CORRECTED VERSION

PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

Inquiry into 2002–03 budget estimates

Melbourne – 22 May 2002

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Ms M. Thomson, Minister for Information and Communication Technology;

Ms N. O'Loughlin, Director, Multimedia Victoria; and

Mr N. Edwards, Secretary, Department of Innovation, Industry and Regional Development.

The ACTING CHAIRMAN (Mrs Maddigan) — I welcome Nerida O'Loughlin, director of Multimedia Victoria. I will ask the minister to give a brief presentation on the more complex financial and performance information relating to the budget estimates for the information and communications technology portfolio.

Ms THOMSON — Firstly, I apologise that you do not have the slides, but Randall Straw who was going to bring them unfortunately had to leave rather hastily. I understand they will be provided before we finish.

The ACTING CHAIRMAN — Thank you.

Slides shown.

Ms THOMSON — First, we should clarify the obvious question about where does the Minister for Innovation start and finish and where does the Minister for Information and Communication Technology start and finish. Firstly, I should state that the Minister for Innovation and Minister for State and Regional Development and I have had an extremely close and good working relationship for two and a half years, and we intend continuing on that path.
Clearly the areas of innovation are those that relate to the policy areas of the department as a whole, both looking at innovative industries across the board and at innovative economies, and looking at the direction that Victoria must travel in the future if it is to be a highly successful economy into the future. That overarching responsibility is the responsibility of the Minister for Innovation. In relation to the information and communications technology area, I deal with ICT policy but I work closely with the Minister for Innovation to ensure that we are working up compatible approaches to the strategies required, given that ICT is not just an industry in itself but an enabler for other industries. To give an example of how that works, I have responsibility for investment attraction in relation to ICT industries, but the overarching responsibility for investment attraction and emerging industries is part of the portfolio responsibility of the Minister for Innovation, so I have to say there are no stresses or strains in being able to ensure that the best of what we both offer to our positions will enhance the overall performance of the department, innovation and ICT.
The Connecting Victoria program is the major plank of our ICT policy position. It has six strategic elements to it: building a learning society; growing the industries of the future; boosting e-commerce; connecting communities; improving infrastructure and access; and promoting a new way of governing.
Victoria's ICT industry is an important industry and I will just go through some of the statistics that you have before you. It is a $19 billion revenue stream and it contributes $5.8 billion to the economy of Australia. Having said that, 30 per cent of Australia's ICT industry employment and revenue is in Victoria, and around 40 per cent of Australia's information and communications technology R & D actually occurs here in Victoria, so we are a very significant part of the ICT sector in Australia. This was a sector that was hit by the dot-com crash, but we are fortunate in Victoria that we probably did not feel it quite as hard as some other places and some other Australian states did.
It is also important to recognise that not only is the ICT industry important in its own right — it is one of those key industries that the Bracks government sees as being important to the future of Victoria — but it was also an enabler to other industries. The chart you have before you is from the Reserve Bank and it looks at the contribution that the IT industry contributes in growth in other sectors. As you can see, it is a very important driver of growth in the other industry sectors. Looking to the future, these are the forecasts from the Allen Consulting Group in relation to the information economy and its capacity to drive economic growth. As you can see, the GDP has a 2.6 per cent change in growth in the out year 2004–05, and employment has a 1.2 per cent change in growth. You can see that the impact the ICT sector will have on growth of the economy into the future is not insignificant. But we do need to be cognisant that there are some issues around whether or not these figures will actually be met.

Mr DAVIS — Minister, is that Allen Consulting Group report available?

Ms THOMSON — Yes, it is available.

Mr DAVIS — Good.

Ms THOMSON — For Victoria, this equates to a $146 billion additional gross state product (GSP) and 95 000 additional jobs over the next decade. There are some challenges, and most of them

are within the federal jurisdiction for government, but there are challenges for the sector itself as well.

Mr RICH-PHILLIPS — What was the dollar GSP figure?

Ms THOMSON — It was $146 billion, over a decade.

Mr RICH-PHILLIPS — So $14 billion a year, on average?

Ms THOMSON — Yes. So there are some challenges ahead, and one is affordable broad-band access, which we are hearing an awful lot about now. Security and privacy is a very big issue for the sector into the future, for both governments and the sector itself to deal with, as is the question of ICT skills and being able to meet the demand and requirements and skill sets that will be required in the future.

There are big challenges ahead for both state and federal governments and for the sector itself if we are to reach those figures. This is a sector that is vitally important to a new manufacturing agenda such as automotive, food, and biotechnology. Just about any sector one can name will require new technologies, and ICT enables us to ensure that they secure their future growth.

The Multimedia Victoria budget, as you can see, shows comparative years. Under the development of e-commerce there is an increased figure that accounts for the transfer of Chipskills which came across from the Department of Education and Training, and also the funding allocated for the implementation of the ICT plant.

Funding has increased in e-government towards regional connections and initiatives in those areas. In relation to e-government it looks as though there has been a decrease, but I must also mention that this is the end of the VicOne contract. The new telecommunications purchasing and management initiative is offset by the VicOne facilitation funding being offset against that first year of projects. There has been a slight production in the ICT community development fund due to the My Connected Community policies, and a number of those have already been met so they no longer require funding. Under the telecommunications procurement and management strategy $21.9 million for 2002–03 is asset funding from capital requirements. There are also other trials and customer access networks of $5 million out of the Regional Infrastructure Development Fund.

I turn to the six strategies, the first of which is the skills x knowledge = growth strategy which looks at a number of initiatives and projects to encourage growth in ICT skills. As you will be aware, there has been a lot of talk about a skills shortage in this area and the need to promote ICT skills not only for the sector itself but for other industries that require it. To that end a number of initiatives are listed about which I might go into more detail later, but the ICT achievers for ICT curriculum development is for years 9 and 10, and ICT fellowships was not only for mentoring but almost a scholarship or reward system for higher achievers in IT skills for year 11 students. The new realities campaign is skewed towards career teachers and kits for students in relation to IT skills and careers. It also had a component for advertising in the cinema. Skills tracking and monitoring — data is vitally important in an industry that is forever changing. Being able to keep track of the skills required for the jobs that are available is not easy, but we are now trying to establish tracking and monitoring of the skills and developments required which will in the future help universities develop their curriculum to meet changing needs. Chipskills is a masters course in microelectronics which is now a curriculum available in universities.

The second component of the six-part strategy is Growing Tomorrow's Industries Today. The VicIT database provides IT services online. We will now be looking at putting the testimonials up and further information in relation to IT providers. There is also the game plan, the next level to support game developers. It is a small part of the IT sector itself but what it is generating is a world standard. The Interact festival is the largest in the southern Asian region for the ICT industry. There is also an investment attraction and export assistance program, which probably needs no further explanation. The next overhead refers to Victoria's E-commerce Advantage strategy which was launched by the Treasurer and me. It comprises part of the e-commerce exhibition projects, which is about businesses being able to demonstrate to other businesses how e-commerce can be used to enhance business opportunities. There is e-commerce advocates. We have trained people within the department to offer advice on how to apply e-commerce to their businesses and in a language that the ordinary person can understand. Those of you who deal with people who know about applications of e-commerce know they talk in acronyms, and nobody can understand them. There is the e-commerce

roadshow which provides workshops to help raise awareness of e-commerce and its advantage to business, and there is the information centre which will be a web site for businesses to look at how they can utilise e-commerce to enhance their businesses.

You cannot look at the opportunities of new technologies without ensuring that you are taking your community which you and that it has access to new technologies. We have a number of projects in place in order to assist the community to utilise new technologies to limit isolation, to provide access to information, and in some cases provide access to people with whom they can share interests. There is the e-gaps program which provides Internet access for those who otherwise may not get access to the Internet. Skills.net is a community-based training program that provides opportunity for people to not only have access to the Internet but to learn how to use computers and the Internet. There is also My Connected Community which gives support to community groups to use the Internet for virtual communities. That is another aspect to community development that we are undertaking in relation to online activity.

One of the biggest issues out there now in relation to Internet access is in fact the word 'access'. The fifth part of our six-part strategy is looking at what we as a government can do to assist with access to new technologies. I have to say at this point the provision of this kind of infrastructure is really the responsibility of the federal government, both as a regulator and as an owner of Telstra, but it is important that it sets the proper regulatory framework to ensure that we do have the infrastructure that allows for access for all our communities. Having said that, there are some gaps. As a state we are looking at what we can do to assist in relation to providing access to those communities that might otherwise find it extremely expensive to get access, or in some cases are isolated from getting access. We have put in place a number of strategies under Regional Connections.

There is the customer access network demonstration models which will look at us providing support to regional telecommunications networks that have brought together their local communities and local government to look at innovative ways of meeting that last connection — what is commonly called the last mile or so from the infrastructure backbone into the home. We need to look at some innovative models, and we are looking to support that on the basis that those innovative models are made available to other regional telecommunication operators who may be able to use it. That information will open up new opportunities for new areas for customer access network. Along with the Victrack fibre optic cable to go down with the fast rail that is going to the regions there will be a mapping of government infrastructure to increase accessibility and opening government's communications purchasing panels to regional and community telcos because we are one of the largest spenders on telecommunications in the state.

The last one is e-democracy or e-government, looking at our own online services. It comes out of putting people at the centre, ensuring that our online services are the best that can be accessed, and easily accessed, by our communities. The e-democracy parliamentary inquiry that the Scrutiny of Acts and Regulations Committee is undertaking is a part of this strategy, and the telecommunications purchasing and management strategy, or TPAMS, which will develop the voice data facilitation for government to the future will allow the new technologies to be put in place in relation to that, and there is also the Victorian online gateway, which is a new gateway that is being developed.

The ACTING CHAIRMAN — Thank you very much. The rest of the time until about 4.45 p.m. is allocated to questions. I will start off, if I may. In relation to one of the main Connecting Victoria strategies, building a learning society — and you have touched on it a little bit in terms of building programs to encourage young people to develop IT skills and what can be done to do that — I know there has been some research which has shown that girls have been very slow to take up IT courses at school and tertiary education as well. I was wondering what you have been doing and how that program is helping to encourage young people to take up IT and the increasing skills and knowledge in that area for young people, particularly girls.

Ms THOMSON — I think there are a number of strategies that we have in place in relation to ensuring that skills in ICT are seen as important. A reality bytes survey that was undertaken demonstrated that a little under 50 per cent of young people thought that IT skills were important for their careers into the future, and I think only 32 per cent saw any value in the creativity component of IT. So there was a very low acceptance of the importance of IT. We have put a number of programs in place to assist with that. I think the New Realities campaign that is a direct response to this survey

has to date more than 11 000 students in 106 secondary schools receiving presentations from people from the ICT sector, demonstrating the importance of IT skills. This has been reinforced with the kits that have been developed for career teachers to encourage an awareness of the importance of IT skills.

The results from the evaluation of this campaign have been that 91 per cent of students now agree that the creative core is important, and somewhere in the vicinity of 76 per cent of students now believe IT skills are important in their career options, so we are seeing a changing view as a result of the campaign.

I should say that in the framework under which these have been developed — the skills by knowledge equals growth — there were a number of factors that we needed to address. They were the changing perceptions of ICT skills — that is why we ran with New Realities — encouraging entrepreneurship and specialist skills, fostering innovation and industry growth, building an e-learning environment and developing ICT skills across the community. We also established an ICT achievers program. This was a pilot program worth $50 000. We did that in partnership with the Department of Education and Training. Fifty schools participated in that and it developed a curriculum for years 9 and 10. Each school was given a $5000 grant to develop the model. As part of that curriculum development there were 11 areas, including software development, Internet application, network application, graphic design and computer game development. Funds were also committed to training students in entrepreneurship and ICT skills. As this is an industry that really is full of young people, it is important that they go in with a whole range of skills.

The ICT excellence fellowship program, which I discussed in the slides, is also another pilot initiative undertaken with the education department for year 11 students; 50 of them, who are high achievers in IT courses, were given up to 15 days work experience over the summer break last year, and also $1000 as a kind of bonus for doing so very well, to give them an experience of working with people who work in the sector and understanding how that sector operates. For both of these programs — the achievers and fellowships programs — these are now about to be evaluated, and then they can be incorporated into the programs if the evaluation suggests that that is a good thing. I guess the example we use is the Go for IT program for apprenticeships which started off as a pilot in MMV and is now a $3.8 million program out of debt. It actually develops on to an additional program.

The other one that is a little bit exciting in this area is vendors in schools. This is where 35 government schools are working with companies like Cisco, Microsoft, Novel, Oracle and others to provide students with certified skills on providing service for the companies' software packages. What they would normally have to get from a TAFE course after they complete school, they are now able to get in school. That is really quite an innovative project that will open up real opportunities for young people.

The ACTING CHAIRMAN — We will have to put it in fashion houses so perhaps we can get more girls involved.

Ms THOMSON — I think we are seeing an increase in girls getting involved in IT, particularly on the creative side. We are seeing that occurring. It is happening. Teachers are now being trained to incorporate into the curriculum aspects of the vendors in schools program and this has been coordinated and co-funded through DET and MMV. There is a lot of scope there for ensuring that schools are actively involved in encouraging IT knowledge and awareness among young people. We are developing the curriculum in schools to ensure that our young people are ready for the future.

Mr DAVIS — I refer to the output measure 'Investment recruitment projects' under 'ICT industry development and e-commerce' on page 161 of budget paper 3 — I think that is one of your output measures. Returning to a question I asked about small business, when you talk about investment recruitment projects does that mean specific items in terms of a particular company, or does it mean a program you are putting in place?

Ms THOMSON — This is the attraction of businesses, whether it be single or where there might be groupings of companies or clusters.

Mr DAVIS — Can you give the committee some indication of the success rate in recruiting such businesses and perhaps some indication of the value of those businesses to Victoria?

Ms THOMSON — Maybe I can deal with the last part first. I will put it in context. It is very important that you have a critical mass in order for this sector to grow and flourish, so it is important that we encourage investment into the state and also assist small businesses in the sector to grow, to export and to maximise their potential. We need to cover both ends of the spectrum.

On the investment side, since June 2001 the government has facilitated 920 jobs and about $128 million in capital investment into Victoria. Last financial year that was slightly higher but we had the dot-com crash, which made it a little harder to get investment into the state because there was a lot of nervousness in the overseas markets. As I said before, Victoria has travelled reasonably well through the crash compared with other states and the investment projection is looking a bit brighter now.

Mr DAVIS — Is there long-term follow-up on those projects to see the durability or the robustness of those investments and whether they persist?

Ms THOMSON — We certainly keep ongoing contact with those who come in and invest, and also with the small businesses we deal with, so it is a close relationship that is held within the industry and the government.

I will give the committee some examples of some of the things we have been able to do in recent times, and David and Gordon might be aware of this. In February Tata Consultancy Services, which is the largest of the computer centres in India and certainly in southern Asia, decided to set up a global development centre in Victoria. It will create 200 jobs for high-skilled Victorians. There is some added advantage in bringing in these companies from overseas. It is important to understand that we are also trying to encourage these companies to utilise our smaller companies for support in the work that they do here, and we have a number of examples where companies have been working cooperatively to develop joint outcomes and joint projects.

Investment into Australia is vitally important to Victoria in ensuring the sector remains vibrant, that we have jobs for our graduates that will enhance their skills. A business like Tata, which has a reputation for ensuring adequate training occurs and the continual education of employees is important to it, is an added bonus for Victoria. We will be continuing a very aggressive program in trying to attract businesses to Victoria in the ICT sector and it will be an important component of our agenda into the future.

Mr HOLDING — I refer to budget paper 3, page 162, and the major output group 'ICT community development'. There is a set of measures in relation to 'Minimum ICT community development projects under way or completed'. For the 2002–03 financial year there is a target of 7 against an actual and target for 2000–01 and 2001–02 of 7 and 9. Can you provide the committee with information about what sorts of projects would be contained in that performance measure and the sorts of projects being undertaken as community development programs in the ICT area?

Ms THOMSON — These are projects that run out of the connecting communities framework. They are targeted programs to disadvantaged Victorians, particularly those who may be isolated for reasons of location, health or age. They are also geared to people from non-English-speaking backgrounds to ensure we are reaching across the digital divide and ensuring that people who would not otherwise have access are being provided with access. We provide it in a number of ways.

E-gaps, which I mentioned before, is providing access to the Internet through 79 additional access points, and 94 per cent of those are located in rural and regional Victoria. They can be anywhere. It is done in cooperation with local government but they can be in a general store. In fact, in Great Western it is the petrol station, so as you pull up for your petrol you can actually check the terminal gate price on the Internet and access government services. They are well supported in the community. They make a big difference to small rural communities where Internet access has not been available. We are looking at filling those gaps, so where there is no access the e-gaps program comes into play.

The access@schools pilot program has now finished. There were 145 schools in rural and remote areas that participated in access@schools which opened up computers and the Internet after hours to the community. It was a great project. It was so good that the federal government has now funded a further 279 schools to participate. That will be over the next three years.

The libraries online program has also been extended in that now we have more than 940 terminals across regional and rural Victoria, so there is quite an extensive state network now.

Skillsnet, a program that has a significant component in providing the skills to people who want to learn how to use computers and the Internet, has provided 74 000 with Internet training and access. So it has been a well-utilised program. Some of the examples include an Italian services advisory council in Shepparton which was given $10 000 to provide Internet training for 120 members of its community. I think to date about 67 of those have been trained, so over a two-year period they are on target to reach 120. In Wangaratta there is a women-based web for roughly 600 women to access Skillsnet and learn the skills they need. It provides a great service to the community. The last one that I think is probably of real importance to recreating a sense of community is the My Connected Community program, which is for organisations that wish to participate and connect their communities online.

I recently launched the MS Society of Victoria's online communities. They currently have 24 communities with 560 members participating — that is, people who have MS, the families who support those people who have had MS, and carers. It is providing a very useful service — for them to be able to share their experiences and relate to one another — that just would not be there if it were not for My Connected Community. I guess it is another way of saying, 'The community is changing, the sense of community of changing — how do we meet that new environment?'. Maybe we start looking at the virtual communities — putting them online and looking for communities of interest and things that they wish to share. This is a great program that a lot of Victorians are finding invaluable in their day-to-day lives.

Mr RICH-PHILLIPS — Minister, I would like to ask you about the ICT centre of excellence. First of all just a clarification. Your slide lists a 'Bid for an ICT centre of excellence'. It is in two columns, for 2001–02 and 2002–03, with ticks. There is a tick next to 2001–02 but no tick next to 2002–03. I am just wondering what that actually means?

Ms THOMSON — I think it actually means the tick is probably in the wrong spot!

Ms O'LOUGHLIN (to Ms Thomson) — I think it was the initial work you did on the centre of excellence rather than what is in the budget; it is just what we were doing this year, because the budget figures only come into play with the Federation — —

The ACTING CHAIRMAN — You can tell us if you wish! Did Nerida wish to tell us, or did she want to tell you?

Ms O'LOUGHLIN — Probably what it reflects is that Multimedia Victoria has done some work on the development or assisted in the bid for the centre of excellence in this year, and the budget figures only come into play if the bid that we were supporting — that the Victorian government had chosen to support — was actually successful. It is probably just a reflection of that.

Mr RICH-PHILLIPS — That is where my next question was heading. The funding for that is shown on page 192 of budget paper 2. It does, in fact, show the first funding being in the year 2003–04 and onwards, and it is $15 million over those three years. I just wanted to ask: does that funding represent the state's contribution to the bid or to the project, if I can draw that distinction?

Ms THOMSON — To the project — that would be to the project.

Mr RICH-PHILLIPS — That would be the total state contribution — —

Ms THOMSON — It is $20 million to the project, but I do have to say that the announcement has been made in relation to the ICT centre of excellence, and the Federation consortium's bid was not successful and it has gone to the National bid. Our support was for the Federation consortium, so we will be having discussions with the consortium to look at what opportunities might be available for research and development participation by the consortium in Victoria regardless.

Mr RICH-PHILLIPS — So obviously that funding, that $15 million, will not be spent on that project?

Ms THOMSON — Yes.

Mr RICH-PHILLIPS — Was the government involved as a partner in the consortium, or was it a contributor?

Ms THOMSON — No, we were a supporter of the bid. The consortium was made up of Telstra, Ericsson Australia, CSIRO, RMIT, Melbourne University and Monash University and — —

Ms O'LOUGHLIN — DSTC — Distributed Systems Technology Centre — in Queensland.

Ms THOMSON — So there were three nodes to the bid out of, Brisbane, Sydney and Melbourne. It was a very strong bid that combined both industry sector players, as you can tell, and our major tertiary institutions. The government believed it was a bid worthy of support should it succeed, and on that basis was prepared to say that should the bid be successful we would contribute to the establishment of the centre of excellence.

Mr RICH-PHILLIPS — Were there any expenses incurred by the government in supporting the bid to this point?

Ms THOMSON — The government has spent $200 000 in support of the consortium to date.

The ACTING CHAIRMAN — You mentioned computer games, and I think that budget paper 3 on page 151 briefly refers to the next part, which is *Game Plan — The Next Level*. Could you give us some information about what that program is and what we hope to achieve through that?

Ms THOMSON — This is probably one of the most exciting parts of the industry if you are young and enjoy computer games. It is a great industry because it really does work very well as a cluster, and they support one another. It is a sector that employs around 300 people. It is probably true to say that Victoria is well recognised around the world for game development, and we wanted to work with the industry to help provide them with the support they need to continue in growing that industry here. We have done that initially through *Game Plan* and now *Game Plan — The Next Level*, which provides $250 000 to support access to the Sony Playstation for software development kits for local companies.

We will provide $50 000 for the completion of a feasibility study and business plan for a computer games incubator, again relying on the fact that largely theses are quite small companies . We will conduct a feasibility study into the industry establishing a motion capture facility in Melbourne, which is important if you are looking at innovative game development, and also facilities for animation labs and sound studios to ensure we develop high-quality leading edge games.

It is also important from our perspective to try and link venture capital to the game development industry. There is a lot of talent, innovation and ideas out there, but not necessarily the capital to see it to fruition, so the link to the venture capital sector is very important and one which we facilitate. Probably to add to what Gordon Rich-Phillips and David Davis have already heard in the upper house on the importance of the trade fairs and missions program, I cannot stress how important — —

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The ACTING CHAIRMAN — Doesn't that ring a bell?

Mr DAVIS — Closer, always closer!

Ms THOMSON — They were listening! It is an extremely important program for this particular industry. There are a number of trade fairs that it is vitally important for these people to be at, and we actually support these events. We recently supported — they are probably still over there are they, in Los Angeles? — E3, which is the world's biggest computer game trade fair. This does deliver up returns for us as a state and for companies themselves, and it is highly successful in providing business for the future.

One of the examples I use, only because I launched its new product 'Jurassic Park', is Blue Tongue. It is an example of a cluster at work and cooperative arrangements, as well as being able to utilise Universal Interactive, which has undertaken the development. It is fantastic in its creative talents and animation. Act 3 was also involved in the development of the game. They worked on the animation. The Melbourne Symphony Orchestra played the music that a guy at Blue Tongue composed. Bud Tingwell did the voice-over, so it is a Victorian product from start to finish.

You have to actually build Jurassic Park, then you have to manage it as a tourist attraction. You have to keep the dinosaurs alive, so you must have the ecosystems and the cages right, and the place has to be cleaned. The game will be released at Christmas. It is an exciting company, and it demonstrates the talents Victoria has to produce world-class, high-quality computer games.

Mr DAVIS — I want to ask about regional telecommunications. What is the proportion of the Victorian state funds that will go to the implementation and installation of the communications access network (CAN) in regional areas?

Ms THOMSON — We are talking about $5 million of funds from the Regional Infrastructure Development Fund.

Mr DAVIS — What is the proportion of state funds, city versus regional?

Ms THOMSON — It is all regional. It is only for regional Victoria.

Mr DAVIS — Are you sure there is no money coming from other sources?

Ms THOMSON — I will explain what it is and that may help.

Mr DAVIS — As I understand it, it is the last link bit.

Ms THOMSON — It is off the infrastructure backbone to the actual customer. It is the customer access network or the last mile, or whatever you like to call it. It is a particular issue in country Victoria. It has a number of component parts, but we are looking at utilising innovative ways of reaching out and providing infrastructure to that end — that is, to CAN.

Mr DAVIS — The only source of that money is from the Regional Infrastructure Development Fund?

Ms THOMSON — The only source of government money is from the RIDF. It will be a competitive tender process that will look to regional and community telecommunication companies in cooperation with local government and other local communities, be it business or whatever, actually tendering to apply to provide that infrastructure for the CAN. We envisage about five pilots. They will all have to be quite innovative and prepared to have the development available to other community and regional telecommunication companies to be able to use the experience and technology to encourage further development around Victoria.

The intention is that it be a demonstration model. It has to stand up as financially meritorious in its own right because there will not be ongoing funding, it is only initial funding. The intention is to demonstrate that a competitive market out there can provide a lower cost in telecommunications. It is meant for our regional communities, not for metropolitan Melbourne.

The five pilots will be run out of regional Victoria. We would like to get a reasonable spread as models to be able to look at. Shortly we hope to finalise the guidelines on the tendering and announce the tendering process. It is an opportunity for people like Bendigo Community Telecommunications Company, Neighbourhood Cable, Datafast and others to look at ways in which they can provide infrastructure for that last connection to the customer.

Mr HOLDING — I would like to ask about e-government infrastructure. I notice on page 163 of budget paper 3 that you have responsibility for the whole-of-government management of key shared information and communications technology services. I guess this is a similar question to the one I asked about ICT community development — that is, looking at the projects under way or that have been implemented that form the performance measure in relation to quantity. Could you outline for the committee what sorts of agreements are being established in relation to the provision of that e-government infrastructure?

Ms THOMSON — I should inform you that the contracts for both our telecommunications and data communications are up for renewal. Both VicOne and Statenet FM are up for renewal. We have both extended and renegotiated contracts for that for the next 12 months to allow us to put in place our new strategy. In so doing, at the time that Statenet and VicOne were brought in they were state of the art in what they did. They certainly led the way in telecommunications and data transfers for government. VicOne extends across government offices, schools, hospitals and police stations. More than 700 000 people use the network through 3500 sites. It is not small.

Telstra was the provider of our telephone services under our central business district arrangements for Statenet. It linked all the departments and provided some economies of scale, but we are now looking at providing competition in the marketplace in those areas. We have renegotiated a number of contracts that have resulted in savings for us. For instance, we have contracted a software package with Microsoft for the whole of government, which is expected to cost about $80 million over the next four years, and will save notionally around $19 million on what you could do outside government. Lotus Notes provides our diary and email services. We have expanded our licensing arrangements with Lotus at a cost of $8 million and will save $24 million over the next four years. Again I say it is notional — it is what you could do outside in the marketplace over the next four years.

We are looking at providing the best possible pricing arrangements for government that secure the state-of-the-art service provisions in telecommunications software and telecommunications generally to ensure that we as a government are utilising the new technologies at the best possible prices. I

should say that Microsoft has agreed to provide funds of up to $5 million for the establishment of an e-government innovation fund, which provides us with the opportunity to investigate research and development to ensure that we are providing the best possible services to our community through online facilitation. This will give us an opportunity to maximise our e-government strategy and to ensure that we are providing state of the art technology to our community.

Mr RICH-PHILLIPS — I would like to ask you about the purchasing and management strategy, which may relate to the answer you have just given. You put out a press release which states it is a $70.6 million budget strategy, and I see from budget paper 2 there is the output initiative aspect and there is the capital, which is $47.5 million.

My first question relates to the savings quoted in your press release that the Victorian government will save up to 40 per cent on its telecommunication costs. Does that include the cost of the capital contribution of the project? Is that 40 per cent after you have spent the $47 million?

Ms THOMSON — The savings relates to unit cost savings, the actual cost for each call or use of the system, so we are looking at a savings in the unit cost. Again we are hoping and expecting that the savings that come with this will be poured back into providing infrastructure. We expect the cost of telecommunications to increase simply because the usage is increasing; there is greater usage of telecommunications across government.

I could spend a little bit of time talking about our strategy for telecommunications purchasing and management because it is very exciting. It is probably as exciting for me as Statenet might have been for the minister responsible at the time when Statenet — —

Mr RICH-PHILLIPS — Can I get clarification of that? The 40 per cent is on unit cost, then the capital contribution of $47 million would therefore reduce that saving if you apply that cost back?

The ACTING CHAIRMAN (Mrs Maddigan) — Neil can respond to us, if you want.

Mr EDWARDS — I believe this is right. I will correct it if I am wrong — —

Ms THOMSON — This is where not having Randall makes a difference!

Mr EDWARDS — Essentially with all telecommunications and ICT investments the rate of depreciation — that is to say the rate at which you have to replace the capital — is much higher than for other investments, so the capital that we are talking about is capital that would have had to be invested in any event over the time period. This is a new capital purchase to replace an asset that essentially has reached the end of its life.

Ms THOMSON — It has been 15 years since there has been any update of our telephony services at all and we are dealing with very old telephony services as a result, so there would have to be something else in place.

Mr RICH-PHILLIPS — Do you know if the quantum of this capital requirement exceeds — this is a difficult question — what you would have spent if you had pursued regular replacement rather than pursuing this strategy? Are there particular capital requirements for this strategy?

Ms THOMSON — I think they are about the same.

Mr RICH-PHILLIPS — And I assume that is replacement phones?

Mr EDWARDS — I see what you are getting at. It is the fundamental infrastructure rather than the peripherals, as they call it.

Ms THOMSON — We believe it is about the same, but we will come back to you if that is different.

Mr RICH-PHILLIPS — Just on the output initiatives, you have $1 million listed for next financial year and $7.3 million for each of the subsequent years. Can you explain what that cost is? I am referring to page 192.

Ms THOMSON — The $1 million is the implementation, the gearing up to the implementation; and the ongoing is the phase-in of the new system.

The ACTING CHAIRMAN — So spread over three years it would cost you that much each year. That is what you are saying, is it?

Ms THOMSON — Yes. It is very expensive.

Mr RICH-PHILLIPS — What does 'phase-in' mean?

Ms THOMSON — It will not necessarily be done at once. Everything will be brought in place. I will explain a bit more so people understand. We are going through a communications revolution right now, and the Victorian government wants to make sure that we do not miss out on it, so there are a number of things that we do because we have to. One is to update our telecommunications by telephony, and we also have to look at data, and this is a perfect time to do it because the contracts are up.

We want to ensure that we build a competitive market in both telecommunications and data; we have not had that to date. We have had a fixed contract with VicOne; we have had a fixed contract with Telstra on telephone. We want to build in flexibility to ensure that we can take advantage of new technologies as they develop. In order to do that we have to look at what new technologies are developing and how we can take advantage of them, so there are two perhaps very important aspects. One is the connectivity hub which will enable us to provide platforms so we can have a number of providers but still provided on a secure single network, which is important for government. So we would still have a single secure network, as we have had to date, but we would have a number of providers competing for different component parts of that network.

We are now looking at a revolution where instead of having telephone information travel by voice, which is what happens now, it will all travel via the Internet through data packets. We want to be able to take advantage of this technology as it comes on stream to move us across to voice-over, what they call Internet protocols, or over the Internet. So we want to be able to do all of that.

These are costly and they will have to be phased in over that period to ensure that we are taking up these new technologies in a way which meets departments' demands and needs, and so the Telecommunications Purchasing and Management Strategy (TPAMS) will be brought in over that three-year juncture.

Mr RICH-PHILLIPS — Presumably the $7.3 million each year is not capital?

Ms THOMSON — No, it is not capital; it is increased activity that is anticipated over that period of time.

Mr EDWARDS — Can I add that the department, through Multimedia Victoria, essentially pays for the whole of the system, and it will be paying for the new contract on behalf of all of government. The whole of government reaps the savings, so all agencies make their savings on their particular contracts. In a sense this is the cost which is shown in one area in order to generate savings which will be right across the whole of government. Does that make sense?

Mr RICH-PHILLIPS — It does. So this cost will not be allocated to individual departments?

Mr EDWARDS — It is essentially a whole-of-government contract, and for convenience within the budget context it is applied to the Department of Innovation, Industry and Regional Development.

Mr RICH-PHILLIPS — These figures do not represent communication costs as such. They would be accounted for in each individual department?

Mr EDWARDS — Yes. This is the increase in usage, as I understand it, for the total of the contract, but the savings on the contract essentially will accrue to the agencies that use the TPAMS facilities.

Mr RICH-PHILLIPS — Now I am confused. Increase in usage? Volume?

Mr EDWARDS — Volume and sophistication.

Mr RICH-PHILLIPS — Wouldn't volume costs be borne by the department, by each individual agency?

Mr EDWARDS — Not necessarily, if you are purchasing on behalf of the whole of government.

Mr RICH-PHILLIPS — But presumably with the existing contract, your department is responsible for purchasing for the whole of government, but you do not show a line item 'Telco costs for all of government' charged to your department.

Ms O'LOUGHLIN — Most of the costs will be paid by other departments, but there is an implementation cost of building the TPAM system and migrating across, and those costs will be borne centrally by the department in that operating expense.

Ms THOMSON — As you move across from voice to data, there will be costs associated with the actual transfers and with moving the systems across.

Mr RICH-PHILLIPS — That is what this line item is?

Mr THOMPSON — Yes. We will provide you with the details of that.

Mr RICH-PHILLIPS — Thank you.

The ACTING CHAIRMAN — On page 161 of budget paper 3 under the heading 'ICT Industry Development and E-commerce', a couple of quantity programs are listed there — 'Investment recruitment projects' and 'Export development projects' — with the numerical figures for what your targets and actuals are. Can you tell me how these projects can assist Victoria's ICT industry and how they link in with it, please?

Ms THOMSON — I talked at some length in relation to the investment attraction and how important that is for the critical mass and for being able to provide an opportunity for businesses already established here to reap the flow-on effects of being provided with business from those who have come to invest here. This is an industry where collaboration works very strongly, and it is a sector that is highly dependent on collaboration between businesses; that is why investment attraction is so important to get that critical mass in here to promote further activity in the state in relation to ICT activity.

But it is equally important that we have an eye on export opportunities and where we can go with what we already do here in this state. For a sector that has a capacity to work anywhere in the world and to sell to anywhere in the world, it is vitally important that we maximise those opportunities. We are in a very good position here because not only are we a well-developed, highly skilled community, we are also a multilingual community, which enables us to work in applications in very many ways. Our trade fairs and mission programs which I talked about before — when I got sidetracked and started talking about Blue Tongue and Jurassic Park, the game — are really important ways in which we go and sell Victorian ICT industries or companies to the world.

I spoke before about the E3 conference; we were the only government in Australia that sent companies across to that conference so we were the only ones represented there, and that does bring some advantages to those companies. One of the examples that was given to me was the development of the AFL computer game. I do not know how we got connected to this, but representatives of the AFL went across to E3 to find someone to develop the AFL computer game, and capitalise it. I understand it features the coach of my football team. They linked up with Acclaim, an American company that also has a branch here in Australia. A number of the software companies and development companies that went across to E3 in that round also got contracts for the development of this game through Acclaim, so that brought benefits to those small companies who are able to provide component parts for Acclaim for the development of the game. That ensured that the virtual model of the game that is played in reality here in Victoria was also developed here in Victoria, as it should be. It was a game that could have been developed anywhere in the world.

The ACTING CHAIRMAN — I thank you very much for your presentation today, and I also thank Nerida and Neil for coming along. We appreciate it very much. There are a couple of things, including a report that Mr Davis asked for, which we will get from you. We appreciate your time very much.

Committee adjourned.