important to us. So we're just a fraction below the national average now.

We've got a good record on taxes mainly until this budget on business taxes to drive jobs and investment. In this budget, a bit more to help families in the hip pocket but just for the record the payroll tax we've cut. It's now the second lowest in Australia. We abolished duty on non-residential leases. Financial Institutions Duty abolished as part of the GST agreement. Duty on unquoted marketable securities, we abolished. Duty on quoted marketable securities abolished as part of the GST agreement. Duty on mortgages – we are the only State that has abolished duty on mortgages. That's about two hundred million a year abolished from 1 July this year. Why are we doing that? Because it's a tax on business and it's a tax on homebuyers. And also as we announced the land tax reform ...bring down the top rate from five to four percent and thereafter bring down to three percent over four years. Cutting WorkCover's premiums. And also I might add from 1 July 2005, again as part of the IGA with the Commonwealth, abolishing bank accounts debits tax.

This is probably, I think, unquestionably an unprecedented period in Victoria's history in terms of getting the tax burden off business and off families. If you just look at the duty on mortgages, the land tax cuts and the debits tax cuts there is more than six hundred million dollars of full year tax cuts each year from July 1, 2005 going forward more than six hundred million dollars a year. There is no other State that can match us on that. And we're providing that all within the context of, as I said, responsible financial management.

People say why did you cut the land tax rate from five? Five percent was a punitive rate. A number of States have flat rates closer to 2 percent. And how does it affect ordinary Victorians? If you're a land developer in Craigieburn or Cranbourne, you've got hundreds of hectares of land out there to sub-divide for first home-owners. All of that attracts a 5 percent land tax rate. It'll come down in Victoria to 3 percent. It should take around \$2000 off the cost of your average suburban block. Another reason with land tax is if you're an ordinary wage and salary earner, you contribute to your superannuation fund. Your super funds invest in land in Victoria. They own more than 2.7 million dollars of land, which most of them would. They've been paying a 5 percent rate. And is it right that an employee's super savings should be taxed at that 5 percent rate and the answer is it shouldn't. And so that's another reason why we've knocked that rate down.

Economic growth going forward - good numbers for Victoria: three and a quarter percent for Victoria this year. We've still got a little bit of the effects of the drought, which is running through and I'll come to a slide on that later: three and a half percent going forward. All of the fundamentals are very, very strong indeed for Victoria. And I think if you look forward to 07-08, the Victorian economy has been growing every year since late '91 and it's essentially 15-16 years of uninterrupted consecutive economic growth. So it's been a pretty positive era for Victoria. Just a few things.... we've been doing well in a lot of areas but unemployment? We've been below the

national rate for 46 consecutive months. We say this is a family's budget. It is. There is nothing which is as important for families as jobs and so we've led Australia in job generation and low unemployment rate. Business investment per capita : we're second only to Western Australia. GDP per capita: we are again above the national average. I show this graph every year and it's business investment per capita. It does show the last few years we've been doing well. We'd like to keep it that way going forward and again it's looking at total business investment divided by population. The only State that does better than us is WA.

I thought I should show you this slide on labour market and again the focus particularly on regional Victoria. You'll see there, for indeed most of the 90's the unemployment rate in country Victoria/regional Victoria was significantly higher than the Victorian and Australian average. And you'll see that really since essentially the financial year 2001 that unemployment rate has come down now to not only the Victorian and national figure but actually below it. And when we say we've got a great story to tell about regional Victoria, it is a great story to tell. We had a very clear mandate for regional Victoria. Every budget's honoured that mandate. And you see the benefits of that there ,with an unemployment rate now in regional Victoria which is certainly below the national figure and for a few months has been below the Victorian statewide figure. It's a good strong growth performance.

People have been pretty important to us. We've been one of those governments, and the Premier particularly, saying we want more population in Victoria. We'd like more migration. And we've been getting it. And again I think you know the story here. For a lot of the 90s we had people leaving Victoria in large numbers. They started coming back towards the end of the Kennett era and what started as a trickle became a pretty strong stream. The last year, the net interstates have slowed off a bit but they have been more than replaced by an increasing share that we are getting of overseas migrants. So in the past, most overseas migrants just used to park in NSW. We're now increasing our share. It's up at about 28 percent of national migrants. So you can see from that there if you support higher population (as we do) these are a great set of numbers. Last year we actually grew above the national rate of population growth and you can see we've kicked up again in terms of growth and it's coming from our better share of overseas migration and still some net interstate migration. A good strong story. And of course if you're in the hotel business, if you're in tourism business, if you're in retail, if you're in housing a strong set of numbers.

Provincial Victoria. this is all in the budget papers and I won't dwell on it but there is about a billion dollars of initiatives for provincial Victoria in this budget, so (a) very strong budget indeed for provincial Victoria for education, in health and aged care. The bush fires - one hundred and sixty eight million over four yearsthat's going to mean things like more fire crews in each region, at least one extra crew in each region. More fire reduction burning. About one hundred and eighty additional firefighters. So it's quite a significant initiative and, in combination with local government and through the fire services levy ,one hundred and ninety eight new CFA fire tankers. And a lot of these haven't been replaced since Ash Wednesday in 1983 so they're more than 20 years old. They need replacing and we need to make that investment. So there's a big commitment there.

Water – 68 million: It's in the budget. It's paid for. The Premier and the Deputy Premier, when they release the White Paper, will detail those initiatives in regional Victoria. Transport. If you're in Geelong this has been a fantastic budget for Geelong. Funding for our half of the Western By-pass, a rural roads package: 73 million.

A few other things for provincial Victoria and I want to say this because provincial Victoria it's more than just you know, it's more than just the Bendigos and Ballarats. It's the small towns. It's agriculture and it's farmers. And so I just wanted to run through how the things we're doing affect those communities as well.

Abolition of stamp duty on mortgages. Farmers do change properties quite a bit. They often get bigger. They do expand and when they do they take out a mortgage. So mortgage duty benefits farmers. From July 1, take out a 500,000 mortgage. You will save \$2,000. No other State has abolished that duty. Average WorkCover premiums will be cut by 10 percent. That will benefit farmers. I've put in here some numbers too about what it means for provincial employers. So Geelong will save around 6 million in premiums, Bendigo around 2, Mildura around 2. I've mentioned in here...we are the first State to create, if you like, a State Productivity Commission and that commission will report to me. And we've announced that their first inquiry will be to look at regulatory impediments to regional economic growth. And no other State has had a look at this. Are there regulations Commonwealth, State, local, which are holding back economic developments? Let's have a look at them.

There's a number of specific initiatives here. The *Make it Happen* campaign.

Absolute success. I've never had so many letters from so many councils wanting more money money under this program and (audience laughs)...more money I distinctly heard myself say more money. (audience laughs again)

The Port vision. This is a pretty bold vision and to put it into perspective for country Victorians : Melbourne's the biggest container port in Australia -37 percent of all containers. A company like Murray-Goulburn, which is essentially a country business, 25,000 containers a year of dairy product ...so 500 a week going out. And so the more efficient you can make the port, the bigger the ships, the deeper the channel, the rail link going straight in, the more you'll cut costs for companies like Murray-Goulburn and additional money too there for the next generation food strategy.

So it's actually a very good budget for provincial Victoria. I want to say, too, it builds on...what you get in a budget is just the new things, the additional things. We never report on what is already happening there or what is a work in progress. So you've got ...I've got to say perhaps I'm a biased observer, but I can't think of any other time in our history where there is so much investment in country Victoria. So just at the moment you've got the fast rail projects under construction, Geelong very nearly complete, \$600 million plus project in total. We've put aside \$325 million in last year's budget for the Victorian Water Trust and that money is available as well for expenditure going forward, much of it being spent at the moment. We've had two rounds of the Regional Infrastructure Development Fund - \$360 million in total, including \$70 million for the natural gas roll-outs and I've already announced Bairnsdale and Paynesville as the first two cabs off the rank. We've got the money in the forward estimates for the Wimmera-Mallee pipeline- we just need some Commonwealth money to let that run. Two budgets ago, the \$100 million upgrade of the agricultural laboratories and I think that work is now complete. And of course aged care. I just want to stress this. The last four budgets of the Kennett Government.... there was something like \$37 million for aged care facilities in country Victoria. Our first four budgets - \$237 million . So a huge investment in aged-care facilities in country Victoria. All of that is going on at the moment: not new, work in progress.

This just shows the extent of the success I think we're seeing in provincial Victoria. These are regional building approvals. Just comparing the percentage increase,

country versus city, and what you'll see there are pretty clearly2002-3, well you're seeing first on the blue lines there, a fantastic recovery over the last four financial years. And the last two years, the rate of growth in regional Victoria outstripping what's happening in Melbourne. So if you think there is a lot of building activity happening in Melbourne, double or triple it and that's what's happening in provincial Victoria.

We're still recovering from the drought. I mentioned that and I've always said that on the basis of ABARE statistics that the drought knocked about one and a quarter percentage points off GDP growth. This just shows pretty graphically how we're affected by the drought. The graph on the left is agricultural employment and I've got to say that's what the ABS data shows. I would say, as I always do with some data, treat it with an ounce of caution and you always get a bit of tweaking around the edges. But even if you said it was only 80 percent right it shows the significant impact the drought had on country Victoria. If you look on the right hand graph, that's crop production and you'll see this year we've just come back up. That's cereal exports, but it really does show why the drought knocked one and a quarter percentage points of GDP growth off us. And we're still not totally back. We're still not back in the dairy areas because some of them are still pretty dry, not a lot of irrigation water. We're still not back in wool because a lot of the herds haven't yet bred up to full capacity. But it just shows it did have a big impact and obviously at the moment north of the divide Victoria remains very dry indeed and if we don't have Autumn and Spring rains we will have quite a problem.

I just have half a dozen slides or more and then we'll go to questions. This just shows the record infrastructure investment in the budget. This has been a feature of the Bracks Government. We always said Victoria was under-investing in infrastructure, under-investing in the 90s. We've essentially doubled infrastructure spending. So this is things like roads, it's transport links, it's schools, it's hospitals, it's aged-care facilities. It's things like the new Austin Hospital, the Women's Hospitals. And this year we will spend \$2.9 billion and again all of it basically off the surplus and cash operating balance.

Where is some of that going? This budget, \$164 million for outer-metro roads. We need to do that. And David Cumming's here from the RACV today and he'd be the first to tell me, as we know, that a lot of those roads in those growth areas - they're little better than ...tracks. And you've got to keep investing in them and that's what we are doing - \$164 million. Rural roads \$73 million - that's a good package, Geelong-Western By-pass \$186 million. And I think most exciting we're back into the black spots business again and this was a fantastic program, our first few years in government. The TAC - again quite profitable this year. They have capital they can return and so \$130 million into that and projects in Melbourne. About half of that will be spent in country Victoria and this does make a dramatic improvement to saving lives right across the state.

A couple of things that I just wanted to add today, which I thought would be of interest to you just on the road funding. I think you know these numbers. In very broad terms, the picture hasn't changed. We pay about 25 percent of the nation's fuel taxes. We represent more than 25 percent of freight movements, but we get just 15 percent of federal road funding. And it's fair to say we're pretty grumpy about that. And I just want to make the point that we don't want a special deal. We just want a fair deal from the Commonwealth. And if you go through the numbers if we got anywhere close to 25 percent - we'd settle for 24 percent, we'd probably settle for 23 percent. If we got anywhere near 25 percent, I just want to put this in perspective for

you, from the Commonwealth over the next four years all of those projects there could be funded and completed. Right, just if we got our fair share, the next four years. Geelong-Western By-pass we've put our 190 in, we'd want 190 from the commonwealth. Deer Park is a national road. It's a national highway. It's about 250. We think the commonwealth should fund that. Calder freeway, we're looking I think for another 70 to match our funding on that and Pakenham By-pass we've put in 120, they've put in 100, there's 21 missing. You add of that up. All of that can be comfortably accommodated between the 15 and the 24-25 percent. And so that's all we're saying to the commonwealth, we want a fair share. And you see from the graph, which is there, our colleagues north of the border for some reason do get a better share. The Federal Government would say things like oh they've got to put money into things like the Pacific Highway. There are more people killed on the Calder highway each year than are killed on the Pacific Highway. So let's have an honest debate about this. All we want is our fair share directed towards transport improvements and road safety.

The Budget highlights, I think you're pretty well across these. Caring for children, health. I'll just say on the health side. It's the biggest increase we've provided. It's directed towards two areas: increasing the price that hospitals get because they've been paid too little for the surgery they undertake, for the healthcare they provide. The price has been too low. That's why they've been returning deficits and also demand funding. So you put all of that together, it's a big, big package the biggest we've ever provided for our hospitals. And needless to say we are getting more results. We are treating many more patients. Aged care, disabilities and so on I think you are across all the detail.

Education more money on the cap ex side, few more teachers. Let me just say about education we've put a fair bit into it but we are getting great outcomes. We are getting significant improvements in numeracy and literacy in our primary schools. We are getting now the best participation rate kids staying on longer to learn more in our secondary system. Police, security, counter-terrorism and the arts, a very positive budget for the arts and culture.

Housing affordability, I think you know about this one. The \$5000 first home bonus. For anyone who buys up to \$500,000 that will assist 26,000 first home buyers. Cost to budget \$149.1 million. Also abolishing mortgage duty. Everybody who buys a home in Victoria after July 1 will not buy mortgage duty. Only state in Australia. It's 0.4 percent, close enough to half a percentage point interest rate equivalent. Stamp duty exemptions for concession cardholders, these are the most generous for pensioners that we've seen for a long, long time. Basically when we came to government no one could get this exemption it was so low. This will more than double the number of pensioners who get that exemption. And finally social housing because housing isn't all about home-owners. It's about 75 percent of the market. There's a lot of renters. There's a lot of poor people and so \$50 million extra for social housing. It's a good, well-rounded balanced package.

That shows how a first-home owner benefits. I think you've seen these numbers. The existing first home owners grant, which I should say of course as the state begins to move into the black under the GST agreements of course we pay for that not the commonwealth. The first home bonus, which is \$5000, the abolition of mortgage duty so total benefit there which exceeds the stamp duty payable.

Now just a couple of things to finish off Ian, I can see you getting anxious. Public hospital grants, I say this because it is topical and you are seeing a lot of argument put by the commonwealth at the moment about how generous they are to Victoria. These

are indisputable figures and they come straight out of the commonwealth healthcare agreements It just shows what's happened in the last six years. We've been paying more and more of the health bills. And (the agreement) was meant to be 50/50 joint commonwealth/state about our hospital system. You can see there we are virtually now paying 60 percent of the cost of running the public hospital system. The commonwealth's share has slumped to 40 percent. And you're talking here about hundreds of millions of dollars in fact over the term of the agreement billions of dollars in terms of our budget position. So I just want to show you that. We are putting in more. The commonwealth is putting in less in real terms. The graph there shows that as graphically as you can.

This is just to make sure you are informed about how much we subsidise other states. We continue to do that under this bizarre commonwealth/state horizontal fiscal equalisation. Everyone of you every year is paying \$200 to help out our friends in Queensland, WA, Northern Territory and ACT and we'd say we don't mind helping out SA, Tas, ACT and the Northern Territory but we sure as hell object to helping out Queensland and WA. It's a bizarre notion to say that everyone sitting in this room should be paying \$200 a year extra in tax to help someone in WA or Queensland. Finally, just want to make sure everyone's clear on this because there has been a bit of a misunderstanding about this and this is the GST arrangements. So the top line there shows the GST revenue that we get. The second line shows what we gave up and these are all agreed figures with the commonwealth, what we gave up in state taxes things like FID, things like quoted marketable securities, plus things we're paying for like first home owners scheme, the \$7000 grant and our share of the Australian Tax Office all numbers straight out of Peter Costello's Treasurer's Council document. That then gives you a column called the net impact prior to the transitional guarantee so Victoria again just contrary to some of the comments that are around, Victoria doesn't benefit from the GST. Victoria has been losing \$670 million, almost a billion dollars a year. To be fair to the commonwealth they guaranteed that no state would be worse off so they'd give us what was called a transitional payment and they'd bring us up to zero. So we are no worse off. But we've never gained from it and we are still behind at the moment. And you get to 2004-05 if the economy grows as rapidly as the treasurer says and if we extract \$150 million of embedded tax savings then we would be better off to the tune of \$83 million. Next year 2005-06 we abolish banks debits tax and if we are lucky we will be better off to the tune of \$1 million. So when people says we are hundreds and hundreds of millions better off with the GST that is just nowhere near the truth. What you can say is that at best over six years Victoria's total net gain from the GST is over \$84 million dollars - over six years. So I just wanted to make sure we're clear on that.

So that brings me back to where I started. It's a budget that's really built around a strong surplus, a strong economy, putting families first, record infrastructure spending and of course it's a budget too, which delivers for country Victoria. Thank you.

IH: Thank you Mr Brumby and thank you also for staying on to answer a few questions. If I could just make this point to all of you, the usual rules apply as a matter of courtesy if you could just identify yourself and your organisation if that is appropriate when you ask your question. Now we have some Rural Press Club members lining up from Telstra booths around Victoria and I believe our first question Mr Treasurer is coming to you from Mildura.

Mildura: No questions from Mildura

IH: From Ballarat?

Karen McCann, Ballarat Courier (KMcC): Liberal Opposition leader Robert Doyle has today attacked the government for failing to fund a helipad for Ballarat in the budget. Do you have any response to that?

JB: Was that a helipad? Yes, I don't think there is a helipad in the budget and I don't think one was promised.

KMcC: Is it something the government will be looking at?

JB: It may be. There's a record investment in health funding. 1.6 billion dollars extra and that all goes into our health system to make sure that we do get the best health facilities right across the state. I'll take that on notice and I'll see where it is in the priorities. Ballarat obviously did very well out of the budget as the *Courier* reported particularly with some strong funding from Ballarat TAFE.

IH: Who's next? We'll take a question from the floor then shall we? Anyone with something to ask?

Stephen Shephard, Chief Economist, Sensis (SS): Treasurer, through one of our products, the Sensis business index, we do regular surveys of small to medium enterprises. And one of the issues that inevitably comes up is the issue of payroll tax and the distorting effect it has particularly on growth oriented business who start to approach the payroll tax-free threshold. In your mind as treasurer do you think that there is some potential catalyst in mind that we would start to see some fundamental reform of the payroll tax system either in the form of the threshold or in terms of the actual tax rate because it does seem still to be a distorting tax particularly for some growth oriented businesses?

JB: Thank you for that Stephen. Look we're quite conscious of the issues you raise in relation to payroll tax. As you know we cut payroll tax. When we were elected the payroll tax rate was 5.75 percent and we've cut that to 5.25 percent. That's the second lowest rate in Australia. We also increased the threshold from 515,000 up to 550,000 and I guess you might say that doesn't sound like a lot but it was the first increase in ten years. Is there a capacity to go further? I guess what we've tried to do in this budget is address the issues in relation to land tax and the land tax tax cuts are worth about 200 million a year in their four year effect and we've abolished duty on mortgages which is about 200 million a year and we're abolishing bank accounts debits tax from July 2005. Is there a capacity to go further in that sort of time frame? I think the answer is not. And as I said we've got the second lowest rates and our priority has been to really get rid of stamp duty on mortgages, get the top land tax rate down, get rid of bank accounts debits tax bringing down the total level of tax. Perhaps if I could just see if this works. I just wanted to show you this graph on this. You'll find this on budget paper four just on the tax side our total receipts come from taxes, from the commonwealth, from the GST share that we get, from fees and fines and investment activities and so on. This is a graph, which shows on the left-hand side the billions of dollars in total revenue and on the right hand side, which is the line graph part of it revenue as a share of GDP. And what this shows is that far from

increasing taxes in fact our total revenue you'll see there for the current year is running there at around 13 percent below the level for most of the 90s. And so we always do as much as we can on tax but the reality is that Victoria is doing far better today than we were doing right through the 90s. The tax burden has come off business and has come off families in a way which is quite unprecedented and you see that as a share of real GDP and trends down again in the future.

Terry McCrann (TMcC): And as you remember the last time you were in this room together you were MC but I have to concede Ian is doing a much better job. Two questions, John. The first might be a little sensitive so I'm sure you can assume your answer will be in club. Now that the GST is going to stay - I'm accepting your point about the transfer that we make to other states so generously - can you see a second stage in the GST, the first stage has worked very well to eliminate all those silly taxes and those inefficient taxes. Could you envisage a time five years down the track when the GST could be lifted 12 percent, 15 percent to abolish some more of those silly state taxes, as I say I'm sure your answer will be in club, and the second question John, do you think you'll be aiming to match Peter Costello's nine budgets?

JB: Thank you for that. I wasn't aware he'd done that many. Well the last part I'm certainly enjoying the job and I think it's a great honour being treasurer. So I look forward to doing the job for many years to come. On the first question Terry, obviously, I wouldn't answer that question today now would I? But I think going forward the GST arrangements are a bit more complicated than that. If you look at the list of taxes, which are still to be reviewed and there is about ten of them, Victoria, we're ahead of the pack in a number of areas. They include taxes like duty on mortgages, which we've already abolished, duties on non-residential leases, which we've already abolished, duties on unquoted marketable securities, which we've already abolished. So we're probably ahead of other states but the one, which is towards the top of the list is duty on business conveyancing and I was asked a question about this yesterday. And I said I think it's very hard to make out a case, and we'll wait and see if the Federal Treasurer tries to make it out, to abolish conveyancing duty on business transactions but not on home owner transactions and the fact is you can't do both. So I think the easy work in terms of tax reduction has already taken place. I think the equation gets much more difficult going forward. And needless to say you'll get other debates as you've heard here today. You'll have people say well let's look at business conveyancing and you'll have other organisations say well hang on let's look at payroll tax which in some states I've got to say is still at 6.5-7 percent. So we're not too bad. So it will be a more complex debate I think going forward.

John Carson, President, Rural Press Club, representing Stock and Land (JC): Just a couple of questions from the regional perspective. One is that you've mentioned the \$77 million allocation for the Wimmera-Mallee pipeline, which was announced a couple of years ago in the budget but there was no provision for an increase in that and I know that was contingent on the Federal Government matching that but there's been a cost blow out with that pipeline so there's no provision there.....

JB:...One of the budget papers and it goes to that so the budget provision is there and it's funded and our entitlement is there so that's been a bit of a furphy but that's not there.

On the Wimmera-Mallee, look the issue with Wimmera-Mallee essentially I've got to say this, it's not really an issue with us. We've lead the way on this. We funded the study. We've put in \$77 million. To make this work, it's got to have federal funding. I think we need to appreciate that. Otherwise it's going to be a very short pipeline. (Audience laughs). Well it's true, you know if you only fund half a road it's either going to be shorter or it's going to be narrower. And it's the same with a pipeline. So that's the first issue. So I think really everybody's focus has got to be with the federal government. We have done absolutely the right thing here. We've put the money up front. It's in the forward estimates. We'd like to start work tomorrow. On the overall scope of it, there is going to have to be some hard thinking on this because if it's a \$500 million project and it saves 83,000 megalitres, the cost per megalitre is very, very high. Like we have to understand that. You can buy water in the market for a price, which is way below the savings. Now because it's investment in infrastructure and it's net new savings it's not just purchase out of someone else's entitlement you can say well you can afford a premium for that. But you've got to say if a project gets up to around \$500 million for let's in round terms 100,000 megalitres so you're looking at a price of \$5000 a megalitre you really are pricing yourself out of the market. And I know there is a lot of rural people here today and I don't think anyone would disagree with that. So you can pay a bit of a premium but if you're getting up into thousands and thousands of dollars a megalitre you're just too high. So that project is going to need to be re-engineered and re-scoped to provide more value for money and secondly the commonwealth's got to put in. And I just say to all of the press and the businesses and farm organisations here today, you just can't let the commonwealth go on this. They're funding projects in other states. This is a national program. It's close to 100,000 megalitres, it's a good project. Let's get it under way and do it. Water is the big debate of this decade. Let's get it under way and do it but we can't do it without the commonwealth's help.

IH: Right up the back.

Geoff Creek, Victorian Farmers' Federation: Treasurer, we may have different priorities of income and expenditure but we do congratulate you and your government on the acceptance of this budget and on the fiscal responsibility in continuing to deliver budget surpluses and projecting surpluses into the future. Treasurer over the last two years the government has received something like 2.5 billion dollars more income than they actually budgeted for. And over that same period of time government recurrent expenditure grew out or blew out by a similar amount. The question why doesn't the government exercise recurrent expenditure restraint to proscribe budget levels thus allowing treasury to set aside surplus revenues to address treasury's estimated \$15 billion per year fiscal gap by the year 2040 or at least bank more of the surplus revenue in additional infrastructure rather than foster an appetite for recurrent expenditure, which if the economy does slow will be painful to satisfy? We ask are we missing an opportunity that future generations may have to pay for?

JB: Ok. Let me go to a couple of those points. Firstly, let me make the point... and thank you for your comments about responsible budget parameters. Let me go to the point on the growth in outlays going forward. Growth in outlays in this budget is 4.2 percent. As I said before nominal GDP will be in excess of 5 percent. So we're actually reducing outlays as a percentage of GDP. We're not increasing it. We're reducing it. And you might say well how can we do that. That goes to the question

that I said at the very beginning of this speech. How can you spend a bit more, cut taxes and still run a good surplus? And the answer to that goes right back to what I said right at the beginning of this speech. We're saving around \$200 million a year on interest savings on debt, from lower net debt, which is all available for service delivery. Secondly, we funded all of our LFS election commitments on debt in our first budget in the contingencies. So they've all been funded. They've all been paid for. And thirdly of course, we've always said if we could get wage outcomes around 3 percent each 1 percent in a wage outcome is worth \$100 million per annum. Over a four-year period it aggregates to close to \$1 billion. So the closer you can get that outcome, the more significant the budget capacity. So what that means is you get a graph like this, which is table A2 in the budget papers. So Geoff what it shows is that we have been careful about the way we've targeted spending as I've said through judicious wages policy, fair wages policy, reducing net debt, good budget management, balance sheet management. Through all of those things again you'll actually see on this graph we've got spending now and in the forward estimates period at around 12 percent of GDP. Lower than it's been in the past and certainly on par or lower than what it was for much of the 90s. So in a sense we're driving the balance sheet harder by managing it better. So you can have a look at those yourself in the budget paper. The other thing this in part goes back to your question too, with what we've done with surpluses and you might remember that table I showed you before on net debt the budget numbers have been stronger and we've been using that to pay down net debt. So this one is actually our superannuation liability so we've been paying that down. That's our total net financial liability. So each budget as we've gone through we've had stronger numbers not weaker numbers and used that to reduce liabilities. And that just shows that. So the red line is what we thought last year. Budget was a bit stronger. We paid down net debt. Benefit of that is interest cost savings, which can go into service delivery. Small or overall call on the taxpayer but more services delivered. That's the story have your cake and eat it too. I'm going to have to go for question time because otherwise I'll be in more trouble than Bob Smith.

IH: Show your appreciation for the treasurer's time, please. (Audience claps). Before you go we have a small token of our esteem and thanks here. It's from Jo Benke from the Herald Sun and I think it comes up a treat. There'll be a small spot on the wall for that won't there, John?

JB: That's beautiful. Thank you. Thank you.