

TRANSCRIPT

PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

Budget estimates 2019-20 (Economic Development)

Melbourne—Friday, 31 May 2019

MEMBERS

Mr Philip Dalidakis—Chair

Mr Richard Riordan—Deputy Chair

Mr Sam Hibbins

Mr Gary Maas

Mr Danny O'Brien

Ms Pauline Richards

Mr Tim Richardson

Ms Ingrid Stitt

Ms Bridget Vallenge

WITNESSES

Mr Tim Pallas, Minister for Economic Development,

Mr David Martine, Secretary, and

Ms Lisa Gray, Chief Executive Officer, Invest Victoria, Department of Treasury and Finance.

The CHAIR: I now declare open this hearing of the Public Accounts and Estimates Committee.

On behalf of the Parliament, the committee is conducting this inquiry into the 2019–20 budget estimates. Its aim is to scrutinise public administration and finance to improve outcomes for the Victorian community. The committee will now begin consideration of the portfolio of economic development.

I welcome the Treasurer again, responsible for economic development, and officers from the department, and I thank you for appearing before the committee today.

I need to again tell you that all evidence given is protected by the Parliamentary Committees Act. This means that it attracts parliamentary privilege and is protected from judicial review. Witnesses found to be giving false or misleading evidence may be in contempt of Parliament and subject to penalty, which dare I say includes watching *Home and Away*.

Minister, I ask you to make a very brief opening statement of no more than 2 minutes. This will be followed by questions from the committee.

Visual presentation.

Mr PALLAS: The 19-20 Victorian budget delivered on our election commitments while maintaining our strong and steady economic approach. The budget reflects the commitment of the Andrews Labor government to building on our strong economic and employment growth, which is reflected in our current infrastructure spend, creating 115 000 jobs, but also in our commitment to ensuring the right conditions for business to invest, create and to expand.

Victoria is transforming the way it approaches economic development through the establishment of a new economic development portfolio. The government is implementing a strategic whole-of-government approach to investment attraction, attracting innovation and jobs projects that support the transition of the Victorian economy to high-growth sectors, utilising a wide range of policy levers to encourage and increase economic activity. This approach will be driven through the new economic development portfolio supported by Invest Victoria. So to drive that productivity growth the economic development portfolio is strongly connected with other key portfolios, including priority precincts, jobs, innovation and trade, planning, regional development, training skills and higher education.

The CHAIR: Sorry, Treasurer, I misled you. You have 5 minutes for your presentation.

Mr PALLAS: Great; I can slow down then. Alongside our new dedicated agency comes a new approach to supporting investment.

Mr D O'BRIEN: Typical. Can't keep within budget.

Mr PALLAS: I suspect you'll have some time left over now, Chair. Invest Victoria is looking beyond the traditional grant programs to develop a broader range of programs and financial mechanisms to attract investment. This will be an important step in contributing to addressing the funding supply gap for businesses looking to access growth and early stage capital. There will also be a strong focus on research and development, with the potential to help grow the venture capital ecosystem. Investment attraction efforts are a large contributor to Victoria's economic growth and job creation record. We are the country's leader in investment attraction and also in promotion activities, and that is backed by our strong track record.

Since 1 November 2014 the Andrews Labor government has facilitated private investment worth more than \$9.6 billion in new capital investment. These projects are expected to create more than 26 000 FTE new jobs,

which will boost our economy, of course. Our investment attraction efforts have led to the attraction of companies like Kaufland, the world's fourth-largest retailer, with a \$459 million capital investment and the creation of 1600 new jobs; and Praxis, a biotech company that creates medicines to improve the lives of people all over the world, as well as creating 100 new highly skilled jobs here in Victoria. We have also been able to facilitate investment with some leading sectors, including the Australia-New Zealand headquarters of DiDi, the world's leading mobile transportation platform; the APAC headquarters for Wrike, the collaborative work IT management platform; and big international names like David Jones, Alibaba and Uniqlo.

So we have got an ambitious investment target for the next financial year—5200 new jobs and \$2.3 billion in capital investment. These targets will be shared across a number of departments. In order to achieve this Invest Victoria will lead a coordinated and organised whole-of-government approach to investment. The approach will be supported by \$150 million over two years that will be allocated to the Victorian Jobs and Investment Fund from 19–20. The fund will support state-significant opportunities, attract investments in the state and bring the innovation and jobs projects that drive growth and support the transition of the state's economy into high-growth areas. Invest Victoria will oversee the whole-of-government investment attraction pipeline, and the combination of our new approach to investment attraction and funding provided through the 19–20 Victorian state budget will help us to successfully deliver on those ambitious targets and lay a strong foundation for long-term economic growth.

Ms RICHARDS: Thanks again, Treasurer, and officials for taking the time to provide those insights and for generously contributing to our understanding of the Victorian economy. I would like to refer you to budget paper 2, page 2. Of course we have got a chart here that shows Victoria's contribution to the national growth. So with the Victorian economy performing well and this strong performance here demonstrated with this chart, I am interested why the government did decide to establish a new dedicated economic development portfolio?

Mr PALLAS: Thanks very much, Pauline. I think we cannot simply rest on our laurels; that is the simple answer. I finished off my budget speech with a quote from former Prime Minister Bob Hawke that the world will not wait for Australia, and Victoria cannot wait for the rest of the nation. So we do have to set a benchmark for ourselves that does not necessarily reference how the rest of the country is going but what we see the future opportunity for jobs and industry actually looking like. As you rightly pointed out, Victoria has got the strongest economy in the nation. Our economy has grown at above-trend rate for the past four years, at an annual average rate of about 3.5 per cent. Since the government was elected, as I have said previously, we have seen the size of the Victorian economy grow, using GSP as a measure, by \$55 billion. Something I am particularly proud of is our strong economic record is enabling jobs growth—450 000 jobs over our time in government.

But importantly, we cannot simply just sit back and say, 'Okay, you have grown nearly one in eight jobs in our economy to date, that should be satisfaction enough'. We have got to urge ourselves to do more and look at where the employment growth is coming through, where Victoria can excel. But make no mistake, we excel through the sheer quality of our people and their educational qualities and their service delivery offerings. It is because we have created the right conditions for business to invest, to create and to expand, all the while getting on with building the infrastructure and growing the state to ensure that the needs not just of the present but of the future are being provided for.

So we are proud of our economic success. Like all states, I think Victoria is facing challenges. We have got weak productivity growth in recent years, a challenge that most OECD countries are grappling with. We know that to continue to boost the productivity capacity of our state we have to identify those areas that will provide the jobs of the future and opportunities for a highly skilled workforce and that a commitment to further skilling that workforce will unleash in terms of the future of this state. We are going to also endeavour to be one step ahead of the game basically by ensuring that our economy is well-placed to weather potential economic shocks. If you look around the world, it is those areas that are particularly conversant with the adaptation of new technologies, the opportunity to employ those technologies in greater, more efficient work, but recognising that we need a workforce appropriately skilled to take up those opportunities. That is why following the last election the Premier established a whole-of-government economic development portfolio. As Minister for Economic Development my remit is to take a strategic approach to attracting new investments, skills, capabilities and

technologies to the state to ensure we continue to capture the immense opportunities that are available to us to ensure our economy continues to grow and thrive.

Looking at it, attraction is an extremely competitive and global game. In fact there are now 2500 investment promotion agencies globally. So we know we have got to work together and harness all our strengths to drive productivity growth, and the economic development portfolio is strongly connected with those other portfolios that I took you through in my opening address. It is an exciting time for this state, with record infrastructure investment and high business and consumer confidence. The decision to establish an economic development portfolio to drive a whole-of-government approach, to grow Victoria's economy, is the right one, and I am looking forward to continued growth and development for the state's economy.

Ms RICHARDS: Thank you again, Treasurer. In your short and sharp presentation you did mention the establishment of a new economic development agency, Invest Victoria. What will the agency be responsible for, and how will it encourage businesses to invest in our fabulous state?

Mr PALLAS: I might hand over to Lisa Gray to tell you how things are going in terms of the development of that authority. If she is aggrieved by that, she can throw it back to me.

Ms GRAY: Thank you, Minister. Thank you for the question. Victoria has many elements of this capability today, and so the establishment of the new agency is to build on many of those but to also start to look at some of the leading global investment attraction promotion agencies for where we continue to grow and attempt to be world-leading in that regard. How we attract investment is initially through foreign direct investment and working very closely with the Victorian government trade and investment network around the globe. There are over 20 offices there and they bring different investment opportunities. They work with many organisations—technology organisations, retailing organisations—across many different sectors. So we will continue to work with that and then continue to enable those organisations to grow while they are here, be it through their jobs, expanding their facilities.

The agency provides a range of different services to do that. One is working with those organisations to help them understand the opportunities and competitive strengths in Victoria, be it technology, R&D, the education sector. It is also about facilitating their entry into Victoria, be it through planning regulation, site selection—connecting them, ideally, with other organisations and other professional groups or connecting them with parts of the supply chain and also working clearly with different precincts to enable us to grow some precincts where the government is particularly keen to be able to grow those as they transition their economies.

Ms RICHARDS: Thanks, Ms Gray. With the Chair's indulgence I would like to cede some time across to Mr Richardson, who I understand also has some questions.

Mr RICHARDSON: Treasurer, I was really encouraged in your presentation seeing Rinnai's logo in Braeside, and Decathlon who are on track at Moorabbin Airport, which is in my electorate. From your presentation, you mentioned some of the specific investments, but can you please go into some more detail so we can get a sense of what these investment attractions are like in practice?

Mr PALLAS: I will take you through those particular projects. But I just want to supplement the strategy and the thinking that Invest Victoria is applying and that is that it is not just about going out there and identifying how you might incentivise people to come to the state. It is about having a long-term relationship around attraction. The professionalism of people in this area is without peer in our regard. About 80 per cent of the work that is brought to the state is not an engagement on finances or commerciality, it is about the state's advantages being clearly explained and it is about facilitation—that is, giving the potential investors an appreciation of what their opportunities might be and how the state can help them get established.

So in recent years the Andrews government has been able to help attract a diverse range of international companies. They have based their regional activities in Victoria, including Alibaba, of course, David Jones and Zendesk. In fact thanks to the good work of Invest Victoria I recently announced two newcomers, of course. Kaufland, \$459 million, a great German supermarket giant are bringing investments to Victoria at three stores, in Dandenong, Chirnside Park and of course Epping, having received planning approval, and a further three stores are subject to an independent advisory committee planning process. It has a massive new distribution

centre; I think it is actually the largest distribution centre in Australia at the moment—well, it is not at the moment because they are building it, but the anticipation is that it will be the largest—almost the size of six MCGs. It will be a massive focal point of distribution activities emanating from the northern suburbs of Melbourne. I am also pleased to announce that with the help from this government Praxis Precision Medicines chose to make Victoria home. It is interesting the contrast in scales that we are looking at here. This is a company that perhaps is not making as big an investment but is making a vitally important investment in those parts of industry where Victoria sees that we do have a strategic advantage. It is a leading biotech company born out of more than two decades of research with the Florey Institute and the University of Melbourne, focused on delivering new medicines for patients with disorders which include epilepsy and autism and also mental illness. Praxis's decision to establish its Asia-Pacific headquarters in Melbourne is a vote of confidence in our economy, our local biotech sector and also the skills of Victorians.

But you do not have to take my word for it. Dr Kiran Reddy, the president and CEO of Praxis, told local media that Victoria is well-placed to be a leader in the biotechnology industry on the world stage due to high-quality scientific and clinical talents and the important investments that are being made by the Victorian government. So everything this government does around investment and the work of Invest Victoria is informed by improving the lives of Victorians and making those critical interventions in those parts of the employment market where we can actively grow better paying jobs and jobs that will grow the size of the Victorian economy in strategic parts of the jobs of the future. The new entrants to the Victorian market will create jobs and opportunities for Victorians, boosting our economy and keeping unemployment low.

Mr RICHARDSON: In the time I have got remaining, Treasurer, I want to direct you to budget paper 3, chapter 1 at page 20, particularly the whole-of-government initiatives. Are you able to tell the committee more about the whole-of-government Victorian Jobs and Investment Fund?

Mr PALLAS: Yes, certainly. Of course economic development is a whole-of-government responsibility, and the fact that we are now joining it up through Invest ictoria does not undermine the obligation essentially for Invest Victoria to work very cooperatively and closely with those other agencies. So we have already made job creation a priority of this government, whether it is in the introduction of free TAFE, slashing regional payroll tax and putting Victorian workers first—our procurement strategies, for example. What this means is that there is no single way of incentivising investment; it is all about our long-term strategies.

The CHAIR: Sorry to interrupt, Treasurer. We now have to move to Mr O'Brien.

Mr D O'BRIEN: Gee, aren't we glad that we got rid of Dorothy Dixers as per the government's election commitment?

Members interjecting.

Mr D O'BRIEN: Can I ask a question in relation to the questionnaire for this portfolio, on page 75 of the DTF questionnaire. There is a performance measure for 'New Australian/international regional headquarters of firms and/or research development centres attracted to Victoria'. Minister, can you explain: how is that going to be achieved and, more particularly, is there a numerical target for that performance measure?

Mr PALLAS: What I might do is throw to the secretary of the department and supplement, if you like, at the end of his address.

Mr MARTINE: Sorry, Mr O'Brien, I am just looking at page 362 of BP3. Which performance measure?

Mr D O'BRIEN: No, it was actually in the questionnaire. The performance measure in the questionnaire is 'New Australian/international regional headquarters of firms and/or research development centres attracted to Victoria'. My question is: what is the target? What is the KPI?

Mr MARTINE: Perhaps the best way to answer that is probably in a general way at the moment because, as the Treasurer and Ms Gray indicated, this is a new function that is transferring across from the old DEDJTR and we are currently going through a process to establish and set up various structures and then, in terms of moving forward, developing an economic development strategy essentially for the state of Victoria. So part of that process will be picking up what are the best ways to actually deliver on a number of these indicators, or in

fact a more fundamental question, which is: are some of these indicators the right sorts of indicators looking forward?

Mr D O'BRIEN: Likewise, Secretary, one of the other performance measures is 'Jobs resulting from government investment facilitation services and assistance'. Is there a target for the number of jobs?

Mr MARTINE: There is certainly a target. There are targets outlined in BP3, page 362. For example, on that particular performance measure in 19–20 there is a target of 5200 jobs resulting from government investment facilitation services and assistance.

Mr PALLAS: Can I just supplement that, just for the purposes of further information?

Mr D O'BRIEN: Briefly.

Mr PALLAS: Since December 2014 the government has facilitated investment projects, we believe, in the order of magnitude of about \$9.6 billion in new capital investment, and we figure it has created something like 26 000 FTE.

Mr D O'BRIEN: Okay.

Mr MARTINE: Sorry, Mr O'Brien, just very quickly, in terms of the headquarters you will see on that same page, 362, some actual numbers for 17–18 and then an expected outcome for 18–19 of 19 'New Australian/international regional headquarters of firms'.

Mr D O'BRIEN: Right. So it is 12, I see.

Mr MARTINE: Yes, so a target of 12 for this year, but as I indicated, because this is a new and developing function transferring across, we are going through quite a bit of work to have a close look at this.

Mr D O'BRIEN: Okay. Likewise, Minister, another of the targets is visits to the Invest Victoria website. How many visits must be achieved, and if it has not been achieved, do you get your staff to get out and start clicking? What is the actual outcome we are trying to seek?

Mr PALLAS: Without being dismissive of this, this is essentially one portal of engagement with the state. It is not the only avenue. We have investment people and regional development investment people who have day-to-day contact with companies. Through our government business officers we have trade and investment staff overseas who make direct engagement and are scouting out opportunities for the state. But of course having a good entry portal through our online offerings I think is vitally important.

Do I think that there is a magic number? No, I think the integrated approach towards the way that we attract investment and the fact that we spend a lot more time thinking about what are the key areas that we engage are important, and having an offering that is able to tell the world exactly what we consider to be an appropriate level of engagement. As these target outputs say, the 19–20 target is 150 000 and for 18–19 the expected outcome is 145 000, so we are seeing it continue to grow, and that is in circumstances where we are going through a process of reorganisation of the government's offering in the whole-of-government sense.

Mr D O'BRIEN: Just following up on that, Minister, the administrative orders note that there is only one act that you have under this portfolio, and that is the Agent-General and Commissioners for Victoria Act. I might note that only a month into the job you had one taken off you. But it says that the act is jointly and severally administered with the Minister for Jobs, Innovation and Trade and the Minister for Small Business. So my question is: who actually makes the decisions on this, or is this just an opportunity for you to go overseas with your factional colleague?

Mr PALLAS: I do not need opportunities to go overseas as Treasurer, I have got to tell you. But I might make the point that the key to how we go about attracting investment in Victoria really is not a function of how many acts you have under your control. I mean, I have got more than enough acts under my control and administrative responsibility in my functions as Treasurer, but—

Mr D O'BRIEN: Look, can I put it another way, Treasurer—sorry to interrupt; I am short of time. In your presentation—the second dot point of your presentation—it says that part of the role is attraction of innovation and jobs. If you are doing that, what does the minister for innovation and jobs do?

Mr PALLAS: If I could use a broad demarcation, as it were, of how the work is performed: the minister for jobs and innovation has principal responsibility for the functioning of the government business offices. He looks after the outward-bound activity—trade. I look after, principally, the inward-bound activity—investment.

Mr D O'BRIEN: Why not have the one minister handling that? They are two sides of the same coin. Why do we need two ministers to do one job?

The CHAIR: Unfortunately the coin will be have to be tossed another time. We are moving along now to Mr Hibbins.

Mr HIBBINS: Budget paper 3, page 20, just relating to the Victorian Jobs and Investment Fund and the government's economic strategy overall, what priority and what consideration is given to a planned economic transition away from unsustainable industries like coal and native forest logging and ensuring that there is a just transition for affected communities?

Mr PALLAS: In a broad sense with the Jobs and Investment Fund, its objectives and agenda have to be broadly consistent with the government's stated policies in these areas of activity. For example, if we are looking at the government's agenda with regard to reducing climate emissions, clearly our priority areas—that is, the jobs of the future—will focus in and around those areas.

Mr HIBBINS: In terms of having a clear, stated priority of assisting those affected communities for transition out of coal and native forest logging.

Mr PALLAS: So far as assistance to affected communities, this is a Jobs and Investment Fund, and it seeks to create jobs and to attract investment. It is principally focused on how we do that. The means by which we assist communities in transition is really an area related to the general government allocation. For example, we have already set up a \$266 million Latrobe Valley fund for the purposes of workers affected by the generation closure that has already occurred. It is about recognising that this is about attracting investment and growing jobs in jobs of the future rather than dealing with the effects of, for example, climate change or policy or decisions within the community that impact on it. That means that the government recognises we have an ongoing role out of our Consolidated Fund for contributions if and when those matters come. This money is entirely separate from that. It is about how we deal with attracting the jobs and the investment for the areas that fit strategically within the government's priorities.

Mr HIBBINS: Can I just confirm that this fund and the economic strategy is related to securing, I guess, industry from outside Victoria; it is not developing from inside?

Mr PALLAS: Perhaps I will refer to Ms Gray.

Ms GRAY: Thank you. The broader attraction is both about investment globally from outside of Victoria and Australia but also then for reinvestment within Australia as well. They could be companies that have recently moved here and are continuing to grow or—

The CHAIR: Please forgive me for interrupting, given that this is your first real opportunity to present to the committee. However, our time in this part of the portfolio has come to an end. I thank you for appearing before the committee today. The committee will follow up on any questions taken on notice in writing and responses will be required within 10 working days of the committee's request.

Witnesses withdrew.