

CORRECTED VERSION

PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

Inquiry into 2003–04 budget estimates

Melbourne–14 May 2003

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Witnesses

Mr J. Brumby, Minister for State and Regional Development and Minister for Innovation;
Mr P. Harmsworth, Secretary;
Ms A. Polmear, Head of Business Group;
Ms D. Goodin, Chief Operating Officer, 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 state and regional development and innovation portfolios. I welcome the Honourable John Brumby, Minister for State and Regional Development and Minister for Innovation; Mr Peter Harmsworth, Secretary of the Department of Innovation, Industry and Regional Development; Ms Andrea Polmear, head of business group; Mr David Hanna, head of innovation and policy group; Ms Jane Niall, executive director, science, technology and innovation, Mr Kerry Murphy, acting chief executive, Regional Development Victoria, and Ms Debbie Goodin, chief operating officer, Department of Innovation, Industry and Regional Development, departmental officers, members of the public and media.

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. We thank Hansard for their attendance.

Before I call on the minister to give a 10-minute presentation on the more complex financial and performance information that relates to the budget estimates for the portfolios of state and regional development and innovation, I ask that all mobile phones be turned off and any pagers be turned to silent.

Mr BRUMBY — Thank you, Chair and committee members, and my apologies for being a little bit late. I was doing some post-federal budget media, so I do apologise for that.

Overheads shown.

Mr BRUMBY — We will run through the slides here and I will keep to that 10 minutes. Can I ask: are we having a 5-minute break between this and Treasury?

The CHAIR — Yes.

Mr BRUMBY — I am just feeling for the committee members. You will need it after listening to me for an hour.

The CHAIR — We have to change the relay teams.

Mr BRUMBY — If I could start with the department there and the groups represented in the department, it is broad and diverse — the innovation area has been added for more than a year now; there is the whole business development section; regional development, which is a major focus of what we do; and the whole reshaping of the department since the election of the Bracks government; industrial relations; and of course tourism, so it does have a very broad economic focus. In terms of the objectives, I guess if you were to put them simply and succinctly, they would be that we want to see an innovative, connected and competitive Victorian economy, and that is what we strive to achieve. We also want to grow the whole of the state — that third dot point there. We want to support high performing workplaces, and of course tourism, which is now probably the world largest industry. It is a huge service industry with great opportunities for Victoria, and we want to optimise development in that industry as well.

We will go to the budget. That is just a breakdown of the budget. Bear in mind those numbers jump around a bit, of course, because the structure of the department and machinery of government changes. All of those things have an impact, and they are the numbers for the 2003–04 budget year. In terms of the policy priorities, innovation is the key priority, as I have said before. Last year we released the innovation statement *Victorians, Bright Ideas, Brilliant Future* really setting out the plan for the next five years. We had the business statement early last year *Building Tomorrow's Businesses Today*, the agenda for new manufacturing. There are a lot of initiatives in the agenda for new manufacturing, and this is an important focus of the government. There are seven items under that agenda: accelerating innovation, growing exports, championing the industry, creating high performance workplaces, building skills, attracting investment and achieving environmentally sustainable manufacturing — and we allocated \$27 million for that agenda over four years.

In the regional development area, as committee members would be aware, in the recent budget we re-funded the Regional Infrastructure Development Fund and in addition we put through legislation last year to establish Regional Development Victoria. It has essentially been in place since early March, and as I will be happy to explain later, in the near future I will be announcing the chief executive officer of and the advisory board to Regional Development Victoria.

Going to the key achievements in innovation: the synchrotron is being worked through on budget and on time. In the budget that I brought down last week we announced funding for two new programs - Vicstart and regional innovation clusters. In the last year we implemented the biotech strategic development plan. Science, technology and innovation (STI) infrastructure has been a fantastic program for us, and we are getting extraordinary leverage and gear-up through private sector and federal funding support. We have announced the second generation STI fund. We have put \$12 million aside to establish the Centre for Energy and Greenhouse Technologies, and of course the Innovation Economy Advisory Board. I have now had two meetings of that board, which I chair, which I think it is fair to say is the most senior board across government with very senior representatives from industry and science, with people like John McFarlane from ANZ; Graham Kraehe from BHP Steel; Peter Doherty, Nobel Prize Laureate; and Professor Adrian Clarke. It is a very high level body.

If we can just go to the next one, again the synchrotron I mentioned. I will be announcing the successful tenderer of the synchrotron in the next month or two. Work will start early in the new financial year. That is the most important bit of scientific infrastructure for Australia since the Second World War. STI second generation will get up and running in 2003–04. The department is also working to develop a strategic plan for design. The strategic plan is being updated for biotech and Vicstart starts from 1 July.

On the business side I will say a few words about the investment attraction program later, but we have been very successful with that investment attraction business facilitation, with a big focus on regional Victoria, which is important. A couple of small business initiatives include easy government, which is trying to cut the red tape. Trade fairs and missions is a great program. It has been in place for many years under many governments. We have expanded that, and we think it is a shining light in terms of opening up opportunities for small and medium businesses. We have opened new Victorian business offices in San Francisco and Nanjing, both representing huge market opportunities for us. On the film and television studio, if you go down to Docklands today you will see all the pilings complete, the basic foundation and structural work, a steel frame is being erected there, and we will see \$100 million worth of investment on that site.

On the agenda for new manufacturing, that is getting into our export markets and Minister Holding is overseas at the moment with a trade mission, with a number of representatives of the Victorian business community, to really push the agenda for new manufacturing and bring back orders and investment. In the next little while I will be formally launching Invest Victoria, which is a refocusing and reshaping of the investment facilitation functions of my department, to give it a sharper focus, to build up the after-care capacity — that is, to look after existing companies — and also to put in place a private sector advisory board.

On the opening doors export strategy, we have provided a bit of money there to boost our export capacity. The Small Business Commissioner will be fully operational from the new financial year. On regional development, I mentioned investment facilitation and attraction, and it is worth saying that we have comfortably exceeded our target for investment facilitated over the last 12 months. The target has been at \$1.2 billion, I think, and we have comfortably exceeded that — in fact, I believe we are increasing the target this year, in the 2003–04 year, to \$1.4 billion, but the big thing there is that \$700 million of the \$1.6 billion we have attracted has been in regional Victoria. We as a government are pretty proud of that.

We have seen significant capital works under the Regional Infrastructure Development Fund, and I do not think I need speak about that because everyone is familiar with RIDF. As I said the new authority, Regional Development Victoria, was set up from March, and I will be announcing the new board for that shortly. The RIDF, as I said, has been refunded with \$70 million for gas and \$20 million is for the small towns development fund, so that will put a big focus on economic development in small towns. Also, regional innovation clusters is a nice, new program out of the budget with the \$2.9 million over four years, refocusing on what we can do in regional areas.

On tourism, we have been great supporters of tourism, and I know that when the minister is here he will speak more about that, but we put the \$10 million in after S11. We were one of the few states to grow tourism in that difficult environment. We have just put more money in to stimulate tourism after the bushfires, \$2 million, and that is having a great impact. On the drought, obviously we are working hard in country Victoria to assist communities. On the bushfire recovery, I chair the task force on bushfire recovery in my capacity with responsibility for state and regional development and as Treasurer — and the department was fully involved in that activity.

In closing, the innovation agenda is absolutely crucial to the future. Regional development is also a key part of our agenda and will continue to be. We have to manage economic impacts, we have to keep the focus on investment attraction, and we are also determined to grow investor confidence and economic growth. That is a snapshot.

The CHAIR — I refer to page 85 of budget paper 2, which refers to scientific research and innovation infrastructure spending. Could you explain how effective that program has been? What impact has last night's federal budget had on our position in Victoria?

Mr BRUMBY — The STI program has been very successful for us, and we have put aside significant funding under that. I guess the key point I make to the committee today is that we put aside \$119 million under that program and the total value of round 1 and 2 projects through that competitive infrastructure grants program now amounts to close to \$600 million. It just goes to highlight first the huge appetite for support in the science, technology and research areas, but secondly if you show the leadership in this area there are hopefully other groups and other governments which will come in and support the leadership which we have shown.

I have a couple of examples. One is the neuroscience consortia which we funded, from memory, two years ago; it was around \$13 million. As a result of that the federal government then came in and supported that as a national centre. It funded it. We had major companies sharing, with AG coming in with a \$25 million package. There has then been further support from university and other third-party groups. From that \$13 million that we put in to kick-start this and establish it in Victoria it is now a national neuroscience research facility and is leading Australian research on things like multiple sclerosis and motor neurone disease. It is now somewhere between a \$50 million and a \$100 million project as a result of investment we made in it.

It is a great program. Is it getting the support it should from the federal government? One point I make about federal government science funding is if you look at last night's budget there is a little bit extra for science but it is in 2006–07. There are really very few initiatives there, and the federal government needs to get into the business of having a regular science infrastructure program. It just does not have it to any extent at the moment. It needs to do that, and I think our evidence here in Victoria shows how successful that can be.

Mr FORWOOD — On page 187 of budget paper 3 we have the output group for regional infrastructure development. Could you go through the figures? The target for 2002–03 is shown as \$132.1 million for this year. The expected outcome is shown as \$48 million — in other words, it looks like you come in having underspent in cash terms by \$84 million this year. The target for the next year is \$86.5 million, so am I right in assuming that you have underspent by \$86 million and you are rolling all the \$86 million into the following year and the only new money for regional infrastructure development of this year is \$2.8 million?

Mr BRUMBY — This shows what is actually spent, not what is committed. It is what is actually spent. If you read the Auditor-General's report, for example, on the RIDF — and it was a very positive report about this — the one comment the Auditor-General made was that the administration of the program was, if I can paraphrase, first-rate and very sound, but some of the councils and groups to which funding had been awarded may not have been as expeditious as they could in actually expending the money. All this shows is the actual expenditure that will take place.

If you go to the budget papers this year they will show there was a rephrasing of that, so the actual expenditure this year is less than we had anticipated. The expenditure next year and the year after will be considerably greater than we had anticipated, which is not anything to do with the government but to do with how rapidly groups are able to expend funds that are provided to them. If the point of your question is will people be short-changed on the \$180 million, the answer is categorically no, the \$180 million is still all available but it will be over a longer period in terms of its expenditure. If the second part of your question is are we somehow then netting that off against the new \$180 million we provided in the budget, the answer is categorically no. The total amount which is there, fully budgeted for and expected to be expended from the first RIDF and the second RIDF is \$360 million.

Mr FORWOOD — And all that will be spent? How much in 2003–04 of the \$86 million is new money being spent? How much has been carried over from last year and how much is new money this year?

Mr BRUMBY — Being spent? I would have to get you the relevant part of the budget papers which shows the rephrasing. In the mid-year budget update — and there is nothing new about this, this was identified in the mid-year budget update and confirmed in this budget — in 2003–04, according to the department, the amount which will be spent from what I describe as the existing program is \$64.5 million. That is what will be actually spent. This is things which have been committed. A great example is the dairy underpasses, where there is a lead time. You provide the money — we provide the money through the Victorian Farmers Federation and people then do not do things instantaneously. Another would be the support we provide for upgrading power supply systems. Again we have committed the money, I think \$6 million to that, but to date the take-up has only been about two

and a half. There is a gap between what is available, what is committed and what is spent, so \$64.5 million of the existing program — —

Mr FORWOOD — That is \$22 million in new money?

Mr BRUMBY — And according to the numbers I have, the new money is \$20 million.

Mr FORWOOD — That does not add up if it is 64.5, but it is close enough.

Mr BRUMBY — They are the numbers I have from the department. In terms of the new money, bearing in mind with RIDF, exactly as we promised in the election last year, we promised \$180 million over five years and that is what is provided for in the budget papers. Again the phase up on these programs is that you start down low and it builds up in the last couple of years.

Mr DONNELLAN — I refer to page 182 in budget paper 3 that refers to the trade fairs and missions program. How is the program going with regard to expectations vis-a-vis outcomes?

Mr BRUMBY — I mentioned this before, but it is a key element in the department's efforts to boost exports. In 2002–03, the current financial year, the program will assist Victorian companies to attend more than 25 events in 17 countries. If you look back from May this year we have assisted something like 303 Victorian companies to participate in the program. As a result, they have told us that the new orders they have signed for exports as a result is \$178 million. I will go to a couple of examples of which I am aware and on which the department has given me some advice. We supported first-time exporters in Dubai during the Big 5 building and construction exhibition. One of those was Grocon. You have probably read in the press that as a result of that and its participation it has secured a joint venture to build the world's tallest tower in Dubai. The net export benefit of that is something of the order of \$60 million in project management exports for Victoria. There is a number of others, such as an oil and gas fair held in Singapore where there was \$8 million in incremental exports; eight Victorian companies attended the international food fair in Kitakyushu in Japan with assistance from the department resulting in \$2 million in extra exports. There is a whole list of them.

We are increasing funding going forward for our export programs, and we think this is a great program. The significance of it is — particularly if you are a small producer, and I mentioned a couple of bigger companies — that a lot of the smaller companies, food companies, cheese companies, and wine companies — Bulga Estate winery, Shallow Creek winery, Andrew Peace winery, Brown Brothers — have all been assisted under this program. When you look at Victorian wine overseas now, 10 years ago we were exporting \$27 million a year and today we are exporting \$270 million. It is a great success. One of the things is that we help the smaller to medium-sized vignerons get into world markets.

Mr BAXTER — I want to follow up further on Mr Forwood's question and get a better understanding of funding under the Rural Infrastructure Development Fund. In talking about the \$180 million in the existing fund, and I understand \$40 million or \$50 million is yet to be allocated, I understand your remarks about making an allocation which is not necessarily taken up for some time and that that spills over into the next financial year, but there does seem to be an expectation in the community that you are going to announce the balance of that project prior to 30 June. Is that so, and when are we likely to get that announcement, and bearing in mind this is at the end of the program but there is still a fair lump of money left, are those fresh announcements, if they are to be made within the next six or seven weeks, going through the same sort of process the others have gone through and going to the same parts of regional Victoria, or are they likely to go to interface councils?

Mr BRUMBY — That is not so. That is a mischievous claim, and I have pointed that out publicly. Funding is provided and will be committed by 30 June. We have always made that abundantly clear. There is no shortage of applications, as you know, Mr Baxter. There is a large appetite for RIDF funding. Many of these are in the system. The process is that they go to an independent committee which is chaired by my department and they come over to me with a recommendation. If my memory is correct, I do not think there has been a case where I have rejected a recommendation of the advisory committee. They come to me through a bureaucratic committee independently assessed. They will all be announced. There will be none in the interface councils.

Let me be clear about this: the amendment which is made to the Regional Infrastructure Development Fund Act is to enable funding out of the new program for natural gas connections. We will provide \$70 million out of the new program for natural gas connections, and as we promised at the election campaign there will be some rural areas of interface councils that will want the capacity to bid for gas connections. We said that they have that right, and we are honouring that commitment. We should be absolutely clear about that.

To go again to your point of actual commitment and spend, a good example is one of the early commitments we made, the Bairnsdale saleyards. We made that commitment because there was a distinctive case that was made out for those particular saleyards. If my recollection is correct I announced that, I think it was in late 2000 — one of the very early ones — and all the money has still not been expended. There is a variety of reason for that: some of it going to regulatory approvals, some of it going to decisions by the council and some of it going to broader saleyard issues. The first stage of that has been completed but the whole project is not yet complete so all the money has not yet been expended. Another example, again in Gippsland, is Buchan Caves where again there was an early commitment and all of the funding is not yet expended; most of it is but it has taken the best part of two years. Why? In that case I think they have been waiting to see whether they could get some federal funding and have been unsuccessful. We make the commitment and the announcement but sometimes it takes a little while. The commitment with regard to the East Gippsland regional saleyards was \$1.5 million and was made in November 2000, and I believe that project is in the final stages of completion. We could go through all of the programs here.

Another one which I announced late in 2000 was with the Southern Grampians Shire Council of \$3.1 million for the establishment of the RMIT University campus. That was one of the old veterinary laboratories closed down by Kennett government but now it is a vibrant and dynamic centre of education and learning, which is supported by the local community and by the Hanbury family — they have put more than \$1 million into that. I opened that a month ago. Again, the money was approved 2000 and by the time the project is complete it is early 2003. It is no-one's fault and there is no problem with the program or people's best endeavours, but when you take federal, state and local government regulatory arrangements, private funding for example from the Hanburys, bring all that together and get the construction done often there is a lead time. You could go through the list here and pick out some of these — for example, Flagstaff Hill Maritime Village redevelopment in Warrnambool of \$3.3 million announced in May 2001 and I opened that probably two months ago so that was just on two years. That is about the lag.

The bottom line on this is \$180 million and it has been a stunning success. All the money will be expended. but more will be expended in 2003–04 than we had anticipated and less in 2000–03, not because projects have not been approved but because the expenditure by the project recipients has not yet fully occurred.

Mr BAXTER — I do not think the committee was making any claims, we are simply seeking clarification. As I have explained, I understand the lead time from an allocation to actual expenditure, but that was not the purpose of my question, it was simply to get an indication of when the balance might be addressed. You mentioned natural gas, which I shall pursue now rather than through a further question later. Of the announcements for natural gas made in the budget for Bairnsdale, Barwon Heads, Romsey, Creswick and so on, do we have any estimates of how much that will use up of the \$70 million in the new infrastructure fund that has been earmarked for natural gas — in other words, is there much left for those other towns which will be seeking it?

Mr BRUMBY — As you know, the government examined this issue through 2002 and there was some work done for councils and government on that issue. As a result, our best estimate was that \$70 million could ensure that up to 100 000 country Victorians would get access to natural gas. When you look across the state there are some places which lend themselves more easily to the extension of the grid than others. In some areas you would have to have very high subsidies and a tariff well above the metropolitan rate just to get the numbers to add up.

We made a number of commitments where we said that gas would be expended to these areas. Bairnsdale was one of those. Bairnsdale is a shameful example of the failures of the former government to extend natural gas to regional areas. When you go to Bairnsdale the pipeline runs down the main street but it does not have natural gas. Why is that? Because of an agreement signed up to by the former government which has proved to be unworkable. We have made a specific commitment to extend gas to Bairnsdale. You look at some of the food producers in Bairnsdale — there are food producers there who are using all bottled gas and they will save hundreds of thousands of dollars a year.

Mr BAXTER — No-one is objecting to Bairnsdale getting gas — that is not the question.

Mr BRUMBY — Your question was will that suck up too much money?

Mr BAXTER — No. I am trying to get a handle on how much of the \$70 million does go to providing gas to the towns announced. Is there much left for anyone else in this \$70 million?

Mr BRUMBY — What we have to do with this is get the best possible competitive arrangements out of gas companies. That is what we have to do. We have said there will be \$70 million and that is how much there will

be: there will not be more than \$70 million and there will not be less than \$70 million. There will be \$70 million and we will bid that into the market with those councils that express interest to get the best possible deal. Of course at this stage we would not put a number on what we are going to do for Bairnsdale or Creswick because we would be playing into the gas companies' hands. We have to make this a competitive process.

I will be releasing a full paper on this very shortly. I will be undertaking a full briefing session with local government in the next couple of months as we put the guidelines out. For local government and local communities the strength of the competitive case they put will have a bearing on how successful they are. There are a lot of people out there who are hungry to get gas. I would like to make this point about this if I can: this is a very positive initiative, it is \$70 million. You can go back, as I have done, and read some of the nonsense that was spoken by then government members in the 1990s about gas when they privatised the system and some of the lectures members, including the leader of your party, gave the Parliament about why gas should not be extended to areas for which it was 'unviable'.

Mr BAXTER — I think you should read his speech.

Mr BRUMBY — We are reversing that philosophy because if you took that view, you would never provide a single service to many parts of country Victoria. We are putting the \$70 million in, we will extend the program. Read the *Hansard* — you will find it informative.

Ms GREEN — I refer to page 83 of budget paper 2 that talks about regional infrastructure. Can the minister outline what steps the government has taken to address the backlog of infrastructure needs in regional Victoria and what the outcomes have been?

Mr BRUMBY — This really goes in part to the questions we have been discussing. The Regional Infrastructure Development Fund, obviously \$180 million has gone into that. By the way, we estimate that the gear-up value of that — the total project value — is already in excess of \$300 million. However, there are a lot of other things we have funded. The Wimmera–Mallee pipeline, \$77 million. I got up early this morning and I have been searching through the federal budget papers and I cannot find any matching funding for the Wimmera–Mallee pipeline. When you think of that, it is a tragedy really — 93 000 megalitres go into this system every year and only 10 000 megalitres come out the other end because 83 000 megalitres are wasted. We have provided funding of \$77 million. That is out there.

Ditto, we have put aside funding for rail standardisation of \$96 million. We said when we committed that we wanted to get some federal support and we wanted to get some private sector support. There has been no federal support forthcoming so in this budget we had to kick off the first stage of better linking our ports into the rail system. We provided \$30 million to the ports of Geelong and Portland to better link their road and rail and standard gauge systems. We also put \$108 million into the Latrobe Valley task force report on rebuilding and renewing infrastructure there. If I had time today I would tell you what a successful process that has been in terms of creating new investment, new optimism and new job opportunities in the Latrobe Valley.

There are a number of other capital commitments we have made, but I think overall if you look at what is going in capital works into country Victoria today compared with 4, 5 and 6 years ago it has been a huge increase. We are seeing the difference there with the lowest unemployment rate in country Victoria for the best part of 15 years and the best population flows since the days of Henry Bolte.

Mr RICH-PHILLIPS — During your presentation you spoke on the film and television studio at Docklands. In February of this year the Auditor-General reported on that project and found that the Central City Studios consortium received favourable treatment in the sense that there was a nine-month protracted negotiation period during which the tender was substantially changed in terms of the design and structure of the project and that was an opportunity that was not made available to the other two tenderers for that project. What compensation will the government be providing to the other two tenderers who were not given the opportunity to amend their tenders over a nine-month negotiation period?

Mr BRUMBY — The answer to that is no compensation. The process which was undertaken here was undertaken in a way which was fully consistent with the normal contractual and negotiation arrangements of the government and fully consistent with the Partnerships Victoria guidelines. Bear in mind too, as you are aware, this whole process received sign-off by the legal advisers to the Department of Innovation, Industry and Regional Development, by the probity adviser, Pricewaterhousecoopers, and by the probity auditor, Acumen Alliance. In every instance the probity auditor's opinion was that the procurement process was undertaken in a way which was fully consistent with the probity policy and the guidelines, and was fully defensible.

I would like to make this point about any contractual arrangements because I think there is a little misunderstanding here about contractual processes — once you select a preferred tenderer, there is no requirement under contractual processes for those who are not preferred tenderers to have a second chance to make a tender bid. That is the process. I do not know what point it is you are trying to make. We went through a process, there was some appetite for this project — I will come to why that is so in a moment — we selected a preferred tenderer and we then negotiated with the preferred tenderer to get the best deal for the state.

Let me say about this — for all the knockers of this project around the place — we lost a huge amount of the film industry in this state during the 1990s and all of the statistics confirm that. That is why the government made a decision to invest up to \$40 million to build a film and television studio — so we would not see this industry travel north to Sydney and Brisbane; so that once again we would be the great film-making state of Australia, as we were in the 1970s and 1980s; and so we would get all of the jobs and benefits that go with that. We put aside \$40 million. On the basis of advice that we received, instead of doing this as a public bill and just putting \$40 million in straight out of the budget to build a little studio and that was it, we actually, under a Partnerships Victoria process, bidded into the market and said to the market, ‘What will you pay and what value will you add to a project if \$40 million of state funding is available?’ The consequence of that is that on what KPMG estimates is now a net cost to government of just \$23 million we are getting \$100 million of commercial development, contractually sound with a third-party developer taking the project risk in this. This is important because this is not a risk-free industry — we are not taking the risk, the project developer is taking the risk. There is \$100 million of development. The work is occurring on time, on the site at Docklands now. As I said at the beginning of this presentation, go down there and have a look at it.

For goodness sake, get behind this investment which is an investment in Victoria and an investment in the Victorian film industry. That is what it is about. Under the contracts we have with the consortium it is required to oversee \$100 million of development in the film industry. The actual studios themselves have \$100 million in capital investment, but the actual film activity that will be generated from this is also \$100 million. It is great for the film and television industry and great for Victoria. We lost so much of that industry and it will come back with this project.

I will just repeat, in terms of the process, every appropriate government process was followed. I understand the opposition asked for one of the documents under freedom of information. That has been released and you will see that all of this has an absolutely 100 per cent clean bill of health.

Mr RICH-PHILLIPS — Notwithstanding that, the Auditor-General did find favourable treatment for the preferred — —

Mr BRUMBY — No, read me what the Auditor-General said instead of paraphrasing. Can you read it out now?

Mr FORWOOD — I do not have it with me.

Mr BRUMBY — The paraphrasing is inaccurate, so it is not correct.

The CHAIR — The Minister has answered that. There is just a point of clarification on one of the overheads.

Mr FORWOOD — Your business key achievement slide shows that it is due for completion in March 2003.

Mr BRUMBY — Sorry, 2004. Thanks for that. My apologies.

Ms ROMANES — I refer to page 58 of budget paper 2. Can you outline what the current regional population growth trends are and what strategies the government has to continue this growth?

Mr BRUMBY — Thank you for that. The last estimates we received from the ABS are that the population increase in country Victoria has been 1.2 per cent, and that is historically very strong for our state. In the second half of the 1990s it crept up to about 0.6 per cent. In the first half of the 1990s it was 0.2 per cent and there were some years when it was negative. You have to go back more than 20 years to find growth at that level.

What is more pleasing is if you do go back 20 years you find some of that so-called growth in country Victoria was actually as a result of some of the outer suburbs of Melbourne being fed into the statistical data. When we look at this it is actually the stand-alone provincial centres that are getting sensational growth rates — for example,

Geelong, 1.5 per cent plus; Mildura, 1.5 per cent plus; Ballarat, 1.5 per cent plus; Wodonga, 1.9 per cent plus; and Shepparton, 1.5 per cent plus. So all of those significant centres across the state are growing at 1.5 per cent plus, and of course many small towns are doing very well indeed. Some of them are coastal like Port Fairy; some of them are tourist towns like Halls Gap; but also across the state there are great examples of small towns that are doing well.

We set a target at the election last year to grow population in country Victoria by 1.2 per cent to keep that going forward. We are putting in infrastructure such as the fast rail links to the regions, the Wimmera–Mallee pipeline. We had a cabinet meeting in Horsham on Monday. The Wimmera–Mallee pipeline will be the most exciting development for people in the lower Wimmera–northern Glenelg area because they will get water they have never had to open up horticultural opportunities and all of the value added that comes through that. It will be like a whole breath of fresh air, a whole new era of economic development possible in those areas as water becomes available.

We are making the infrastructure available, we are tackling some of the water issues, we have also allocated money in the budget — \$10 million for a community regional industry skills program to boost the skills level in country Victoria and \$6 million for a skilled migration program to ensure that we are getting a better share of the international migrants coming to Australia moving to country Victoria.

Finally, Treasury has just done some analysis for me on overall population growth in Victoria. Over the last two years in Victoria, if you take net interstate migration and net overseas migration to Victoria, growth has exceeded 40 000 per annum for each of those years. Treasury cannot find another period — it has gone back as far as it can in the records — to find a period in which we have done so well as a share of total Australian population growth. It is an outstanding performance, and the pleasing part is that a big section of that is occurring in regional Victoria; it is not just all in Melbourne.

Mr FORWOOD — Page 186 budget paper 3 shows that the number of towns included in the natural gas reticulation target for 2003–04 is four. You are aware that Mr Theophanous has said in Parliament that Bairnsdale, Barwon Heads and Creswick are the only towns that have been committed to. You, of course, are on the record and again in your press release the other day as saying that Woodend, Gisborne and Romsey were first, so we now know there are six. Which are the two towns that will not get their natural gas in this year?

Mr BRUMBY — No, we have put aside \$70 million.

Mr FORWOOD — The target is four.

Mr BRUMBY — That is a silly question.

Mr FORWOOD — It is not.

Mr BRUMBY — You have put a view, I am entitled to a view; that is a silly question. We have put aside \$70 million over five years — that is what we promised in our election — to connect natural gas. You do not do all of this in one year. We never said we would do it all in one year. We will do it over five years, okay?

Mr FORWOOD — Okay. There are four in the budget papers — your budget papers, your target, your output group: four towns. Which four?

Mr BRUMBY — It is not for me to say today; that is a matter for the process to work through, and many towns will be competing. Some will be done in the first year, some in the second, some in the third, some in the fourth and some in the fifth, depending on a whole range of factors: how quickly the submissions come in, how quickly the proposals come in, what the competitive edge is, how close they are to the grid — all of those factors will be taken into account. For goodness sake, we never said we would do \$70 million worth of connections, but you are trying to assert that.

Mr FORWOOD — No, you said you would do Bairnsdale, Creswick, Barwon Heads, Woodend, Gisborne and Romsey first.

Mr BRUMBY — In 2003–04, did we?

Mr FORWOOD — First.

Mr BRUMBY — No, I challenge you to find — —

Mr FORWOOD — First.

Mr BRUMBY — In 2003–04?

Mr FORWOOD — First.

Mr BRUMBY — No, we said we would do them over five years; all those towns will be done over five years.

Mr FORWOOD — Okay. I will be pleased to hear it.

Mr MERLINO — Minister, I refer you to page 170 of budget paper 3. The government has recently set up a new body called Regional Development Victoria (RDV). Why was this necessary and what will it do?

Mr BRUMBY — Essentially this is necessary to build the second stage of the government's agenda for country Victoria. If you look at the first stage of that agenda, all of things that we did in our first term — the initiatives we put in place, the clear focus on growing the whole of the state, the results that we have got from that — you will see it has been a standout performance, but we have to go further.

The question was raised with me a moment ago about population growth. If we really want to reinvigorate the regions, if we want to continue with the second stage of our agenda, we have to be doing even more than we did in the first term. RDV is a stand-alone statutory body with an independent CEO reporting to me and to the department head. It has a staff in excess of 100 and more than half of those are based outside the metropolitan area. Its job is to get a whole-of-government focus on development, infrastructure and jobs in country Victoria. We will be setting up an advisory board as part of that. All the members of the advisory board must come from country Victoria. As I said earlier in my presentation, we will be announcing the composition of that in just the next few weeks. I am excited about this, all of the councils in country Victoria are — —

Mr FORWOOD — You work for TXU.

Mr BRUMBY — What?

Mr FORWOOD — You work for TXU — 'I am excited about this!'

Mr BRUMBY — Oh yes, thank you for that moment of levity. We are excited about RDV, and I am sure TXU is excited as well. RDV will, of course, be leading the government's agenda on the connection of natural gas and so, Mr Forwood, RDV will be sitting down with TXU to negotiate the best possible deal for all those towns you mentioned before to make sure we connect them quickly to the natural gas grid. That will be one of its jobs. Our aim is really to get that whole-of-government focus. We are excited by it, and the acting CEO, Mr Kerry Murphy, is here today.

Mr DONNELLAN — I have a supplementary question if that is all right.

The CHAIR — A supplementary question? Yes.

Mr DONNELLAN — I notice money was put aside for encouraging investment in aquaculture. Would RDV be taking care of that as well?

Mr BRUMBY — No, I do not think it will be doing the aquaculture. I can give you an example of how RDV will work. Let us just say that aquaculture is developed through the Department of Primary Industries, but there is a challenge or a problem which might be a development problem or an environmental problem, a regulation problem or a whole-of-government problem. One of the roles I would see for RDV in the future is that of supporting on a whole-of-government basis something which will generate the jobs and opportunities in country Victoria. Even if there is something that is not administered out of RDV, its role in lending support to and giving a broader whole-of-government focus on those jobs and opportunities is important and will add a lot of value.

Mr BAXTER — The new RIDF includes \$20 million for the small towns development fund. Can you give the committee some idea of the parameters of that? Is there a definition of small towns cut-off point, what sorts of projects is it likely to assist, what is the mechanism, is RDV going to be the initial starting point and so on?

Mr BRUMBY — This program is due to start in the new financial year and I will be issuing some guidelines on that program in the next month or two. The department has developed some draft guidelines and a

program structure for me. I am yet to approve that — I am looking at it and it is under consideration — but essentially the focus will be on small towns. As you know, in the past we have had various programs. The Rural Community Development Program for some years was funded under community support. We have a program at the moment called the Regional Community Infrastructure Allocation, which is funded out of the Regional Infrastructure Development Fund.

This is a further development of that — a further enhancement — and will have a much stronger focus on small towns. It is a program that will not be available for the Geelong and Ballarats. It will have a focus on small and medium provincial towns. It shifts the effort away from the larger provincials to the small and medium-sized communities. I have not yet decided on whether the number will be 10 000 or 20 000 — again, the department has given me some draft advice and I am considering that — but it will mean more funds not less for what you and I would agree are small and medium-sized towns.

The reason for that — and I go back to what I said before — is that we have a strong focus on the areas covered by the major programs through the RIDF — that is, the big grant programs, the Living Regions Fund and Living Suburbs strategies for the major provincials. For the smaller towns, really boosting their economic capacity going forward is the next stage of the agenda as well. There are some challenges out there, as you know, but there are also some great success stories in small country towns and it is those ones we have got to get behind and really build up.

The CHAIR — I have a question about the effect of bushfires on the economic conditions here in Victoria. In March you announced the bushfire recovery task force and the fact that it had developed a \$10.6 million package for fire-affected regions. In the budget statement a further \$86 million was provided to support community recovery, including restoring infrastructure, concessional loans and regional development funds. Can you outline for us a little of that 2003–04 bushfire recovery initiative, and does it represent a continuation of the \$2.8 million program initiated in March 2003? Perhaps you can explain what the government is doing now and a little of the difference.

Mr BRUMBY — To go to the broad numbers, in total the expenditure by the government on bushfire suppression and recovery efforts will be in excess of \$200 million — \$201 million, I think, was the number I used in the budget speech and budget papers — and of that there is around \$115 million in fire suppression costs, \$3 million in financing support for concessional loans through the Rural Finance Corporation, and \$69.4 million announced in the final report, which the Premier and I released in Bright. It should all add up to about \$201 million.

Of the initiatives in the final report there is \$23.9 million for catchment and water protection, \$24.9 million for restoring assets in parks, forests and alpine resorts, \$13.2 million for ecological and cultural heritage, \$5 million for roads, bridges and signs, \$2 million additional support to farming communities and \$400 000 for community recognition.

The interim report, which I announced earlier in the year, had some funding as you would recall for fencing and tourism. The \$2.8 million, which I said was for local economic development recovery initiatives, is funding which we have found in our department through re-privatisations and re-focusing. I will be announcing a number of specific grants from that again in the next four to six weeks. We announced that back in January — that is available. Councils have been putting in submissions to say we should be spending it on this, this or this. It is quite a substantial sum — \$2.8 million — and there will be a number of programs. As I said, I will be announcing the details of those in the next month.

Mr RICH-PHILLIPS — Going back to the film and TV studio, in the February report the Auditor-General found that key performance indicators (KPIs) at that point in time had not been developed for the project however were under development. Can you tell the committee if those KPIs have been completed for the project and if so will you provide them to the committee?

Mr BRUMBY — I do not have a list of the KPIs.

The CHAIR — It is possible for you to provide those after the hearing.

Mr BRUMBY — Alternatively, Andrew Skewes is here from the department. Andrew managed this project within the department, so he can probably answer that question about the KPIs. The only point I would make at the outset obviously is that it is important to understand, and it goes back to what I said before about this project, we have transferred the risk to the private sector. For what KPMG estimates to be a net outlay or cost to government of \$23 million we are going to see \$100 million of film studio cluster development. I would think that is a great outcome for the state. More importantly if CCS fails to achieve state objectives and the key performance

indicators the state can terminate the contracts. The power to do that rests with us not with anyone else. Again we have transferred the risk, we have a good set of commercial arrangements here. The activity is being undertaken at Docklands today and we have done this at a lower cost to government than originally envisaged.

The CHAIR — What you do not have available today can be forwarded to the committee.

Mr SKEWES — The short answer to the question is that the KPIs are in the contracts and the contracts are available on the Web. We did give the opposition a hard copy of the contracts. I do not think the Auditor-General found that the KPIs were not yet worked up. They were worked up and agreed to by government and put into the tender process for expression of interest through to request for tender.

Mr BRUMBY — Perhaps if I could just add to that and refer to our response, but I am not sure — — .

Mr FORWOOD — Say it any way if it is in the contract.

Mr BRUMBY — I do not want to waste your time reading by the whole page. This was the department's response to the Auditor-General's report, which has been published, and goes through all of that, but it just echoes what Andrew and I have said. It is on the web site.

Mr DONNELLAN — I refer to page 2 of budget paper 2 where it talks about the drought affecting regional Victoria. Can the minister outline what steps the government has taken to help drought-affected communities?

Mr FORWOOD — Come on, you have to be joking!

The CHAIR — Can we tie that into key performance indicators?

Mr DONNELLAN — You could tie into expenditure in the budget.

Mr BRUMBY — I think it is a very well-thought-through question, very succinct.

Mr DONNELLAN — Thank you.

Mr FORWOOD — It came from your office!

Mr BRUMBY — It did not come from my office because I do not know what the answer is. No, that is not true.

On the issue of drought, we have committed what will be up to \$85 million in total drought support and assistance. I just want to make the point that I was amused last night watching the federal budget speech to hear the federal Treasurer say that he will spend hundreds of millions of dollars on drought assistance. The total amount which the federal government has spent in Victoria assisting with our drought-affected communities is less than \$10 million. We have spent in excess of \$50 million and probably we will spend up to \$85 million. It really stuck in my craw last night to hear the federal Treasurer go on about what the federal government is doing for drought assistance. It has just walked away from Victoria.

Finally, in recent times it has declared a couple of areas in the north of the state as eligible for EC, but really what it is doing is a pittance compared with what the Bracks government has done. We are out there with the \$20 000 grants. We did not wait for the federal government.

Can I make this point: the early advice we got from the Australian Bureau of Agricultural and Research Economics in relation to the drought suggested that Victoria's GDP would be affected by 0.5 or 0.6 of a percentage point, that we would be one of the lesser affected states. The latest advice from ABARE is in fact that the drought will reduce our GDP growth this year by more than a full 1 percentage point. The reason for that is it has been so dry that we have also had water shortages, as you are aware, and we have not had the output from many of the dairy regions that we would have normally expected. It has had a huge impact on our economy. Our estimated growth this year is 2.75 per cent real GSP growth. The drought has abstracted off over 1 per cent. If it was not for the drought we would be growing at close to 4 per cent.

The positive part of this story is that because of the early action of the Bracks government and its support for rural communities — the \$20 000 cash grants, the other grants that we have made to support local economic infrastructure and financial counselling and so on, the whole package of assistance we have put out there — while

it has had a huge impact on our GSP, the employment impact has been more muted than you would normally expect with a 1 per cent-plus impact on GDP. That is not to say there still will not be jobs lost because of the drought; there will be. It is a big, big hit for our state. The message in this is if you get in early, provide the right policy support and work with local communities, you can in partnership get through some of the hardship — and that is the story. The federal government's raving last night about how it is helping drought-affected communities is just a nonsense. It has put less than \$10 million into Victoria.

Mr FORWOOD — Among the innovation key achievements in your slides you said that the Australian synchrotron was on budget and on time. Can you outline for the committee what the total capital cost of the facility now is and how it will be funded, and also how you anticipate funding the ongoing operating costs?

Mr BRUMBY — The synchrotron is, I think, unarguably the most significant piece of national scientific infrastructure in Australia that we have seen for decades, and in that context it is important that everybody gets behind it. So we are behind it; we have provided the national leadership. It is important too that other groups, such as the state opposition and, of course, the federal government, also get 100 per cent behind the synchrotron. If I was to describe the support from the scientific community as extraordinary and unprecedented, that would not be an exaggeration. A conference we held early this year in Melbourne for synchrotron users was grossly oversubscribed. We were expecting a few hundred; we had more than 600 there. There is enormous enthusiasm for this project among the scientific community.

In terms of its funding — and my slide is correct — this budget provides an additional \$57.2 million for the capital cost of the synchrotron, as I announced in January that it would. So there is nothing new in that; it is just that the budget gives effect to that. The total contribution from the state is \$157.2 million. You might say to me, 'Isn't that more than we thought we were going to put into it?'. In January, on the basis of the best advice, we looked at the most appropriate design going forward. We had been looking at two designs. One was a boomerang 18, the other was a boomerang 20. We went with the bigger machine, the boomerang 20, and the result is that — I used the expression it was bigger, better, brighter, which it is — it has twice the light capacity of the previous design, it has more than 30 beam lines where boomerang 18 had just 24; it has a much greater capacity for advanced analysis of complex compounds; and it will give much greater flexibility for scientists to use it. It cost more so we provided more money for that. As I said at the time, we also increased the funding for the contingency to ensure we deliver it on time and on cost, and we put a little bit of money aside for some of the spares for the first couple of years of operation. You put all that together and you get \$157.2 million. That will build the building and what we call the ring. It will do all that.

The remaining funding is for what we call the beam lines. Can I say on the beam lines, the experience overseas is that you do not get the beam lines locked in until you are much closer to the beam line construction phase, which will be 2006 or 2007. What happens is you build the building, then you build the ring. For those who have not seen the synchrotron, what comes off the ring are just like long X-ray tubes all around it. You do not put them on until the end. Typically if you look at Canada, for example, you do not get people signing up to the beam lines until much closer to the end. Having said that, we are ahead of schedule in relation to the beam lines. We have had Professor Frank Larkins at Melbourne University doing all the work for this. He has identified more than 200 potential investors in beam lines. Already Melbourne University has committed to at least one beam line of its own. A number of other private sector organisations are interested. You may have seen some comments from Western Mining Corporation, for example. We are fully confident that the number of beam lines will be oversubscribed.

The issue which you may be driving at relates to the federal government. We have never asked the federal government for funding for the building or the ring, but we believe it has a role in supporting its national scientific agencies, and I am referring to the Australian Research Council, the National Health and Medical Research Council and the commonwealth CSIRO. Perhaps if I can reinforce that — the Australian Research Council, the National Health and Medical Research Council and the commonwealth CSIRO — they are national organisations. Make no mistake, they will be users of and in most cases investors in the synchrotron, in the beam lines, because at the moment they have hundreds of scientists overseas — suitcase scientists — using someone else's machine, so they will come to Melbourne to use it. They will make a decision to support that.

In the absence of any additional funding to those agencies from the federal government, their commitment, investment and use of the Australian synchrotron is going to mean, all other things being equal, they will have less funding available for other areas of scientific endeavour. I say to the federal government not unreasonably, and the chief scientist I believe says to the federal government not unreasonably, that the federal government should be supporting its national agencies rather than just standing back and saying, 'You make a choice', because they will

make a choice and their choice will be that they will use it. It is much better for them to use this than to fly someone to Tokyo, Berkeley university or to Canada to use theirs. Therefore that is the issue for the federal government. I saw a press release the other day which was bizarre to say the least. It was from the federal minister, and he was saying he will not give us funding. The interesting point is that we have not asked him for funding. John Brumby will not be playing at full forward for Collingwood on Saturday, I was never going to do that either — but we would still win!

Peter McGauran has got to be supporting his national agency; that is the issue. And there is one other issue: at the moment the federal government is spending \$2.5 million a year subsidising Australian scientists to use someone else's synchrotron overseas. When I put the question to Peter McGauran, 'I assume, of course, that once our synchrotron is complete you will terminate that program and provide that money for users of the Australian synchrotron?' his answer was that he could not give me that commitment. That would be a truly bizarre national policy: you pay \$2.5 million as the national government to subsidise Australian scientists to use someone's synchrotron overseas and provide no support for the synchrotron in Australia. The federal government has some hard thinking to do.

We have been scrupulous about not playing politics with this issue, and from the state opposition's point of view, from the early discussions I had with the now Leader of the Opposition, when he was the shadow health minister, he was 100 per cent supportive of the leadership shown by the Bracks government, and offered to assist in whatever way he could with representations to the federal government to get supportive funding. I urge him to do that because this is the most important scientific project we have seen in decades.

The CHAIR — Thank you, Minister. At this point I invite the public servants to do their changeover from the interchange bench for the Treasury portfolio.

Witnesses withdrew.

