

CORRECTED VERSION

PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

Inquiry into 2003–04 budget estimates

Melbourne — 28 May 2003

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Witnesses

Mr T. Holding, Minister for Financial Services Industry;

Mr P. Harmsworth, Secretary;

Mr B. Mapperson, General Manager, Service Industries; and

Mr P. Rea, Director, Office of Manufacturing, Department of Innovation, Industry and Regional Development.

The CHAIR — I declare open the Public Accounts and Estimates Committee hearings on the 2003-04 budget estimates for the financial services industry portfolio and the manufacturing and export portfolio. I welcome the Honourable Tim Holding, Minister for Manufacturing and Export and Minister for Financial Services Industry; Mr Peter Harmsworth, Secretary of the Department of Innovation, Industry and Regional Development; Mr Bruce Mapperson, General Manager, Service Industries; and Mr Peter Rea, Director, Office of Manufacturing; departmental officers; members of the public; the media; and Hansard.

All evidence taken by this committee is taken under the provisions of the Parliamentary Committees Act and is protected from judicial review. However, any comments made outside the precincts of the hearing are not protected by parliamentary privilege.

All evidence given today is being recorded. Witnesses will be provided with proof versions of the transcript early next week.

Before I call on the minister to give a brief presentation on the more complex financial and performance information that relates to the budget estimates for the portfolio of financial services industry, I ask that all mobile phones be turned off and pagers turned to silent.

Minister, after you have given your presentation we have 25 minutes allocated for questions on financial services.

Mr HOLDING — Can I say at the outset it is a pleasure to be back, albeit in a different capacity, and I wish the committee all the best in its work and activities over the life of this Parliament.

Overheads shown.

Mr HOLDING — I will touch firstly on the organisational structure of the Department of Innovation, Industry and Regional Development. You can see there the business group, innovation, regional development, industrial relations and tourism. I know you have already had and no doubt you will have over the coming weeks presentations from some of the ministers with responsibility for some of these areas.

The manufacturing and export and financial services industry activities are overwhelmingly contained within the business group, but obviously there are strategic responsibilities and strategic planning which are of interest and use to those two portfolios which draw on some of the other areas of the department. This is a brief overview of the department's objectives for 2003-04.

Again, I know that Mr Brumby has already presented, so I will not go through those exhaustively, but I would draw the attention of members particularly to the first two dot points which refer to support for the development of innovative, internationally integrated and competitive industries and businesses for Victoria, and also the focus of the department on the creation of a competitive business environment and the capabilities for the innovation economy.

The third slide touches a bit on the total 2003-04 budget. Again I do not propose to go into that in any detail, but members can return to those issues in their questions later on. These are some statistics in relation to Victoria's place within the Australian economy. I am pleased to be able to report to members that Victoria still is the standout economy in Australia and the Australian economy remains robust by international standards.

Much of this information is contained within budget paper 2, and I would encourage members to have a look there if they want some more detailed information. Obviously there is focus on new job creation. Unemployment below the national average for such a sustained period of time is very encouraging; increase in state final demand; business investment is up, and I would just draw members' attention particularly to the last two dot points: Victoria's share, 35 per cent of business expenditure on research and development, and also the export performance since 1998-99. I am sure that later members will have some questions in relation to that.

If I could start with the manufacturing and export portfolio, Victoria remains the only state to have a dedicated Minister for Manufacturing and Export. In the first term obviously we had the Minister for Manufacturing Industry, who shared many of the same functions that I perform at the moment.

We have a focus on manufacturing because it is very much the driver of the Victorian economy. It makes a significant contribution to full-time jobs in Victoria as well as being responsible for the lion's share of Victorian exports — something in the vicinity of about 60 per cent.

Manufacturing employment in Victoria is 8.1 per cent higher than it was in August 1999, and there has been overall employment growth that I touched on, as shown in the earlier slide on the performance of the Victorian economy. Obviously manufacturing contributes significantly to gross state product as well as to business expenditure on research and development.

The centrepiece of the government's vision for our manufacturing sector is our Agenda for New Manufacturing, which is the policy statement launched by the former Minister for Manufacturing Industry last year. It is a \$27 million commitment by the state government to make sure that Victoria retains its place as the centre for manufacturing excellence in the Asia-Pacific region. You can see there the focus of the package. Already many of the initiatives that were outlined in the package are under way. I will say more about some of those things later, but I would refer particularly to innovation insights; industry capability missions, which have now commenced; the high performance manufacturing consortia; the hall of fame; and some of our export programs — a range of things that members might like to ask questions about later on.

A key part of the development of the agenda for new manufacturing, as well as our ongoing work in this sector, has been the development of industry plans. Many of the industry plans were commenced by a strategic audit of the industry which sought to outline the key characteristics and drivers for those industries. They have then been followed up with the strategic industry plans, which lay out a vision for how government can work in partnership with industries to make sure we continue to grow them. You can see there some key ones that were released in 2002. TCFL, which I am happy to take questions on — and I am happy to take questions on all of them, obviously — is one of particular interest at the moment with the Productivity Commission's inquiry under way, precision engineering, metal fabrication, and medical and scientific equipment.

This builds on some of the other strategic plans that we had already undertaken in 2001. I draw members' attention particularly to the automotive plan which is the key vision document for where we are going with our automotive sector.

I will touch on investment attraction achievements for 2002–03. We expect the total new investment attracted in the 2002–03 financial year to be \$1.6 billion. You can see there the jobs anticipated to be created by that new investment. We expect the major contributions to that new investment to come from automotive, food, energy, and information and communications technology. You can see from the figure from 1999 to March 2003 the considerable focus the government has had on attracting new investment and the role the department has played in facilitating much of that investment. You can see there the total value of the projects: \$3.9 billion and something over 10 000 full-time equivalent jobs.

I will touch on some of the other key achievements within the manufacturing area. The Victorian Manufacturing Hall of Fame is part of the state government's vision for championing manufacturing. When I travel around one of the things I hear from many of our manufacturers is that they believe they would be better able to attract the best and brightest to our manufacturing sector if we were to value our manufacturers more. So the state government has introduced a suite of policies aimed at giving us that opportunity to champion manufacturing. A key part of that is the hall of fame, which includes the honour roll, the hall of fame, the certificates of manufacturing excellence and a range of other initiatives.

The Victorian industry participation policy (VIPP) is now part of our government procurement policies in Victoria. I know that Minister Hulls has previously reported in some detail on that. The only thing I would say in relation to that is that it was a commitment of the Labor Party at the last election to introduce legislation to provide for the reporting of department performance and outer agency performance in relation to VIPP and enabling or requiring that reporting to be made to the Parliament. I look forward to that legislation being introduced shortly.

The Commonwealth Games industry participation policy obviously builds on VIPP and makes sure that we make the most of the opportunity in terms of local content that the Commonwealth Games presents for us.

The Manufacturing Industry Consultative Council is our key vehicle for consulting with our manufacturing industry. It is a consultative council that was established by Minister Hulls. It includes representatives from peak organisations, trade unions, some of our key manufacturers, education providers and the department itself. It was a very important sounding board in developing the Agenda for New Manufacturing as well as playing an ongoing role in enabling us to consult directly with the sector.

The rail strategy I mention directly simply because it has been a particular focus of our efforts within the manufacturing sector. We have been able to attract new investment to Victoria and generate significant import replacement and we have started focusing now on generating export opportunities. I was very pleased to return two

weeks ago from a very successful rail mission to Europe where we were able to showcase our industry capability with some of our key manufacturers.

I will touch on exports. Members will note that for the first time the manufacturing portfolio includes 'export'. Its title is 'Manufacturing and Export', to further sharpen the government's focus on growing our exports. This is one of the key focuses that was identified within the Agenda for New Manufacturing. You can see there that our export of goods for 2001–02 was \$22.2 billion and this has risen considerably since 1998–99 — by 35 per cent. You can see the opportunity presented there by the growth in ETM exports as well as the export income generated from those ETMs. You can see the growth in exports from our service sector, particularly tourism, education and business services, and the general trend upwards in the export of services from 1998–99 to 2001–02.

I would make one point: there is no doubt that at the moment we face a very challenging environment in relation to exports. Our latest statistics show that in 2001–02 our exports fell by 0.9 per cent and for the nine months to March 2003 goods exports were down 13 per cent. That creates a real challenge for the government.

For this reason the government has focused considerable program activity on growing our exports. These are some of the initiatives contained within the Agenda for New Manufacturing. All of these programs are currently under way. They include our First Step exporting program, which focuses on companies that are not exporting, to give them some assistance in making that first step, as the name of the program implies; Going Global, for those companies that have had increased export activity as well as our industry capability missions and our export communication network; our trade fairs and missions program which also supports the government's export activities — you can see there some of the statistics, so I will not go into it in any great detail; and the new export strategy — this is again an election commitment of the state government — our opening doors export program, which is a whole-of government export strategy that will be developed to meet this commitment — you can see there the focus of that program.

I will touch on the financial services industry.

The CHAIR — Minister, just a timely warning that this had better be rather rapid.

Mr HOLDING — Yes, I will fly through this. You can see there that that is just a statement of the challenge facing our financial services industry. We want to focus on this as a government to make sure that we continue to maintain Victoria's place as a key financial services centre in Australia. You can see there the key statistics in relation to its share of the economy. I will not go into those.

One of the key activities was to establish in our first term the Financial Industry Consultative Committee (FICC) which, just like the Manufacturing Industry Consultative Committee, provides us with a mechanism for consulting with industry. The FICC oversaw a strategic audit of the financial services industry — which I will be able to launch in June — as well as playing a role in marketing Melbourne as the financial services conference and events centre and pursuing opportunities at sector and sub-sector level for strategy formulation. You can see there some benchmarking material that the state government has done and I am happy to provide members with information on that. They may wish to ask questions on it later.

I will touch on a couple of new investments — I will not go through them. These are some recent reinvestments, in the case of the ANZ service centre, or new investments by companies which have seen the competitive opportunities that exist in relation to Victoria and have responded by taking up new investment opportunities. This means new jobs, which further enhances Victoria's position.

Finally, the priorities and challenges. You can see there the priorities for manufacturing are making sure we focus on those highly paid and highly skilled jobs and innovation, that we boost exports and, importantly, that we attract a critical mass of financial services companies. The key challenges are changing the perception of manufacturing — I mentioned our efforts in terms of championing manufacturing; the challenge presented by the rising Australian dollar; the impact of the drought and obviously the challenge that presents particularly to our export base; and maintaining our competitive position in relation to the financial services sector.

The CHAIR — Thank you very much, Minister. On the first matter, the financial services strategy, could you outline to the committee some of your medium and long-term strategies associated with that, please?

Mr HOLDING — Sure. I mentioned in the presentation that part of our vision for growing our financial services sector in Victoria has been firstly the establishment of the Financial Industry Consultative Committee, which was established by Minister Brumby in the first term of the government and includes a range of key players

within the industry here in Victoria. We have used that and a references group, which is a subcommittee of the Financial Industry Consultative Committee, to commence the process of conducting a strategic audit of our industry. Just as our other strategic audits for our manufacturing industry sub-sectors were able to identify the key profiles and characteristics of the industry as well as some of the opportunities and challenges that were faced, so too the audit of our financial services sector has been able to establish a range of opportunities for us.

What the audit basically tells us is that there is a critical mass of the financial services industry here in Victoria and that that critical mass is built on the attractiveness of Victoria as an investment location for the financial services industry. Compared to Sydney we are a relatively low-cost financial services hub. We have certain advantages already. We have advantages in relation to funds management and in relation to other financial services sectors: we are the headquarters of two of the major banks — the National Australia Bank and the ANZ. We also have significant regional banking activity as well as other financial services activities, but we need to build on this.

The key thing is not to simply challenge Sydney's role in relation to financial services and compete with it on essentially the same investment turf, rather we should identify niche opportunities. The financial services industry audit identifies a range of niche opportunities, and we should be focusing our resources on chasing those opportunities. When it is released we plan to use the audit as a building block for the development of a strategic plan for the industry. The strategic plan will be developed in consultation with not only the FICC but also the industry more broadly.

We would expect to be able to release that industry action plan later in 2003. We expect the plan to identify ways of promoting Melbourne as a financial services centre. We expect the plan to identify subsectors or market niches that we can focus, on and we expect to be able to integrate within that strategy not only a focus on Melbourne but also a focus on developing the financial services industry in our regions. Obviously an important part of our broader vision of growing the whole state is to ensure that we grow it not only in Melbourne but we throughout the state.

The CHAIR — And that covers both medium and long term?

Mr HOLDING — Yes.

Mr FORWOOD — According to the department's response, output groups relating to financial services are innovation policy and business on pages 177 to 180 something of budget paper 3. What I am interested in is: which are the performance measures in those output groups related specifically to you as the Minister for Financial Services Industry? How much money do you have to do what you need to do as the Minister for Financial Services Industry? Where is that found in the budget papers?

Mr HOLDING — Thank you for that question. Obviously many of the performance measures relate more broadly to industry sectors and not necessarily specifically to financial services. For example, if I could point committee members to 'new investments facilitated and announced' which is an ongoing measure. Obviously much of our new investment is financial services investment.

Mr FORWOOD — Do you have a target for yourself inside of this?

Mr HOLDING — We have a target. If I could take members to page 181, 'investment facilitation and attraction', you can see that there is an existing performance measure — —

Mr FORWOOD — I am trying to relate that to financial services, not to 'new investments facilitated and announced'. What I am trying to do is narrow down the government's investment attraction program and business according to the output groups to what the financial services targets and performance measures actually are and the funds that will be appropriated to assist you to meet them.

Mr HOLDING — You can see that the performance measures we have in the budget documents are not industry-subsector specific — you cannot go through and necessarily identify which of that new investment will be focused on financial services, shared services, information and communications technology (ICT) or whatever. The focus of the new investment facilitated is a broader focus, but it would include new financial services investment as well as new manufacturing investment et cetera.

Mr FORWOOD — How much money do you have as Minister for Financial Services Industry? How much money are you in control of, and which output groups is it in?

Mr HOLDING — It is spread across a range of areas. Within the business group it is spread across investment facilitation and attraction and it is spread across the business development group. Obviously if you look

more broadly there is the Grow Your Business program, which is jointly administered by the Minister for Small Business and myself. Some of the grants in relation to that program would relate to businesses within the financial services sector, as they would in relation to manufacturing, other small business, ICT et cetera. It is too broad to be able to say which particular dollars within investment facilitation or which particular dollars within the business development section are allocated specifically to financial services any more than you could say that they are allocated to ICT, to automotive, to food or to any other industry subsector.

Mr FORWOOD — What you have said is you have no targets for financial services and nothing that can be measured, and you have said you have no money that can be measured.

The CHAIR — He did not say that.

Mr FORWOOD — He has. I have asked him a number of times to tell us what the financial services benchmarks are and what money has been allocated to him as the minister, and we have got no answer to either question.

Mr HOLDING — With respect, I have indicated that there is investment facilitation which, among other things, will bring in financial services investment. I was able in my presentation to mention particular new investments in relation to financial services. I have indicated that we are in the process of finalising a strategic audit for the industry, which will then generate a strategic plan. There are obviously resources within the department which are focused on that strategic plan.

Mr FORWOOD — All I want to know is how much resources.

Mr HOLDING — That is encompassed within the business group in the department.

Mr FORWOOD — I rest my case.

Mr HOLDING — They will be the key activities which will underscore the activity within the financial services industry portfolio over the coming 12 months.

Ms GREEN — I refer you to page 187 of budget paper 3 and the regional economic development output. There is a new measure there, the 'Living Regions, Living Suburbs support fund: community banking project grants'. The 2003–04 target is eight. Can you explain what this new measure represents and its value to country and interface communities?

Mr HOLDING — Thank you for that. This new measure refers to the state government's commitment at the last election to provide direct grants for the conduct of feasibility studies for community banking products on behalf of regional and rural communities. It underscores some of the points I was endeavouring to make in relation to the earlier question. This is another program which, although not necessarily within the business group, is administered by me as Minister for Financial Services Industry. It provides grants of up to \$20 000 on a dollar-for-dollar basis to local communities which wish to conduct a feasibility study for the establishment of a community bank in a regional or rural area. It provides local communities with an opportunity to resource a very important activity.

One of the things we have found in recent years is that with the rollback of bank branch services by many of the major banks there is a crying need in many rural communities for the re-establishment of banking and other related services. We want to do all we can to provide support for those communities as they go through the process of investigating the viability of different community banking models and opportunities. It is not for us as a government to endorse any one model of community banking; there is a range of different service types around. What we want to provide local communities with is an opportunity to resource the activity of undertaking a feasibility study. We will be providing \$250 000 per annum over the next four years for grants of up to \$20 000. They will be on a dollar-for-dollar basis, so they anticipate and require a commitment on the part of the local community to support that program. It is not a blank cheque, rather it is a partnership with local communities to undertake the research to see whether support exists locally for the establishment of those sorts of services.

We believe very much that restoring banking services to regional communities will do much to boost activity, not only financial services industry activity but also other activity — construction, manufacturing et cetera — in those towns and regional areas where these services will be provided. We want to work with local communities to ensure that the state government is doing as much as it can to assist them in the process of investigating the feasibility of the provision of those types of services.

Mr MERLINO — Just a supplementary question: in terms of dollar-for-dollar contributions from local communities, does that include local government? I know the Shire of Yarra Ranges provides \$5000 grants for the development of the feasibility studies, which has proved very beneficial.

Mr HOLDING — Yes, it does, and we would encourage local councils to participate in those sorts of processes. The grant program not only covers rural and regional councils, it also covers the nine so-called interface council areas, and I know that will be of interest to the members for Yan Yean and Monbulk.

Ms GREEN — It is music to our ears.

Mr HOLDING — Communities within the cities of Casey, Hume, Whittlesea and Wyndham and the shires of Cardinia, Melton, Mornington Peninsula, Nillumbik and Yarra Ranges will be eligible to access the grant program.

Mr FORWOOD — I just want to point out that the department's response on page 1, which allocates ministerial responsibilities to output groups, does not list you as having anything to do with the regional development output group. I presume that when you said that you were sharing that with others that that is just a mistake in the department's response?

Mr HOLDING — No, the community banking program — the program I have just referred to — —

Mr FORWOOD — Is that your responsibility?

Mr HOLDING — It is my responsibility and will be administered by me.

Mr FORWOOD — Should not that have been listed in this output group?

Mr HARMSWORTH — It is a very small part of the major program of regional development, which sits with Mr Brumby. This department is a little different to other departments. It is a matrix-managed department. A number of activities service all five ministers, as the minister has informed the committee, so the ascribing of money towards individual ministers is not as clear cut as it might be in other departments.

Mr FORWOOD — Or responsibilities.

Mr HARMSWORTH — And responsibilities, but this is worked out at the administrative level with the ministers.

Mr CLARK — My question also relates to community banking. I have been trying to track down on the departmental web site references to financial services, which are pretty hard to find. Eventually I found the discussion paper you referred to earlier that your predecessor released on the financial services industry. In relation to community banking it says on page 21:

The long-term outlook for community banking is uncertain given the growing competition from accessible local organisations, including retailers, Telstra and Australia Post; increasing use of online services; and the growing demands for cost-effective customer services. Conflicts may arise in the future between the commercial objectives of an organisation such as Bendigo Bank and its objectives as a community bank.

I have been a proud supporter of the community bank in my area at Surrey Hills and Canterbury, and other honourable members are likewise supportive of their communities. This discussion paper seems at best to damn community banking with faint praise, if not raise serious question marks about community banking. Does that remain the government's view of the sector?

Mr HOLDING — I would say a few things. Firstly, the strategic audit is not a statement of government policy. I would say that by way of preface. The quote that you have read to me really underscores the challenge that community banking faces, and it is not only the community banking product provided by the Bendigo Bank, although that is probably the better known one. A range of other credit-society-style services are also available.

The way we see it is that it is for local communities to make a choice about the sorts of services they ought to be able to access in their area. Our role, as government, is not to make value judgments about those choices, to seek to make the choice for them. Our role is to facilitate the decision-making process by which local communities make a judgments about those choices. Rather than financially supporting the provision of services themselves the state government's role, as facilitator, has been to provide support.

We see it as being there to provide support for the assessment by local communities of the feasibility of different choices, and that is the way we have sought to intervene. It is not to make judgments about what services local communities should choose or to try to provide those services for them or to work in partnership to provide those services. Rather we see our role as facilitating debate and discussion within and assessment by local communities about what sorts of financial services they want in their areas.

There is no doubt that there is a very challenging environment for community banking, as there is for all sectors of the financial services industry. There is no doubt that there will be other services that will become available from time to time; that is inevitable. It is not only inevitable, it is desirable that local communities in rural and regional areas have a choice about what financial services they have offered to them. Unfortunately in recent years there has been no choice because the movement has all been one way. The movement has been the rolling back of services, the closing of bank branches, and the restriction of products available to rural and regional areas as bank branches have been closed. We want to facilitate a process by which there is more choice, not less, for local communities.

Mr MERLINO — Minister, I want to go back to the first question in regard to the financial services strategy, and I refer you to page 174 of budget paper 3 which states:

The government will work with existing and emerging companies in the sector to build on our traditional areas of strength and to capitalise on new and expanding niche areas —

which you referred to —

where Victoria has a competitive advantage.

Can you give an example of work undertaken in that area?

Mr HOLDING — That is a very important question. One of the most constructive things that the government can do in terms of working with our financial services sector is to demonstrate to both local investment decision-makers and overseas decision-makers about the investment climate that exists in Victoria and about the competitive advantage that exists in Victoria in relation to the financial services sector.

One of the key opportunities that the financial industry consultative council identified was the opportunity for including in our marketing material and our benchmarking material for Victoria information about our financial services industry. Obviously when we travel or when overseas delegations come to Australia and want to talk to Victorians about the investment climate and investment opportunities here we ought to include the broadest range of industry sectors where we have some sort of competitive advantage. In the past we have done it very aggressively in relation to the automotive and precision engineering — more recently, biotech and ICT — industry sectors where we have been able, through some sort of independent research, to identify an advantage for Victoria. We want to make sure that we add to that list our financial services industry.

Recently we were able to have IBM Business Consulting, which used to be PWC Plant Location International, a European-based consulting group, conduct some benchmarking research, which included our financial services sector. I am happy to make the information available to members of the committee.

If I can take by way of overview this independent research by IBM Business Consulting, *Benchmarking Victoria — Positioning Victoria for International Investment*. It is not research done by the Department of Innovation, Industry and Regional Development or by any other government department for that matter. Rather it is independent research that, in a sense, is independently verifiable. It focuses on a range of industry sectors, for which Victoria has some sort of competitive advantage.

I draw members' attention particularly to page 11, which focuses on funds management. You can see a matrix. The horizontal line refers to the operating cost index. Obviously the further to the right of that line the better value, or the lower cost to the destination. The vertical line refers to the quality of location score. You can see where Melbourne, Victoria, falls in relation to some of the other key financial services hubs around the world. We have deliberately focused on not just any city, but obviously cities where there are competitive financial services sectors. We are comparing Melbourne with other financial services headquarter cities rather than just comparing us with other cities in the region or wherever else.

You can see there that Melbourne is a very good-value proposition for funds management. This should not be surprising. If we look at our industry funds, we see that over 60 per cent of the industry funds in Australia are now based here in Victoria. We are very competitive in cost terms. We tend to have, compared to some of our major competitors, lower wage levels in our financial services sector. Rents and the cost of land are relatively cheap in

Melbourne compared to some of those other locations. We have very good infrastructure to support our financial services sector, and you can see there a reference to the reliability of our telecommunications sector.

I think — and this is very important — we also have an excellent presence of employees with financial and IT skills, and because of our multicultural community we have a strong concentration of people who, whilst they speak English, also speak other languages, often without an accent. That is very useful in terms of a 24-hour industry operating across many different time zones where there are service centres in Shanghai, Hong Kong, Europe and other parts of the world. It is very important that we market Victoria as a location that has a highly skilled work force with good IT skills and a very multicultural community, which supports a lot of the things we are trying to achieve.

I think overall with this benchmarking research that is being done — and if you flip over you can also see our competitive advantage in relation to financial shared services — you can see that Victoria, and Melbourne in particular, is very much a good-value proposition in relation to financial services, and we want to make sure that our overseas pitching and marketing reflects the advantage that we have identified here in Victoria, and that is underscored by this research.

Mr FORWOOD — I would like to return to my previous theme. How will you know if you are in any way successful as the Minister for Financial Services Industry? There is nothing in the budget papers that indicates a benchmark or a measure of success for you as the minister or for the department in doing these sorts of things. We have already established that no money is allocated to the particular tasks. I presume money is allocated for the consultative committee, but we have not been told any of those figures. I point out that since you became the minister you have put out one press release as the Minister for Financial Services Industry, on the ANZ service centre. It looks to me very much as though the government decided it wanted a 20th minister, and you were close to Mr Sword and — —

The CHAIR — On the budget papers.

Mr MERLINO — What is the relevance of that question?

Mr FORWOOD — Don't be so sensitive about it; I am just trying to make the point.

The CHAIR — On the budget papers.

Ms GREEN — We could start on your lot with that.

Mr FORWOOD — I am just trying to make the point that if you look at the budget papers — —

Mr MERLINO — You are struggling to ask a question, that is what you are doing.

Mr FORWOOD — No, not at all.

It is very difficult to understand what the minister actually does, and I do not see any measures at all. Can you tell the committee how you will know whether or not you have been successful as the Minister for Financial Services Industry and where we can actually get that measure?

Mr HOLDING — If I can take us back to the situation before we had a Minister for Financial Services Industry, because I think that is relevant to provide some context as to why we do, and then how we will measure the performance in relation to this sector.

What the financial services industry faced back in 1999, sorry, 1998, was a situation where the former Premier had stood up at a Law Institute dinner and basically said — well not basically said, said exactly — that Victoria should abandon the idea of being a financial services headquarters in Australia and that we should vacate that field to Sydney. This not only created the perception, it was underscored by the reality of a statement by the Premier saying it, that we had no interest in being engaged in financial services, that we were happy to vacate the field to Sydney and to let it capitalise on all the investment opportunities, all the employment opportunities and all the spin-offs that are generated by having a vibrant financial services sector.

We as a government took the view that that was not an acceptable situation. It was not an acceptable proposition to say that Victoria and Melbourne were not interested in having a financial services sector; rather, we wanted to focus government activity and dialogue with industry on building our capacity in relation to financial services. That is why in our first term we established the Financial Industry Consultative Council. That is why we have

undertaken a strategic audit of the industry to identify opportunities, and that is why we will release, later this year, a strategic plan which will focus on the government's vision for working in partnership with the industry to grow our financial services industry.

Mr FORWOOD — Well — —

Mr HOLDING — Please let me finish. In relation to the financial services action plan, that will contain a whole range of measures which will outline how the government sees the future of the industry and which will outline how we are able to measure our success in relation to this portfolio. It is very easy to come in and say, 'Look, I cannot find a line item in the budget which relates specifically to the financial services industry'. It ignores the community banking grants and it ignores the fact that within investment facilitation there is a — —

Mr FORWOOD — I point out that — —

The CHAIR — Let the minister finish.

Mr HOLDING — That within investment facilitation there is clearly a focus amongst other industry sectors on financial services. But it also ignores the fact that not only do we have consultative mechanisms in place and an audit, but we have a commitment to the development of a strategic plan which will enable us to judge our success in relation to revitalising our financial services industry and building on it.

I would have thought that is a comprehensive plan, a plan which reflects the industry's importance as our third biggest industry sector within this state and a plan which looks to the future working in partnership with the industry and not being backwards looking or vacating the field to Sydney and saying that we are not interested and we are happy to shut up shop and let Sydney get all of the benefits that come from having a vibrant financial services sector.

I would add that to walk away from our financial services industry, to say that we are not interested in facilitating new investment or seeing jobs growth in that area has an impact not only on our financial services but on all those sectors which hang off our financial services industry. It is a key enabler of other sectors of our economy. Agriculture, manufacturing, ICT — all these areas rely on Victoria having a vibrant financial services industry. That is why we have a commitment to it, and that is why we have a commitment to developing a plan on which we will be able to benchmark our success.

Mr FORWOOD — So eventually we will get some targets and some measures?

Mr HOLDING — By the end of this year we will have a strategic action plan for the industry.

The CHAIR — Thank you, Minister.

Mr FORWOOD — With measures?

The CHAIR — Ms Green.

Ms GREEN — One of the department's responsibilities is to help grow Victoria's financial services sector through the development of innovative strategies. What do you see as the barriers to further development of the sector and what strategies are to be funded from the budget to assist the sector? You have probably answered part of that.

Mr HOLDING — I think the greatest barrier the sector has faced in recent years has been this perception that the financial services action has been slipping to Sydney. This is something that we have to challenge head-on. It is not about Melbourne necessarily competing with Sydney in all areas for new investment, it is rather about us being able to demonstrate the confidence the industry has here in Victoria; secondly, being able to demonstrate Victoria's competitiveness as a location for financial services investment; and thirdly, being able to identify industry subsectors, industry areas, niche areas and niche opportunities so we can grow the industry.

In relation to the first area, I can say that there has been considerable jobs growth in relation to our financial services sector. If we look at the figures from about August 1999 until about November 2002 we see there has been a growth in jobs of something in the order of 22 000 new jobs, which represents a considerable increase in percentage terms in our employment and financial services. It is a jobs growth figure which outperforms Sydney. I think that is something that is often missed. People tend to think that, whatever growth there has been, it has been outstripped by the growth in Sydney. In jobs growth that is not the case. We have had greater percentages of the

increase in jobs growth in the sector in Victoria. It now employs well over 100 000 Victorians, which is the equivalent of a city something like the size of Geelong.

So we have seen considerable jobs growth, we have seen considerable new investment. A lot of that new investment is focused on new investment by overseas bankers as well as new financial product providers. We have also seen reinvestment by companies that are already here. Mr Forwood in his contribution mentioned the ANZ centre, which I was happy to open earlier this year. The ANZ centre represents a consolidation of about seven different service sectors provided by ANZ onto one site. It brings new jobs to Victoria; it locates them in outstanding facilities, facilities that were designed by the employees who will work there. It really reflects not only the call centre and credit services that are provided out of there, but a whole range of other banking services as well.

There has been a lot of new investment. But, firstly, we need to market that; we need to remind people of the fact that there is a lot of new activity occurring in Victoria. Secondly, we need to remind people about competitiveness as a location. I mentioned the benchmarking research that has already been done, and we will be using that in our presentations to make sure that people are reminded of the best-value proposition that Victoria represents in particular in the financial services sector. Thirdly, obviously it requires coordination. It requires government to coordinate the activities of a fairly disparate sector. There are a lot of small to medium-sized enterprises, as well as some very large financial services providers. We want to coordinate their activities and the FICC provides an excellent vehicle for providing some of that coordination. We want to make sure that arising out of that we have a vision which takes us forward and the financial services action plan provides us with that vision. We intend to make sure that underpins the future success and vibrancy of the sector.

The CHAIR — Thank you, Minister. We will take a break and move to the manufacturing portfolio.

Witnesses withdrew.