

## **CHAPTER 9: DEPARTMENT OF INNOVATION, INDUSTRY AND REGIONAL DEVELOPMENT**

### **Key Findings of the Committee:**

- 9.1** The Department of Innovation, Industry and Regional Development's budget allocation for 2004-05 was \$349 million, a decrease of \$47.3 million from the 2003-04 estimated actual budget. The budget for the Innovation and Policy output group is expected to be lower by \$61.7 million, or 37.8 per cent in 2004-05. This mainly reflects the revised spending profile for \$42.3 million of STI grants in the department's budget estimates.
- 9.2** Based on estimates at 31 May 2004, approximately \$52 million will be carried over from 2003-04 to 2004-05 for the Innovation portfolio, which mainly relates to grants funding. The State and Regional Development portfolio anticipates \$21.5 million will be carried over to 2004-05. These funds will be applied to various programs including trade fairs and missions (\$800,000), the Agenda for New Manufacturing initiative (\$3.4 million) and the Bushfire Recovery Program (\$800,000).
- 9.3** The Department of Innovation, Industry and Regional Development anticipates employing 718.68 staff (equivalent full-time) in 2004-05.
- 9.4** The 2004-05 Budget provided funding of \$5.7 million over three years to implement the second phase of the Make It Happen in Provincial Victoria campaign. Building on the success of the initial campaign, which attracted a strong interest in metropolitan Melbourne, the second phase will focus on providing the information and encouragement to those interested to make the move to relocate to provincial Victoria.
- 9.5** For some of the key initiatives in the State and Regional Development portfolio, the specific program funding and performance indicators were not established prior to budget appropriation.
- 9.6** The number of performance measures for the Small Business portfolio has declined markedly despite a substantial budget increase.
- 9.7** Few of the performance indicators relating to the Manufacturing and Export portfolio measure the success or quality of manufacturing and export activities, with current performance information mainly recording whether or not activities have occurred.

- 9.8 In an effort to address future shortages of skilled staff for the manufacturing sector, the Department of Innovation, Industry and Regional Development has implemented a careers in manufacturing strategy and proposes to establish a Manufacturing Skills and Training Taskforce.**
- 9.9 Despite introducing a range of initiatives for the financial services industry, the Department of Innovation, Industry and Regional Development developed only two new performance measures. Funding for most of the individual initiatives was not specified in the Budget Papers.**
- 9.10 The Government expects the proposed Melbourne Convention Centre to attract international and domestic conventions to Melbourne and result in delegate spending of \$3.3 billion over 25 years (which will increase Gross State Product by \$5 billion over 25 years). The total construction cost of the main convention centre buildings is expected to be \$367 million, and \$24 million is expected to be spent in 2004-05. The City of Melbourne is expected to make a \$43 million contribution to the project, which is planned to be undertaken as a public private partnership under Partnerships Victoria. Expressions of interest will be called for in late 2004, with the centre due for completion by 2008.**

## **Departmental review**

### **9.1 Departmental overview**

The Department of Innovation, Industry and Regional Development supports the ministerial portfolios of:

- Innovation;
- State and Regional Development;
- Small Business;
- Manufacturing and Export;
- Financial Services Industry;
- Tourism; and
- Industrial Relations.

The department also provides administrative support to the Minister responsible for Design. While design is not a Government portfolio, the responsibility has been assigned to the Hon. Lynne Kosky, to assume a leading role in these matters.

### **9.1.1 Key challenges for the department in 2004-05**

At the estimates hearing the Committee was advised that the priorities and challenges for the department in 2004-05 are:<sup>1</sup>

- driving the innovation agenda;
- managing the economic impacts from environmental disasters, such as drought, bushfires, etc.;
- continuing progress with investment attraction and tourism; and
- improving investor confidence.

### **9.1.2 Key factors influencing the budget estimates**

The department advised that its 2004-05 budget was framed in the context of the Government's strategic priorities for Victoria, encapsulated in the policy document *Growing Victoria Together*.<sup>2</sup> The department's budget provides funding for:<sup>3</sup>

- initiatives from the Government's 2002 pre-election commitments; and
- a range of initiatives from the Government's economic statement.

The department has responsibility for initiatives from the Government's economic statement aimed at:<sup>4</sup>

- increasing international investment in Victoria;
- facilitating export growth opportunities, through the Opening Doors Export Plan, and other related trade development initiatives;
- building an innovative, competitive food industry, through the Next Generation Food Strategy which provides an action plan to achieve the Government's food and fibre export target of \$12 billion by 2010;
- increasing the efficient movement of Victorian goods, through the Better Supply Chain Links Initiative;
- strengthening the financial services industry, through the establishment of a Centre for Financial Studies, among other initiatives;
- promoting Victoria as a leading destination for major events and conventions, by redeveloping the Melbourne Convention Centre to create a world class convention and exhibition facility by 2008;

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<sup>1</sup> Hon. J. Brumby, MP, Minister for Innovation, transcript of evidence, 19 May 2004, p.3

<sup>2</sup> Department of Innovation, Industry and Regional Development response to the Committee's 2004-05 Budget Estimates questionnaire, p.5

<sup>3</sup> *ibid.*

<sup>4</sup> Hon. J. Brumby, MP, Minister for Innovation, transcript of evidence, 19 May 2004, p.2; and presentation slides, pp.4-5

- promoting economic growth in provincial Victoria, through the Make it Happen in Provincial Victoria: Phase 2 Initiative;
- providing businesses with a seamless and enhanced environment for dealing with Government, through the Victorian Business Master Key Initiative; and
- restraining industrial disputes, through changes that enable the Government to intervene in protracted industrial disputes.

## 9.2 Output management framework

The Department of Innovation, Industry and Regional Development is a matrix-managed department in that ministerial portfolio responsibilities are not strictly aligned with departmental output groups. Exhibit 9.1 illustrates this relationship.

The department advised that as a result of this arrangement the accountability framework for output delivery is complex.<sup>5</sup> The department also indicated that in many instances the performance targets are directly linked to ministerial portfolios, however, Ministers share responsibility for the major performance targets for investment, jobs and exports.<sup>6</sup>

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<sup>5</sup> Department of Innovation, Industry and Regional Development response to the Committee's 2004-05 Budget Estimates questionnaire, p.2

<sup>6</sup> *ibid.*

**Exhibit 9.1 Department of Innovation, Industry and Regional Development  
Ministerial responsibilities by outputs**

	Ministerial portfolios						
	I	SR	SB	ME	FSI	T	IR
<b>Output group: Innovation and policy</b>							
Strategic Policy (b)	(a) X	X	X	X	X		X
Science Technology and Innovation	(a) X	X					
<b>Output group: Business</b>							
Investment Facilitation and Attraction (c)	X	(a) X		X	X		
Business Development		(a) X	X	X	X		
Small Business Support			X				
<b>Output group: Regional Development</b>							
Regional Strategic Leadership		X					
Rural Community Development		X			X		
Regional Infrastructure Development		X					
Regional Economic Development		X		X			
<b>Output group: Industrial Relations</b>							
Industrial Relations Services							X
Industrial Relations Policy							X
<b>Output group: Tourism</b>							
Tourism						X	

- Notes:
- I* Minister for Innovation
  - SR* Minister for State and Regional Development
  - SB* Minister for Small Business
  - ME* Minister for Manufacturing and Export
  - FSI* Minister for Financial Services Industry
  - T* Minister for Tourism
  - IR* Minister for Industrial Relations
  - (a) indicates the lead Minister for this output
  - (b) the Minister responsible for Design also shares responsibility for this output
  - (c) the Minister for Information and Communication Technology has responsibility under this output in relation to Multimedia Victoria<sup>7</sup>

Source: Department of Innovation, Industry and Regional Development response to the Committee's 2004-05 Budget Estimates questionnaire, pp.1-2

<sup>7</sup> *ibid.*, p.1

### 9.3 Budget summary/financial analysis

The Department of Innovation, Industry and Regional Development's output budget allocation for 2004-05 is \$349 million, a decrease of \$47.3 million or 11.9 per cent from the estimated actual budget for 2003-04 (see exhibit 9.2).

**Exhibit 9.2: Department of Innovation, Industry and Regional Development  
Output group costs**

	Column 1	Column 2	Column 3	Column (3-2)/2
<b>Output group</b>	<b>2003-04 Budget</b>	<b>2003-04 Estimated Actual</b>	<b>2004-05 Budget</b>	<b>Variation (a)</b>
	<b>(\$ million)</b>	<b>(\$ million)</b>	<b>(\$ million)</b>	<b>(%)</b>
Innovation and Policy	156.6	163.4	101.7	-37.8
Business (b)	73.6	77.5	91.4	17.9
Regional Development	99.9	102.9	99.0	-3.8
Industrial Relations	11.4	12.3	14.6	18.7
Tourism	38.3	40.2	42.3	5.2
<b>Total</b>	<b>379.8</b>	<b>396.3</b>	<b>349.0</b>	<b>-11.9</b>

*Notes* (a) a negative variation indicates the 2004-05 budget decreased compared with the 2003-04 estimated actual

(b) 2003-04 includes the Regulation Reform output budget. From 1 July 2004 the Regulation Reform output will be transferred to the Department of Treasury and Finance<sup>8</sup>

*Sources:* Budget Paper No. 3, 2004-05 Service Delivery, pp.140–151; Department of Innovation, Industry and Regional Development response to the Committee's 2004-05 Budget Estimates questionnaire, p.27

The Government's STI (Science, Technology and Innovation) initiative provides funding for a variety of programs, one of which is the STI grants program which provides competitive grants for research and innovation infrastructure. The Minister advised that a review conducted in 2002 on the STI Initiative (First Generation)<sup>9</sup> identified that the actual STI expenditure differed significantly from planned, thus leading to significant funding carry overs. The review recommended that the projected funding profile for the initiative be spread over a longer period to align with the spending profile and for the department's expenditure estimates for the STI Initiative to be revised each year to accommodate the changes.<sup>10</sup>

<sup>8</sup> Department of Innovation, Industry and Regional Development response to the Committee's 2004-05 Budget Estimates questionnaire, p.3

<sup>9</sup> The STI Initiative (First Generation) was launched in 1999. The follow on of this initiative is the STI Initiative (Second Generation) which was launched in 2002. The Government is currently implementing the STI Initiative (Second Generation)

<sup>10</sup> Minister for Innovation's response to the Committee's follow-up questions, pp.3–4

The Innovation and Policy output group is responsible for the STI grants program. Exhibit 9.2 shows the budget for this output group is expected to be reduced by \$61.7 million, or 37.8 per cent in 2004-05. The department advised that this is mainly to reflect the revised spending profile for \$42.3 million of STI grants in the department's budget estimates.<sup>11</sup>

The budget for the Business output group was increased by \$13.9 million, or 17.9 per cent in 2004-05. This was mainly due to funding provided for various initiatives announced in the Government's economic statement, such as funding for the Victorian Government Business Offices (\$1 million); Better Supply Chain Links (\$1.45 million); Melbourne Centre for Financial Studies (\$903,000); Next Generation Food Strategy (\$1.074 million); Opening Doors Export Plan (\$1 million); and the Victorian Business Master Key (\$2 million).<sup>12</sup> Significant funding is provided for Victoria's participation in the Expo 2005 trade fair to be held in Aichi Prefecture, Japan (\$5 million).<sup>13</sup>

The budget for the Regional Development output group is expected to decrease by \$3.9 million, or 3.8 per cent in 2004-05. The department advised that the key decreases are attributed to the Treasurer's Advances received for 2003-04 associated with funding for the Drought Assistance Program (\$800,000), and the Rural Leadership and Community Events Program (\$250,000). The department also advised of a reduction in the Regional Development Program funding of \$200,000 associated with '*a decrease in employee costs and a reduction in corporate allocations*'.<sup>14</sup>

The increase in the Industrial Relations output group budget of \$2.3 million, or 18.7 per cent in 2004-05 is attributed mainly to:<sup>15</sup>

- unspent funds carried forward from 2003-04 (\$1.2 million); and
- reallocation of funds from elsewhere in the department (\$700,000).

The budget for the Tourism output group has been increased by \$2.1 million, or 5.2 per cent in 2004-05. Funding of \$2 million was provided for the procurement cost associated with the Melbourne Convention Centre redevelopment.<sup>16</sup>

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<sup>11</sup> *ibid.*, p.4

<sup>12</sup> Department of Innovation, Industry and Regional Development response to the Committee's 2004-05 Budget Estimates questionnaire, p.28

<sup>13</sup> *ibid.*

<sup>14</sup> *ibid.*; Department of Innovation, Industry and Regional Development response to the Committee's follow-up questions, p.2

<sup>15</sup> Department of Innovation, Industry and Regional Development response to the Committee's 2004-05 Budget Estimates questionnaire, p.29; Minister for Industrial Relations' response to the Committee's follow-up questions, p.2

<sup>16</sup> Department of Innovation, Industry and Regional Development response to the Committee's 2004-05 Budget Estimates questionnaire, p.29; Budget Paper No. 3, *2004-05 Service Delivery*, p.262

### 9.3.1 Operating performance

In 2004-05, the department budgeted to receive \$300.7 million in revenue for its controlled operations, which is 13.8 per cent lower than budgeted expenditure and 9.2 per cent lower than the 2003-04 estimated actual budgeted revenue (see exhibit 9.3).

Expenditure from controlled operations in 2004-05 is estimated to be \$349 million, a decrease of \$47.3 million, or 11.9 per cent from the 2003-04 estimated actual budget (see exhibit 9.3). Expenditure from grants and other payments is expected to decrease by \$50 million in 2004-05.<sup>17</sup> The department advised that this is mainly due to the impact of the re-phasing of the STI Initiative and the Regional Infrastructure Development Fund funding from 2003-04 to future years, and the cessation of programs with some programs reaching the end of their funding cycle or in a phased reduction of funding, for example Coode Island site remediation work (\$8 million); Bushfire Recovery Fund (\$2.8 million); and drought assistance (\$1.5 million).<sup>18</sup>

The department operates a number of trust funds, of which the Regional Infrastructure Development Fund is the most significant.<sup>19</sup> The department advised that the deficit net result (see exhibit 9.3) was a result of the accounting treatment of trust fund receipts for the Fund.<sup>20</sup> The accounting treatment requires that trust fund funding be taken up as revenue in the year it is received, whereas disbursements are to be recognised in the year they occur which may be in subsequent years.<sup>21</sup> This treatment gave rise to a timing mismatch which resulted in the department recording a surplus net result in 2002-03 and offsetting deficits in 2003-04 and 2004-05.<sup>22</sup>

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<sup>17</sup> Budget Paper No. 4, *2004-05 Statement of Finances*, p.67

<sup>18</sup> Department of Innovation, Industry and Regional Development response to the Committee's 2004-05 Budget Estimates questionnaire, p.25

<sup>19</sup> *ibid.*

<sup>20</sup> *ibid.*

<sup>21</sup> *ibid.*

<sup>22</sup> *ibid.*; Budget Paper No. 4, *2004-05 Statement of Finances*, p.65



**Exhibit 9.3: Department of Innovation Industry and Regional Development  
Statement of financial performance**

	Column 1	Column 2	Column 3	Column (3-2)/2
	<b>2003-04 Budget</b>	<b>2003-04 Estimated Actual</b>	<b>2004-05 Budget</b>	<b>Variation (a)</b>
	(\$ million)	(\$ million)	(\$ million)	(%)
<b>Controlled items</b>				
Operating revenue	315.3	331.4	300.7	-9.2
Operating expenses	379.8	396.3	349.0	-11.9
<b>Net result</b>	<b>-64.5</b>	<b>-64.9</b>	<b>-48.3</b>	<b>25.6</b>
<b>Administered items</b>				
Administered revenue	2.6	3.6	2.6	-27.8
Administered expenses	2.6	3.6	19.2	433.3
<b>Surplus/Deficit</b>	<b>0.0</b>	<b>0.0</b>	<b>-16.6</b>	<b>n/a</b>

Notes: (a) a negative variance indicates that the 2004-05 budget decreased compared with the 2003-04 estimated actual budget

n/a not applicable

Sources: Department of Innovation, Industry and Regional Development response to the Committee's 2004-05 Budget Estimates questionnaire, p.24; Budget Paper No. 4, 2004-05 Statement of Finances, p.70

Expenses from administered activities are estimated to increase by \$15.6 million to \$19.2 million in 2004-05. Included in this administered expenses are payments into the Consolidated Fund estimated to be \$19.1 million<sup>23</sup> in 2004-05, which relates mainly to the sale/divestment of surplus land/development rights associated with the Melbourne Convention Centre redevelopment.<sup>24</sup>

### 9.3.2 Balance sheet performance

Net assets from controlled operations are estimated to increase to \$157.3 million in 2004-05, due mainly to the acquisition of new assets (see exhibit 9.4). Liabilities from controlled operations are estimated to remain unchanged from previous budget.

<sup>23</sup> Budget Paper No. 4, 2004-05 Statement of Finances, p.70

<sup>24</sup> ibid. p.66

**Exhibit 9.4: Department of Innovation, Industry and  
Regional Development  
Statement of financial position**

	Column 1	Column 2	Column 3	Column (3-2)/2
	<b>2003-04 Budget</b>	<b>2003-04 Estimated Actual</b>	<b>2004-05 Budget</b>	<b>Variation</b>
	(\$ million)	(\$ million)	(\$ million)	(%)
<b>Controlled items</b>				
Controlled assets	152.5	162.1	180.5	11.4
Controlled liabilities	23.2	23.2	23.2	0.0
<b>Net assets</b>	<b>129.2</b>	<b>138.8</b>	<b>157.3</b>	<b>13.3</b>
<b>Administered items</b>				
Administered assets	28.2	28.2	28.2	0.0
Administered liabilities	0.0	0.0	0.0	0.0

Sources: Department of Innovation, Industry and Regional Development response to the Committee's 2004-05 Budget Estimates questionnaire, p.30; Budget Paper No. 4, 2004-05 Statement of Finances, p.70

Assets from controlled operations are estimated at \$180.5 million in 2004-05, an increase of \$18.4 million or 11.4 per cent from the estimated actual budget for 2003-04. This variation for assets is mainly due to increases in physical assets attributed mainly to funding for capital works (\$69.2 million).<sup>25</sup> Offsetting this significant increase is a \$50.8 million reduction in receivables which is associated mainly with grants funding from the Regional Infrastructure Development Fund.<sup>26</sup>

### 9.3.3 Carry over funding

The Department of Innovation, Industry and Regional Development advised that:

- based on estimates at 31 May 2004, approximately \$52 million will be carried forward from 2003-04 to 2004-05 for the Innovation and Policy output group. Most of this funding is related to grant monies and funds that are released only after specified milestones are met;<sup>27</sup> and
- the budget estimates for the State and Regional Development outputs include an estimated \$21.5 million of funding to be carried forward to 2004-05. The Committee was advised that these funds will be applied to programs including:

<sup>25</sup> Department of Innovation, Industry and Regional Development response to the Committee's 2004-05 Budget Estimates questionnaire, p.30

<sup>26</sup> *ibid.*

<sup>27</sup> Minister for Innovation's response to the Committee's follow-up questions, p.6

trade fairs and missions (\$800,000); the Agenda for New Manufacturing Initiative (\$3.4 million); and the Bushfire Recovery Program (\$800,000).<sup>28</sup>

The Committee accepts that in certain circumstances, especially with grants, that it may be appropriate to carry forward unspent appropriations to the subsequent financial year. Nevertheless, the large amount of funding carried forward to 2004-05 again emphasises the need for the department to review its internal budgetary arrangements and management of departmental budgets. While the Committee appreciates that grant expenditure is regulated by contracts that provide for the payments of funds only when conditions are satisfied, it considers there should be a better alignment between the department's internal planning and the allocation of resources.

The Committee recommends that:

**Recommendation 83:**                    **The Department of Innovation, Industry and Regional Development review its internal budgeting and business planning processes to ensure that the budget for the Innovation and Policy output group reflects planned expenditure for each financial year.**

At the estimates hearing the Minister for Small Business advised that funding of \$200,000 would be carried forward to 2004-05.<sup>29</sup> Subsequent information confirmed that the carry forward to 2004-05 was approximately \$1.3 million and will be used to deliver services and programs.<sup>30</sup>

## 9.4 Human resources issues

The department advised the Committee that as at 30 June 2004 it expects to employ 678.68 equivalent full-time staff (see exhibit 9.5). The department advised that this is an estimate of the actual number of staff that would be employed as at June 2004 and was prepared based on the actual number of staff employed plus an estimate of the number of vacancies that would be filled by June 2004 and anticipated staff turnover.<sup>31</sup>

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<sup>28</sup> Minister for State and Regional Development's response to the Committee's follow-up questions, p.8; Department of Innovation, Industry and Regional Development response to the Committee's follow-up questions, p.3

<sup>29</sup> Hon. M. Thomson, MP, Minister for Small Business, presentation slides, p.3

<sup>30</sup> Minister for Small Business' response to the Committee's follow-up questions, p.6; Department of Innovation, Industry and Regional Development response to the Committee's follow-up questions, p.4

<sup>31</sup> Department of Innovation, Industry and Regional Development's response to the Committee's follow-up questions, p.1

The number of staff (equivalent full-time) is estimated to increase to 718.7 in 2004-05 and is inclusive of 51 vacant positions.<sup>32</sup> The department advised that the 51 vacancies included 11 vacancies identified as at June 2004 and additional vacancies based on the department's current and future workforce requirements.<sup>33</sup>

**Exhibit 9.5: Department of Innovation, Industry and Regional Development Equivalent Full Time Staff**

	June 2003 Actual	June 2004 Estimate	June 2005 Estimate
<b>Ongoing staff</b>			
Departmental staff	545.10	551.49	583.49
<b>Sub total</b>	<b>545.10</b>	<b>551.49</b>	<b>583.49</b>
<b>Fixed term staff</b>			
Departmental staff	74.60	75.79	80.79
Departmental executive officers	43.80	43.00	46.00
Other (a)	3.40	2.40	2.40
<b>Sub total</b>	<b>121.80</b>	<b>121.19</b>	<b>129.19</b>
<b>Casual staff</b>			
Departmental staff	9.00	6.00	6.00
<b>Sub total</b>	<b>9.00</b>	<b>6.00</b>	<b>6.00</b>
<b>All staff</b>			
Departmental staff	628.70	633.28	670.28
Departmental executive officers	43.80	43.00	46.00
Other	3.40	2.40	2.40
<b>Total (b) (c)</b>	<b>675.90</b>	<b>678.68</b>	<b>718.68</b>

Note: (a) includes the Small Business Commissioner (1 EFT), Commissioner for Italy (0.4 EFT) and the Chairman of the Victorian Building Industry Disputes Board (1 EFT)<sup>34</sup>

(b) the estimate for 2004-05 is inclusive of 51 vacant positions<sup>35</sup>

(c) the estimate for 2004-05 excludes the Office of Regulation Reform<sup>36</sup>

Source: Department of Innovation, Industry and Regional Development response to the Committee's 2004-05 Budget Estimates questionnaire, pp.22-23

<sup>32</sup> Department of Innovation, Industry and Regional Development's response to the Committee's 2004-05 Budget Estimates questionnaire, p.23

<sup>33</sup> Department of Innovation, Industry and Regional Development response to the Committee's follow-up questions, p.3

<sup>34</sup> Department of Innovation, Industry and Regional Development response to the Committee's 2004-05 Budget Estimates questionnaire, p.22

<sup>35</sup> *ibid.*, p.23

<sup>36</sup> *ibid.*

## 9.5 Output budget responsibility

As shown in exhibit 9.1, because of its matrix-management the responsibility for some outputs of the Department of Innovation, Industry and Regional Development are shared between the department's seven Ministers. Exhibit 9.6 illustrates the budget for the department's outputs for 2004-05.

**Exhibit 9.6: Department of Innovation, Industry and Regional Development  
Output group costs**

Output group	Outputs	2004-05 Budget (\$ million)
Innovation and Policy	Strategic Policy	7.0
	Science Technology and Innovation	94.7
	<b>Sub total</b>	<b>101.7</b>
Business	Investment Facilitation and Attraction	37.4
	Business Development	39.4
	Small Business Support	14.6
<b>Sub total</b>	<b>91.4</b>	
Regional Development	Regional Strategic Leadership	1.6
	Rural Community Development	6.6
	Regional Infrastructure Development	78.7
	Regional Economic Development	12.1
<b>Sub total</b>	<b>99.0</b>	
Industrial Relations	Industrial Relations Services	8.9
	Industrial Relations Policy	5.7
<b>Sub total</b>	<b>14.6</b>	
Tourism	Tourism	<b>42.3</b>
<b>Total</b>		<b>349.0</b>

Sources: *Department of Innovation, Industry and Regional Development response to the Committee's 2004-05 Budget Estimates questionnaire, p.2; Budget Paper No. 3, 2004-05 Service Delivery, p.151*

The department advised that the Regulation Reform output which was a component of the Business output group in 2003-04, was transferred to the Department of Treasury and Finance, with the creation of the Victorian Competition and Efficiency Commission (effective 1 July 2004).<sup>37</sup>

<sup>37</sup> Department of Innovation, Industry and Regional Development response to the Committee's 2004-05 Budget Estimates questionnaire, p.3

The Innovation and Policy output group comprises two outputs. The budget for this output group represents \$101.7 million, or 29.1 per cent of the department's budget for 2004-05. Ministerial responsibility for this output group rests with:

- Strategic Policy - the budget for this output represents 6.9 per cent of the total budget for the output group. Responsibility is shared by all Ministers, with the exception of the Minister for Tourism; and
- Science Technology and Innovation - the budget for this output represents 93.1 per cent of the total budget for the output group. Responsibility is shared by the Minister for Innovation, and the Minister for State and Regional Development

The Minister for Innovation is the lead Minister for both of these outputs.

The Business output group comprises three outputs. The budget for this output group represents \$91.4 million, or 26.2 per cent of the department's budget for 2004-05. Ministerial responsibility for this output group rests with:

- Investment Facilitation and Attraction - the budget for this output represents 40.9 per cent of the total budget for the output group. Responsibility is shared by the following Ministers:
  - *Innovation;*
  - *State and Regional Development;*
  - *Manufacturing and Export; and*
  - *Financial Services Industry.*

The Minister for State and Regional Development is the lead Minister for this output.

- Business Development - the budget represents 43.1 per cent of the total budget for the output group. Responsibility is shared by the following Ministers:
  - *State and Regional Development;*
  - *Small Business;*
  - *Manufacturing and Export; and*
  - *Financial Services Industry.*

The Minister for State and Regional Development is the lead Minister for this output.

- Small Business Support - the budget for this output represents 16 per cent of the total budget for the output group. The Minister for Small Business has sole responsibility for this output. The Minister for Small Business advised the Committee that the total budget allocation for the Small Business portfolio is the same as that for the Small Business Support output.<sup>38</sup>

The Regional Development output group comprises four outputs. The budget for this output group represents \$99 million, or 28.4 per cent of the department's budget for 2004-05. Ministerial responsibility for this output group rests with:

- Regional Strategic Leadership - the budget for this output represents 1.6 per cent of the total budget for the output group. The Minister for State and Regional Development has sole responsibility for this output;
- Rural Community Development - the budget for this output represents 6.7 per cent of the total budget for the output group. The Minister for State and Regional Development, and the Minister for Financial Services Industry share responsibility for this output;
- Regional Infrastructure Development - the budget for this output represents 79.5 per cent of the total budget for the output group. The Minister for State and Regional Development has sole responsibility for this output; and
- Regional Economic Development - the budget for this output represents 12.2 per cent of the total budget for the output group. The Minister for State and Regional Development and the Minister for Manufacturing and Export share responsibility for the output.

There is no lead Minister for the Regional Development output group.

The Industrial Relations output group comprises two outputs. The budget for this output group represents \$14.6 million, or 4.2 per cent of the department's budget for 2004-05. The Minister for Industrial Relations has sole responsibility for this output group.

The budget for the Tourism output group represents \$42.3 million, or 12.1 per cent of the department's budget for 2004-05. The Minister for Tourism has sole responsibility for this output group.

The Committee notes that the 2003-04 Budget included two outputs in the Tourism output group; namely Tourism Marketing and Event Facilitation and Tourism Industry and Infrastructure Development.<sup>39</sup> The department advised that these outputs were combined in 2004-05 as it was considered that the achievement of all performance measures included in the Tourism output group relied upon a combination of

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<sup>38</sup> Minister for Small Business' response to the Committee's follow-up questions, p.4

<sup>39</sup> Budget Paper No. 3, *2003-04 Budget Estimates*, pp 190-192

marketing, industry development and infrastructure effort.<sup>40</sup> It was therefore considered artificial to divide these performance measures between two outputs.

## Review of Portfolios

### 9.6 Innovation portfolio

#### 9.6.1 2004-05 outlook for the portfolio

The Minister advised the Committee of the key initiatives in 2004-05:<sup>41</sup>

- STI (Science, Technology and Innovation) Second Generation Initiative - \$60 million of grants to be awarded to support leading edge research and innovation infrastructure and other initiatives;
- funding of \$6 million to strengthen Victoria's research and development base in biotechnology development;
- infrastructure support for medical research institutes - funding of \$23 million for essential research infrastructure not otherwise provided under competitive research grants. The Minister advised that this is a continuation of the initiative announced in the 2002-03 Budget; and
- Innovation Economy Advisory Board - the Minister advised that the Advisory Board had secured the Alfred Deakin Innovation Lectures for 2005, for Victoria.

The Minister advised the Committee of the key priorities and challenges in 2004-05 as:<sup>42</sup>

- driving the innovation agenda;
- managing the economic impacts from environmental disasters, such as drought, bushfires, etc.;
- continuing progress with investment attraction and tourism; and
- improving investor confidence.

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<sup>40</sup> Department of Innovation, Industry and Regional Development response to the Committee's 2004-05 Budget Estimates questionnaire, p.3

<sup>41</sup> Hon. J. Brumby, MP, Minister for Innovation, transcript of evidence, 19 May 2004, p.3; and presentation slides, p.7

<sup>42</sup> Hon. J. Brumby, MP, Minister for Innovation, transcript of evidence, 19 May 2004, p.3



## 9.6.2 Performance measures

Five new performance indicators were established for the Science, Technology and Innovation output for 2004-05:<sup>43</sup>

- the biotechnology sector:
  - the number of international equity investors attracted to Victoria; and
  - a timeliness measure for facilitating a feasibility study on establishing a biotechnology manufacturing facility in Victoria;
- the synchrotron project:
  - a timeframe for implementing the governance and access framework for the synchrotron project; and
  - the number of beamline user groups to be established.
- *VicStart*
  - Program delivery contracts in place and commenced.

The Department of Innovation, Industry and Regional Development has established a STI monitoring and reporting framework to oversee the performance of projects funded from the STI Second Generation Initiative.<sup>44</sup>

Under the framework an outcome monitoring tool was developed to measure the benefits achieved from the projects.<sup>45</sup> Outcome indicators developed through the outcome monitoring tool include:<sup>46</sup>

- employment of research scientists, engineers and support staff;
- number of science and technology PhD and Masters candidates and students;
- number of commercialisation agreements from Victorian research and patents pending;
- research funding attracted;
- expenditure on research and development funding leveraged;
- refereed journal articles acknowledging STI project; and
- number of researchers accessing STI funded infrastructure.

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<sup>43</sup> Department of Innovation, Industry and Regional Development response to the Committee's 2004-05 Budget Estimates questionnaire, p.21

<sup>44</sup> Minister for Innovation's response to the Committee's follow-up questions, p.3

<sup>45</sup> Department of Innovation, Industry and Regional Development response to the Committee's 2004-05 Budget Estimates questionnaire, p.21

<sup>46</sup> Minister for Innovation's response to the Committee's follow-up questions, p.3

The Committee welcomes the use of the outcome monitoring tool for evaluating the performance and outcomes of the STI Initiative.

### **9.6.3 Key issues impacting on the portfolio**

The department's response to the Committee's 2004-05 Budget Estimates questionnaire and the estimates hearing identified two issues that will affect the portfolio and its Budget Estimates for 2004-05.

#### **(a) Biotechnology Strategic Development Plan**

In June 2004, the Government released the Biotechnology Strategic Development Plan 2004-07, which was an update of the 2001 Biotechnology Strategic Development Plan.<sup>47</sup> The vision for this plan remains unchanged: *'By 2010 Victoria will be recognised internationally as one of the world's top five biotechnology locations for the vibrancy of its industry and quality of its research'*.<sup>48</sup>

The Government is currently ahead of the targets set in the 2001 Biotechnology Strategic Development Plan, in that:<sup>49</sup>

- 68 new core and related biotechnology start-up companies have been established in Victoria. This compares to the original target of 50 by 2005;
- at least ten new research/investment partnerships have been formed with a combined project value in excess of \$120 million. The original targets were five partnerships and \$25 million respectively;
- investment in clinical trials research is increasing. The target is for a 50 per cent increase by 2005;
- six new manufacturing facilities valued at close to \$200 million have been announced, compared to the original target of three manufacturing facilities by 2010; and
- community groups have been informed and involved in the policy development process through forums; and the Victorian Biotechnology Ethics Advisory Committee, Gene Technology Access Centre and a biotechnology website have been established.

Building on these achievements, the targets in the new Biotechnology Strategic Development Plan 2004-07 provide for the following targets to be achieved by 2007:<sup>50</sup>

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<sup>47</sup> Hon. S. Bracks, MP, Premier of Victoria, media release, *Victoria aims for greater share of billion dollar global biotech market*, 6 June 2004, p.1

<sup>48</sup> Victorian Government, 2004, *Biotechnology Strategic Development Plan (2004-2007)*, p.7

<sup>49</sup> Minister for Innovation's response to the Committee's follow-up questions, pp.4-5

<sup>50</sup> Hon. S. Bracks, MP, Premier of Victoria, media release, *Victoria aims for greater share of billion dollar global biotech market*, 6 June 2004, p.1

- patents - granted US biotechnology patents per annum from Victoria's research and development base to exceed 120;
- infrastructure - establishment of additional bioprocessing facilities for Victorian firms and research sector;
- research and development - corporate biotechnology research and development expenditure to exceed \$500 million per annum;
- venture capital - venture capital investment in Victorian biotechnology to exceed 40 per cent of the national annual venture biotech investment;
- partnerships - the combined project value to exceed \$1 billion in aggregate; and
- international leadership - Victoria is recognised internationally as the leading location for marsupial genomics.

The Committee is pleased that the targets set in the initial biotechnology strategic plan in 2001 have been exceeded and that the Government considers that Victoria is becoming internationally recognised as a leading biotechnology location. The Premier has acknowledged that the latest plan is ambitious and will '*require a commitment by industry research, the community and government to work together*'.<sup>51</sup> The Committee accordingly considers the Government should progressively record the progress towards achieving the targets set for 2007 and take constructive action if the programs identified are not achieving desired outcomes.

### **(b) Management of intellectual property**

Intellectual property results from '*some creative endeavour and because it can have value, can be traded*'.<sup>52</sup> In the business environment intellectual property represents proprietary knowledge.<sup>53</sup>

The Government's innovation agenda provides substantial grants funding to the private sector for innovation related research activities. The Committee was interested to know how intellectual property rights are determined for research and development projects that received funding through the Department of Innovation, Industry and Regional Development. The Committee was advised by the Minister for Innovation that:

*projects endorsed to receive grant funding are required to articulate their management arrangements for intellectual property in a business plan and business case and submit them to the department for approval.*

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<sup>51</sup> *ibid.*, p.2

<sup>52</sup> What is Intellectual Property (IP)?, [www.dcita.gov.au//Article/0,,0\\_11-2\\_12-3\\_460-4\\_14297,00.html](http://www.dcita.gov.au//Article/0,,0_11-2_12-3_460-4_14297,00.html), accessed 25 May 2004

<sup>53</sup> Introduction to intellectual property, [www.ipaustralia.gov.au/ip/introduction.shtml](http://www.ipaustralia.gov.au/ip/introduction.shtml), accessed 10 September 2004

*Prior to commencement of payment, the department ensures that intellectual property arrangements are in place.*<sup>54</sup>

The Committee considers that as the main provider of funds for these research activities, it is important for the Government to be able to participate in the benefits that come from the commercialisation of these activities.

The Committee recommends that:

**Recommendation 84:**            **The management arrangement between the Department of Innovation, Industry and Regional Development (as the provider of the grants funding) and the grant recipients include provisions which would allow the state to participate in the benefits from the commercialisation of Government funded research activities.**

## **9.7        State and Regional Development portfolio**

At the estimates hearing the Committee was advised by the Minister for State and Regional Development that significant progress has been achieved by the Government for regional Victoria. The Minister indicated achievements have been made in:<sup>55</sup>

- facilitated regional investment which has shown a strong growth curve over the period from 1995-96 to 2003-04 (measured to March 2004);
- regional labour force employment has increased significantly over the last four or five years, while the regional unemployment rate has reduced;
- regional population is showing signs of future growth; and
- regional building approvals are increasing at a rate of about 60 per cent higher compared to 2000-01.

The Minister advised the Committee that the projects funded from the Regional Infrastructure Development Fund are spread across Victoria. As at May 2004, the Regional Infrastructure Development Fund had contributed over \$178 million to 88 projects. The total value of these projects was estimated to be more than \$454 million.<sup>56</sup>

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<sup>54</sup> Minister for Innovation's response to the Committee's follow-up questions, p.6

<sup>55</sup> Hon. J. Brumby, MP, Minister for State and Regional Development, transcript of evidence, 19 May 2004, p.3

<sup>56</sup> Hon. J. Brumby, MP, Minister for State and Regional Development, presentation slides, 19 May 2004, p.15

The Minister indicated that one of the Government's goals was to encourage innovation activity into regional Victoria.<sup>57</sup> Targeted funding is provided through the STI program and the Regional Infrastructure Development Fund for this purpose.<sup>58</sup>

The Minister advised the Committee that for the period October 1999 to March 2004 the Government facilitated 218 investments with a total investment value of \$3,200 million, along with the creation of 7,419 jobs.<sup>59</sup>

### **9.7.1 2004-05 outlook for the portfolio**

The Minister advised the Committee of the key initiatives in 2004-05:<sup>60</sup>

- redevelopment of the Melbourne Convention Centre;
- establishment of the Victorian Competition and Efficiency Commission;
- increase the supply chain efficiency of Victorian goods. Funding of \$2.5 million over three years was provided;
- continuation of the Make it Happen in Provincial Victoria (Phase 2) campaign which received funding of \$5.7 million over three years<sup>61</sup>;
- continuation of the Next Generation Food Strategy which received an additional \$2.3 million over three years; and
- rollout of the Regional Investment Ready Program. The aim of the program is to assist regional businesses become more 'investment ready' and to assist local councils and regional authorities to develop a prospectus of local projects for investment opportunities.<sup>62</sup> This program commenced in July 2004 with funding of \$6 million allocated over three years.<sup>63</sup>

### **9.7.2 Performance measures**

The department advised that:<sup>64</sup>

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<sup>57</sup> Hon. J. Brumby, MP, Minister for State and Regional Development, transcript of evidence, 19 May 2004, p.3

<sup>58</sup> *ibid.*

<sup>59</sup> Hon. J. Brumby, MP, Minister for State and Regional Development, presentation slides, 19 May 2004, p.17

<sup>60</sup> *ibid.*, p.9 and p.18; Hon. J. Brumby, MP, Minister for State and Regional Development, transcript of evidence, 19 May 2004, p.3

<sup>61</sup> Budget Paper No. 3, *2004-05 Service Delivery*, p.260

<sup>62</sup> Minister for State and Regional Development's response to the Committee's follow-up questions, p.5

<sup>63</sup> *ibid.*

<sup>64</sup> Department of Innovation, Industry and Regional Development response to the Committee's 2004-05 Budget Estimates questionnaire, pp.2-3

- in the Investment Attraction and Facilitation output - all of the performance indicators in this output are shared between the Ministers responsible for the output; and
- in the Business Development output - responsibility for this output is shared by four Ministers, but the responsibility for several performance measures in this output can be attributed to specific Ministers.<sup>65</sup> Specifically, the Minister for State and Regional Development has sole responsibility for two performance indicators, and shares responsibility for another four performance indicators.

The performance indicators established to measure the achievements of the Make it Happen in Provincial Victoria (Phase 2) Initiative, include:<sup>66</sup>

- number of provincial economic partnerships to be created;
- council satisfaction with the marketing campaign; and
- public awareness of the marketing campaign.<sup>67</sup>

The Committee considers that the inclusion of these measures will provide an indication as to the public awareness of the campaign and the extent to which partnerships have been entered into with municipal councils to assist the councils in promoting economic development. However, none of these measures will determine the success of the program in attracting people and investments to provincial Victoria.

Given the significance of this initiative to the Government's regional revival agenda to drive the economy, employment and population growth in provincial Victoria, the Committee considers additional performance indicators are required to measure the effectiveness of the program in achieving desired Government outcomes.

The Committee recommends that:

- Recommendation 85:**                      **The Department of Innovation, Industry and Regional Development develop additional performance indicators for the *Make it Happen in Provincial Victoria* (Phase 2) Initiative that measures the effectiveness of the:**
- (a) marketing campaign in attracting people to provincial Victoria; and**
  - (b) provincial economic partnerships in increasing economic and investment opportunities in provincial Victoria.**

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<sup>65</sup> ibid

<sup>66</sup> ibid., p.15

<sup>67</sup> Minister for State and Regional Development's response to the Committee's follow-up questions, p.6

### 9.7.3 Key issues impacting on the portfolio

The department's response to the Committee's 2004-05 Budget Estimates questionnaire and the estimates hearing identified three issues that will affect the portfolio and its budget estimates for 2004-05.

#### (a) **Make it Happen in Provincial Victoria (Phase 2)**

The 2004-05 Budget provided funding of \$5.7 million over three years (\$1.9 million in 2004-05)<sup>68</sup> to implement phase 2 of the Make it Happen in Provincial Victoria campaign. At the estimates hearing the Minister advised the Committee that research has indicated that close to 600,000 people in Melbourne have thought of moving to provincial Victoria, hence the focus of this campaign will be to provide information and encouragement to facilitate urban dwellers to move to provincial Victoria.<sup>69</sup>

The funding of \$5.7 million over three years was provided for:<sup>70</sup>

- a targeted three year marketing campaign (\$2.85 million); and
- provincial economic partnerships that will assist local councils to drive new economic and investment opportunities (\$2.85 million).

A total of nine projects have been targeted for the Provincial Economic Partnerships initiative in 2004-05.<sup>71</sup> The Minister advised that this target is likely to be exceeded as the emphasis of the program has been changed to deliver a higher number of smaller projects.<sup>72</sup> The Committee was advised that projects to be undertaken in 2004-05 had not been confirmed. Evaluation criteria were also being developed between the Government and rural and regional councils.<sup>73</sup>

The Committee supports strongly the intention of the program to promote provincial growth in Victoria. Nevertheless it would have expected that the programs promoting this aim could be identified prior to the Budget appropriation enabling their implementation.

<sup>68</sup> Budget Paper No. 3, *2004-05 Service Delivery*, p.260

<sup>69</sup> Hon. J. Brumby, MP, Minister for State and Regional Development, transcript of evidence, 19 May 2004, p.5

<sup>70</sup> Victorian Government, Economic Statement April 2004, *Victoria: Leading the Way*, p.15

<sup>71</sup> Budget Paper No. 3, *2004-05 Service Delivery*, p.145

<sup>72</sup> Minister for State and Regional Development's response to the Committee's follow-up questions, p.6

<sup>73</sup> *ibid.*

**(b) Next Generation Food Strategy**

The Next Generation Food Strategy provides for an action plan to grow Victoria's food sector to reach the Government's target of \$12 billion worth of food and fibre exports by 2010.<sup>74</sup> Funding of \$2.3 million over three years (\$1.1 million in 2004-05)<sup>75</sup> was provided in the 2004-05 Budget.

The strategy will fund initiatives aimed at removing obstacles to competitiveness and boosting productivity and efficiency in the state's food sector.<sup>76</sup> The Committee was advised that the details of this strategy are still being finalised, but it is envisaged that it will comprise programs based around a number of broad areas, including:<sup>77</sup>

- contributing to the sustainability of regional communities;
- raising awareness of the importance of product integrity;
- providing a welcoming business environment to attract investment;
- providing infrastructure to support efficient processing and distribution;
- raising awareness of local capabilities in research and development and improving access to new ideas and technologies;
- maximising industry and regional development to attract new investment and facilitate reinvestment by existing companies;
- growing exports of food and wine;
- building careers, education and training to develop and retain a highly skilled, creative and flexible workforce; and
- raising the profile of the food industry both locally and internationally.

The Committee was also advised that the funding allocation for these programs and performance indicators are currently being developed.<sup>78</sup>

The Committee is aware that in order to expand food exports Victoria's food industry must become more innovative and more internationally competitive. The Next Generation Food Strategy is intended to address these factors. In doing so, there will also need to be a high level of cooperation with other departments which can also influence directly, or indirectly, the capacity for Victoria's food industry to become more efficient. Departments include the Department of Primary Industries

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<sup>74</sup> *ibid.*, p.5

<sup>75</sup> Budget Paper No. 3, *2004-05 Service Delivery*, p.260

<sup>76</sup> Minister for State and Regional Development's response to the Committee's follow-up questions, p.5

<sup>77</sup> *ibid.*

<sup>78</sup> *ibid.*



(Agriculture portfolio), Department of Sustainability and Environment (Water portfolio) and Department of Infrastructure (Transport portfolio).

The Committee recommends that:

**Recommendation 86:**                    **The Government develop a coordinated strategy across Government to identify the resources and responsibilities of the various components of the public sector that can contribute towards improving the ability of the food industry to become more globally competitive.**

**(c)            *Transport, distribution and logistics***

The Building Better Supply Chain Links Initiative received funding of \$2.5 million over three years (\$1.5 million in 2004-05).<sup>79</sup> This initiative is delivered by the Office of Services Industries and comprises key programs such as:<sup>80</sup>

- contributing to the establishment of a new Centre of Excellence in Intelligent Transport Systems;
- supporting the adoption of a national accreditation code in cool-chain logistics exports;
- encouraging firms to implement world's best practice supply chain management;
- supporting the Transport, Distribution and Logistics Industry Round Table to undertake projects of state and national significance; and
- promoting Victoria as a freight and logistics hub.

The Committee was advised that the funding allocation to the programs is being finalised.<sup>81</sup> The Committee noted that this initiative will also complement the Next Generation Food Strategy referred to above.

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<sup>79</sup> Budget Paper No. 3, *2004-05 Service Delivery*, p.260

<sup>80</sup> Minister for State and Regional Development's response to the Committee's follow-up questions, p.4

<sup>81</sup> *ibid.*

## 9.8 Small Business portfolio

The main function of the Small Business portfolio is to develop and deliver business information, advisory and referral services through the Victorian Business Line, online services and regional offices operating across rural and metropolitan Victoria, including managing the delivery of initiatives and events to assist and promote small business.<sup>82</sup>

Since 1 May 2003, the Office of the Victorian Small Business Commissioner has provided advice concerning disputes between retail tenants and landlords and handled complaints from small businesses about unfair market practices, generally by a larger rival competitor.<sup>83</sup>

### 9.8.1 2004-05 outlook for the portfolio

The Minister for Small Business advised the Committee of the following priorities and challenges for 2004-05:<sup>84</sup>

- promoting a competitive and fair environment for small business;
- building opportunities for innovative small businesses;
- equipping small business to compete in a global economy;
- improving access to Government services; and
- increasing uptake of e-business.

The Committee noted that the key initiatives for the portfolio in 2004-05 were:

- Victorian Business Master Key (a Victoria: Leading the way Initiative),<sup>85</sup> to allow businesses to manage all dealings with Government agencies through a personalised on-line filing system (\$2 million per year from 2004-05);<sup>86</sup>
- Koori Business Network, providing support services for existing and potential Indigenous business owners/managers (\$1.3 million in both 2004-05 and 2005-06 and \$1.2 million in 2006-07);<sup>87</sup>
- Under New Management Program, providing information and referral services to businesses and individuals contemplating small business ownership (\$3.7 million over three years with \$1.1 million in 2004-05);<sup>88</sup>

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<sup>82</sup> Budget Paper No. 3, *2004-05 Service Delivery*, p.144

<sup>83</sup> Office of the Victorian Small Business Commissioner, Questions for the Commissioner, [www.sbc.vic.gov.au/questions.asp](http://www.sbc.vic.gov.au/questions.asp)

<sup>84</sup> Minister for Small Business' response to the Committee's follow-up questions, p.4

<sup>85</sup> Victorian Government, *Victoria: Leading the way*, Economic Statement, April 2004, p.18

<sup>86</sup> Budget Paper No. 3, *2004-05 Service Delivery*, p.260

<sup>87</sup> *ibid.*, p.289

- introducing standard fair payments clause for Government contracts;<sup>89</sup>
- meeting the commitment for a 70 per cent small business share of business development expenditure;<sup>90</sup> and
- business development programs and services.<sup>91</sup>

One of the more significant initiatives announced in the 2003-04 Budget which will continue to be delivered in 2004-05 is the appointment of a Small Business Commissioner with a budget of \$2 million.<sup>92</sup> Priorities for the Commissioner will include working with departments to develop small business service charters.<sup>93</sup>

The budget allocation for the Small Business portfolio for 2004-05 was \$14.6 million, which represents a large 75.9 per cent increase on the expected outcome for 2003-04.<sup>94</sup>

### 9.8.2 Performance measures

There are no new performance measures for the Small Business portfolio in the 2004-05 Budget Papers. The Committee noted that 14 measures from the 2003-04 Budget have been discontinued. With regard to the discontinued measures:<sup>95</sup>

- six related to the Regulation Reform output which has transferred to the Department of Treasury and Finance;
- four performance measures concerned the number of public enquiries or website hits with respect to specific programs and are now combined in one measure; and
- four related to programs or stages of programs that are completed.

Given that the budget for the Small Business output has increased substantially in 2004-05, the Committee is surprised that the number of performance measures has declined so markedly (even allowing for the transfer of the Regulation Reform output to another department). The Committee believes that the initiatives or extensions to on-going programs announced in the 2004-05 Budget should have appropriate performance indicators to measure their effectiveness. These initiatives include the Victorian Business Master Key, Koorie Business Network and Under New Management program.

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<sup>88</sup> Minister for Small Business' response to the Committee's follow-up questions, p.4; Hon. M. Thomson, MP, Minister for Small Business, media release, *Getting into business without getting into trouble*, 29 June 2004

<sup>89</sup> Minister for Small Business, Presentation at the 2004-05 Budget Estimates hearing, 15 June 2004

<sup>90</sup> *ibid.*

<sup>91</sup> *ibid.*

<sup>92</sup> Department of Innovation, Industry and Regional Development response to the Committee's 2004-05 Budget Estimates questionnaire, p.8

<sup>93</sup> Minister for Small Business, Presentation at the 2004-05 Budget Estimates hearing, 15 June 2004

<sup>94</sup> Budget Paper No. 3, *2004-05, Service Delivery*, p.144

<sup>95</sup> *ibid.* and Budget Paper No. 3, *2003-04 Budget Estimates*, pp.183-184

The Committee recommends that:

**Recommendation 87:                   The Department of Innovation, Industry and Regional Development develop appropriate performance measures relating to the 2004-05 budget initiatives or extensions to programs.**

### **9.8.3     Key issue impacting on the portfolio**

The department's response to the Committee's *2004-05 Budget Estimates questionnaire* and the estimates hearing identified one issue that will affect the Small Business portfolio and its budget estimates for 2004-05.

#### **(a)           Government support for small business**

The Committee was aware that the Department of Innovation, Industry and Regional Development commissioned Victoria University to examine small business access to Government business assistance programs.<sup>96</sup> The Victoria University's report found that, of small businesses that had not used Government assistance:

- 56.6 per cent did not think that Government can help them; and
- 37.5 per cent were confused about which level of Government provides services for small business.

The report found that those small businesses that reported having bad experiences using Government assistance programs cited poor service, difficulty in identifying the correct person, frustration hanging on the end of the telephone and confusing websites as the most common problems.<sup>97</sup>

The Minister for Small Business confirmed that dealing with Government agencies can be frustrating for small business, in particular, the need to 'shop around Government' and the confusion caused by duplication of services.<sup>98</sup>

In an effort to address these concerns, the department announced the Victorian Business Master Key Initiative (\$6 million over three years) as one of the 'Action' initiatives in the economic statement released in April 2004.<sup>99</sup> The Minister informed the Committee that the Victorian Business Master Key aims to provide a 'seamless

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<sup>96</sup> Small Business Research Unit, Victoria University of Technology, *Small business access to government business assistance programs*, draft report, July 2003

<sup>97</sup> *ibid*, pp.14-15

<sup>98</sup> Hon. M. Thomson, MP, Minister for Small Business, transcript of evidence, 15 June 2004, pp.6-7

<sup>99</sup> Government of Victoria, *Victoria: Leading the way*, Economic statement, April 2004, p.29

*Government feel to business*, so businesses seeking assistance will no longer need to access multiple sources within Government to gain information.<sup>100</sup>

The Master Key is designed to allow businesses, particularly new start-ups, to manage all dealings with Government agencies through a personalised on-line filing system. These businesses will receive customised guidance through the regulatory processes required when establishing and then operating a business, including registration, paying fees and taxes, and fulfilling any other obligations on-line. The service will also include integration with regulatory requirements by other levels of Government, such as a Tax File Number and an Australian Business Number.<sup>101</sup>

The Committee notes that this ambitious initiative is funded for three years with early efforts focusing on start-up businesses. Given that most small businesses must deal with all three levels of Government, the Committee encourages the department to consult widely with all relevant agencies to ensure the Master Key is actually seamless. In time, the initiative will need to be evaluated to ensure that it achieves its objectives.

The Committee recommends that:

- Recommendation 88:**                    **In developing the Victorian Business Master Key Initiative, the Department of Innovation, Industry and Regional Development:**
- (a) **consult widely with a range of agencies from all three levels of Government to ensure assistance to small business is seamless; and**
  - (b) **include performance targets and milestones so that Government assistance to small business can be monitored and evaluated in the implementation phase.**

## **9.9 Manufacturing and Export portfolio**

The main role of the Manufacturing and Export portfolio is to support the manufacturing industry and export sector by delivering a range of assistance programs, undertaking advocacy support and promoting manufacturing and export opportunities.

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<sup>100</sup> Hon. M. Thomson, MP, Minister for Small Business, transcript of evidence, 15 June 2004, p.7

<sup>101</sup> Government of Victoria, *Victoria: Leading the way*, Economic statement, April 2004, p.29

### 9.9.1 2004-05 Outlook for the Portfolio

The Committee was advised of the following major initiatives planned for 2004-05 that will have a significant impact on the Manufacturing and Export portfolio:

- Next Generation Food Strategy (referred to above in the review of the State and Regional Development portfolio);
- Exporting for Growth, a *Victoria: Leading the way* action intended to capitalise on Victoria's strong export growth over the past ten years.<sup>102</sup> This action includes \$1 million each year for the next three years for the Opening Doors Export Plan and funding of \$5 million to ensure maximum exposure for Victorian industry at Expo 2005 to be held in Japan;<sup>103</sup> and
- Victorian Government Business Offices will receive \$4 million over four years, \$1 million in 2004-05.<sup>104</sup> This initiative is again part of the *Victoria: Leading the way* - promoting Victoria as the destination of choice for international investment, which will be delivered through a new body, Invest Victoria.<sup>105</sup> Invest Victoria also has a role in trade development activities which aim to help establish export targets of \$30 billion and double the number of Victorian companies exporting by 2010.<sup>106</sup>

### 9.9.2 Performance Measures

The department advised the Committee that responsibility for major performance targets relating to investment, jobs and exports is shared by a number of Ministers.<sup>107</sup> Consequently, any review of performance indicators for the Manufacturing and Export portfolio will have implications for other portfolios.

The Committee noted a number of new performance measures in the 2004-05 Budget designed to provide information about the progress of manufacturing and export initiatives. They are:

- Business Development output - *number of participants in Balance Sheet Ready Program; number of firms participating in individual export specific programs; number of trade commissioners appointed to designated target markets; number of export advisors funded*,<sup>108</sup> and

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<sup>102</sup> Victorian Government, *Victoria: Leading the way*, Economic Statement, April 2004, p.18

<sup>103</sup> Budget Paper No. 3, *2004-05 Service Delivery*, pp.260–262

<sup>104</sup> *ibid.* and Victorian Government, *Victoria: Leading the way*, Economic Statement, April 2004, p.16

<sup>105</sup> *ibid.*

<sup>106</sup> Hon. T. Holding, MP, Minister for Manufacturing and Export, transcript of evidence, 22 June 2004, p.2

<sup>107</sup> Department of Innovation, Industry and Regional Development response to the Committee's 2004-05 Budget Estimates questionnaire, p.2

<sup>108</sup> *ibid.*, p.15; Budget Paper No. 3, *Service Delivery 2004-05*, p.143

- Regional Economic Development output - *dollar value of new exports facilitated and announced in regional Victoria.*<sup>109</sup>

Few of the performance indicators relating to the Manufacturing and Export portfolio measure the success or quality of manufacturing and export activities, with existing measures basically restricted to recording whether or not activities have occurred.<sup>110</sup> The Minister advised the Committee that the nature of export programs is such that quantitative results often take time to be achieved. The results are obtained by follow-up surveys.<sup>111</sup> For example, an assessment of the success of the four year Agenda for New Manufacturing Initiative will be based on key indicators relating to export and the adoption of innovations and investments in new technologies by manufacturing.<sup>112</sup>

While accepting the difficulty in developing measures that focus on outcomes of export programs, the Committee believes that the department should be able to publish indicators such as the amount of export growth associated with each major program and the number of new exporters which can be directly linked to the department's activities. If measures for some programs are unsuitable for inclusion in the Budget Papers (for example, programs that are not expected to achieve results for at least two years), the indicators should be published in the department's annual report

The Committee recommends that:

**Recommendation 89:**                    **With respect to all major export-oriented programs, the Department of Innovation, Industry and Regional Development develop and publish indicators such as the amount of export growth associated with each program and the number of new exporters.**

The Committee is aware that the department engaged PricewaterhouseCoopers in 2003 to conduct a study that compares dimensions of Victoria's performance against those of other states. The department informed the Committee the study showed that each state reports the performance of their industry development activities in different ways. As a result it is very difficult to obtain a set of data that is comparable between states.<sup>113</sup>

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<sup>109</sup> Department of Innovation, Industry and Regional Development response to the Committee's 2004-05 Budget Estimates questionnaire, p.16; Budget Paper No. 3, *Service Delivery 2004-05*, p.146

<sup>110</sup> Department of Innovation, Industry and Regional Development response to the Committee's 2004-05 Budget Estimates questionnaire, p.15; Budget Paper No. 3, *Service Delivery 2004-05*, p.143

<sup>111</sup> Minister for Manufacturing and Export's response to the Committee's follow-up questions, pp.10-11

<sup>112</sup> *ibid.*

<sup>113</sup> Department of Innovation, Industry and Regional Development response to the Committee's 2004-05 Budget Estimates questionnaire, p.19

The Committee believes that performance measures and targets that incorporate or use national or international benchmarks are generally a more effective way of judging portfolio performance. The Committee believes there is scope for the department to take a lead role and, jointly with other states, develop indicators that are recognised on a statewide or international basis.

The Committee recommends that:

**Recommendation 90:**                    **In consultation with interstate industry development agencies, the Department of Innovation, Industry and Regional Development take a lead role and develop performance measures and targets that incorporate national or international benchmarks with respect to their industry development activities.**

### **9.9.3    Key issue impacting on the portfolio**

The department's response to the Committee's 2004-05 Budget Estimates questionnaire and the estimates hearing identified one issue that will affect the Manufacturing and Export portfolio and its budget estimates for 2004-05.

#### **(a)        Developing a skilled workforce for the manufacturing industry**

As Victoria's manufacturing industries move into higher value niche markets, more advanced manufacturing, research and development will be needed to support the industry and maintain competitive advantage. Victoria needs to ensure its workforce is capable of providing this kind of support. The Committee is aware of suggestions that there may be a future shortage of trained, skilled staff for the manufacturing sector,<sup>114</sup> as a result of reductions in the numbers of apprenticeships, the loss of technical and trade-focused secondary schools and a trend away from trade-based further education towards university degrees.<sup>115</sup>

The Minister informed the Committee that between August 1999 and May 2004, manufacturing employment increased by 14,000 in Victoria to 341,400 at the end of the period. This was despite some industry sectors operating under increasing pressure where tariff cuts and competition from regions have created a challenging environment.<sup>116</sup>

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<sup>114</sup> Thomson J. 'The big lure', *Business Review Weekly*, October 30-November 5, 2003 pp.52-55

<sup>115</sup> *ibid.*

<sup>116</sup> Minister for Manufacturing and Export's response to the Committee's follow-up questions, pp.9-10



One of the major challenges facing the Manufacturing and Export portfolio identified by the Minister is the development of a vibrant and innovative manufacturing sector, as a source of high skilled employment.<sup>117</sup> The Minister informed the Committee that the Careers in Manufacturing Strategy will be developed in the second half of 2004. He stressed that it is an important part of the Government's work to improve the image of manufacturing and to attract bright, young people to manufacturing.<sup>118</sup>

The Minister advised that the Government proposes to establish a Manufacturing Skills and Training Taskforce as a subcommittee of the Victorian Learning and Employment Skills Commission.<sup>119</sup>

The Committee notes these developments which seek to boost skilled employment in the manufacturing sector and urges the department to set appropriate performance targets and monitor the implementation of the Careers in Manufacturing Strategy. As part of the manufacturing strategy it will also be necessary for the department to work closely with the Department of Education and Training to conduct research into falling apprenticeship numbers and to devise new strategies to publicly promote apprenticeships, along with consideration of new incentives for employers to engage apprentices.

The Committee recommends that:

**Recommendation 91:**                    **The Department of Innovation, Industry and Regional Development develop performance targets for the Careers in Manufacturing Strategy and evaluate the success of the strategy, after an appropriate time.**

**Recommendation 92:**                    **The Department of Innovation, Industry and Regional Development set timelines for the Manufacturing Skills and Training Taskforce's activities and report on its achievements.**

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<sup>117</sup> *ibid.*, p.7

<sup>118</sup> Hon. T. Holding, MP, Minister for Manufacturing and Export, transcript of evidence, 22 June 2004, p.2

<sup>119</sup> Minister for Manufacturing and Export's response to the Committee's follow-up questions, p.7

**Recommendation 93:                   The Department of Innovation, Industry and Regional Development in collaboration with the Department of Education and Training:**

- (a)   conduct research into trends in apprenticeship numbers;**
- (b)   devise new strategies to promote apprenticeships; and**
- (c)   in light of the research, consider new incentives for employers to employ apprentices.**

## **9.10     Financial Services Industry portfolio**

The financial services sector is the third largest in the Victorian economy, contributing \$14.6 billion (or 8.8 per cent to total factor income) in 2003. The industry employs around 92,000 people or about four per cent of the total Victorian workforce. In the City of Melbourne alone, there are more than 800 financial service organisations employing nearly 45,000 people. Fifty organisations employ more than two hundred people.<sup>120</sup>

The role of the Financial Services portfolio is to facilitate new financial services investment in Victoria, promote Victoria as a financial services centre and provide strategic leadership for the industry.

### **9.10.1   2004-05 outlook for the portfolio**

The Minister for Financial Services Industry advised the Committee that the major focus of the portfolio in 2004-05 will be the implementation of Investing in Victoria's Future, an action plan for the financial services industry.<sup>121</sup> The Minister informed the Committee of the following key strategic challenges that the implementation of the action plan will address:<sup>122</sup>

- building on the strengths of the finance sector's research capability;
- strengthening the links between the higher education institutions and industry;
- positioning Victoria internationally as a significant regional financial services centre; and

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<sup>120</sup> Hon. T. Holding, MP, Minister for Financial Services Industry, overhead presentation at hearing, 22 June 2004. p.3

<sup>121</sup> Government of Victoria, *Investing in Victoria's Future, The Victorian Government's Action Plan for the Financial Services Industry*, May 2004, p.29

<sup>122</sup> Minister for Financial Services Industry's, response to the Committee's follow-up questions, p.8

- exploring new growth opportunities, particularly in new sectors such as trading in electricity, carbon credit and water rights and sustainable finance and investment.

In meeting the above challenges, the following initiatives are planned for 2004-05:<sup>123</sup>

- supporting the establishment of the Melbourne Centre for Financial Studies to specialise in leading edge finance research and to build links between industry and academic research (\$900,000 in 2004-05 and in 2005-06);
- convening or encouraging the establishment of several forums, including the Australian Investment Research Forum, a higher education forum, the Funds Management Networking Forum and the Finance Industry Consultative Committee (FICC) Working Group (no funding specified);
- encouraging greater industry input into existing VET advisory mechanisms to prioritise training needs and enable effective implementation of the Financial Services Training Package (no funding specified);
- attracting major international financial services events and conferences to Melbourne, including the 2004 Ethical Investment Association Conference (no funding specified);
- supporting Monash University to assist in marketing financial services training to the region (a grant of up to \$150,000, time period unspecified); and
- supporting or extending marketing activities such as the Make it Happen in Provincial Victoria marketing campaign, international marketing communications program, support missions to Asia Pacific, North America and Europe, promote Victoria's education and training sector internationally, and seek joint international promotional activities with the Commonwealth and NSW Governments (no funding specified).

The Committee notes these initiatives which the Government considers are very important for the financial services sector in Victoria, in terms of raising its profile internationally and building on the sector's strengths and capabilities. The Committee understands that the action plan is based on the findings of an audit of the industry conducted by the department in 2003.<sup>124</sup> The audit identified key profiles and characteristics of the financial services sector, as well as opportunities and challenges facing the industry.

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<sup>123</sup> Government of Victoria, *Investing in Victoria's Future, The Victorian Government's Action Plan for the Financial Services Industry*, May 2004, pp.5, 29

<sup>124</sup> Government of Victoria, *Financial Services Industry Strategic Audit Report*, June 2003

### 9.10.2 Performance measures

The Minister for Financial Services Industry has a shared responsibility for performance targets in the four outputs listed in exhibit 9.1.<sup>125</sup>

Given the number of initiatives announced in Investing in Victoria's Future, the Committee was surprised that there were only two performance measures in the 2004-05 Budget relating solely to the financial services industry.<sup>126</sup> Both are timeliness measures and concern the establishment of the Melbourne Centre for Financial Studies.<sup>127</sup>

The Minister informed the Committee of two targets for the financial services sector in 2004-05, namely:<sup>128</sup>

- investment in capital expenditure of \$25 million; and
- 850 equivalent full-time net new jobs.

While the Committee welcomes targets with respect to key sectors of the economy, it would prefer that such figures are published in the Budget Papers and the department's annual report.

The Minister for Financial Services Industry undertook to provide additional performance measures relating to the action plan, but this has not occurred.<sup>129</sup> The Committee believes that the department should have developed and published a range of performance measures for each key initiative, covering quantity, quality, timeliness and cost. Without such performance measures, the department cannot effectively monitor the success of the initiatives, nor can the finance sector or the Parliament assess whether the programs and strategies have achieved their objectives.

The Committee recommends that:

**Recommendation 94:**                      **When announcing key initiatives, the Department of Innovation, Industry and Regional Development develop and publish key performance measures for each initiative.**

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<sup>125</sup> Department of Innovation, Industry and Regional Development response to the Committee's 2004-05 Budget Estimates questionnaire, pp.1-2 and Budget Paper No. 3, *2004-05 Service Delivery*, pp.140-144

<sup>126</sup> Hon. T. Holding, MP, Minister for Financial Services Industry, media release, *Holding launches action plan for financial services industry*, 10 May 2004

<sup>127</sup> Department of Innovation, Industry and Regional Development response to the Committee's 2004-05 Budget Estimates questionnaire, p.15; Budget Paper No. 3, *Service Delivery 2004-05*, p.143

<sup>128</sup> Hon. T. Holding, MP, Minister for Financial Services Industry, transcript of evidence, 22 June 2004, p.6

<sup>129</sup> *ibid.*, p.6; Minister for Financial Services Industry's response to the Committee's follow-up questions, p.3

### 9.10.3 Key issue impacting on the portfolio

The department's response to the Committee's *2004-05 Budget Estimates questionnaire* and the estimates hearing identified one issue that will affect the Financial Services portfolio and its Budget Estimates for 2004-05.

#### (a) **Funding for investing in Victoria's future initiatives**

The Committee notes that only one of the initiatives identified in the Investing in Victoria's Future action plan has funding specified in the 2004-05 Budget namely, the Melbourne Centre for Financial Studies (\$1.8 million over two years).<sup>130</sup> With regard to another initiative, assisting Monash University to market financial services training, the action plan states that up to \$150,000 will be provided but the time period is not specified.<sup>131</sup> The Committee was not subsequently provided with the estimated costs of all the identified initiatives.<sup>132</sup> The Committee believes that where the department receives global funding for initiatives, it should identify the costs associated with the initiatives in order to support the Budget appropriation.

The Committee recommends that:

**Recommendation 95:**                      **Where the Department of Innovation, Industry and Regional Development allocates global funding for initiatives, it should identify in the Budget Papers the costs and timeframe associated with each initiative in order to support the Budget appropriation.**

## 9.11 Tourism portfolio

The tourism industry contributed \$10 billion to the Victorian economy (5.2 per cent of Gross State Product) in 2002-03 and employs 148,000 people (or 6.2 per cent of the State's workforce). Victoria had 1.2 million international visitors and 5.2 million interstate visitors in 2003.<sup>133</sup>

<sup>130</sup> Budget Paper No. 3, *2004-05 Service Delivery*, p.260

<sup>131</sup> Government of Victoria, *Investing in Victoria's Future, The Victorian Government's Action Plan for the Financial Services Industry*, May 2004, p.5

<sup>132</sup> Hon. T. Holding, MP, Minister for Financial Services Industry, transcript of evidence, 22 June 2004, p.6; Minister for Financial Services Industry's response to the Committee's follow-up questions, p.3

<sup>133</sup> Hon. J. Pandazopoulos, MP, Minister for Tourism, Overhead presentation at hearing, 24 June 2004, p.5

The main purpose of the Tourism portfolio is to maximise employment and the longer term economic benefits of tourism to Victoria by developing and marketing the state as a competitive tourist destination for both domestic and international tourists.<sup>134</sup>

The Tourism portfolio includes the agencies Tourism Victoria, the Australian Grand Prix Corporation, the Emerald Tourist Railway Board, the Melbourne Convention and Exhibition Trust, and the Melbourne Exhibition and Convention Centre.<sup>135</sup>

### **9.11.1 2004-05 outlook for the portfolio**

The Minister informed the Committee of the following priorities for 2004-05:<sup>136</sup>

- a strategic approach to marketing which is focused on carefully targeted regions, activities and audiences;
- international marketing, including the development of the Melbourne brand;
- business tourism, with a focus on the new convention centre and Commonwealth Games; and
- improving aviation links with key markets, particularly those with the greatest potential for Victoria.

The following three initiatives planned for 2004-05 were identified in the 2004-05 Budget:

- Melbourne Convention Centre redevelopment (\$366.9 million over four years, commencing in 2004-05);<sup>137</sup>
- major events funding cap (\$35 million over three years, commencing in 2004-05) to increase Victoria's capacity to support major sporting and tourism events of significant economic benefit to Victoria;<sup>138</sup> and
- statewide booking system for regional visitor information centres (\$300,000 in 2004-05). Investigations will be made of the key areas of booking systems, destination information provision and management, and the networking requirements of visitor information centres.<sup>139</sup>

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<sup>134</sup> Budget Paper No. 3, *2004-05 Service Delivery*, p.150

<sup>135</sup> Hon. J. Pandazopoulos, MP, Minister for Tourism, Overhead presentation at hearing, 24 June 2004. p.4

<sup>136</sup> *ibid.*

<sup>137</sup> A further \$2 million is allocated in 2004-05 for procurement costs. Source: Budget Paper No. 3, *2004-05 Service Delivery*, pp.260-261, 264

<sup>138</sup> Budget Paper No. 3, *2004-05 Service Delivery*, pp.32, 289

<sup>139</sup> *ibid.*, pp.289-290

In addition, the Committee notes that \$7.7 million is planned to be allocated over two years towards a package of measures to increase cultural tourism in Victoria and to grow the patronage of cultural and heritage attractions across the state.<sup>140</sup>

There are four initiatives from the 2003-04 Budget that continue into 2004-05 and beyond. In terms of total expenditure, the two largest initiatives from 2003-04 are:<sup>141</sup>

- marketing Victoria (\$10 million spread evenly over four years commencing in 2003-04); and
- regional marketing and regional renewal (\$10 million, as above).

### 9.11.2 Performance measures

There are 19 performance measures for the Tourism output group in the 2004-05 Budget Papers, comprising:<sup>142</sup>

- 14 quantity indicators (such as the number of overseas visitors and visitor expenditure);
- four quality measures (all relating to public awareness of advertising campaigns); and
- one cost measure (total output cost).

Although most indicators relate to quantity, they mainly focus on the key outcomes of tourist numbers and tourist expenditure. The department provided the Committee with some examples of external data sources used to evaluate the portfolio's performance. These included the Bureau of Tourism Research's National Visitor Survey and Roy Morgan's Holiday Tracking Survey.<sup>143</sup> The Committee commends the department for seeking independent sources to assess the impact of its programs.

The four quality indicators are new to this budget; however, they replace four similar measures that have been discontinued.<sup>144</sup> The department advised that, following a review undertaken in 2003-04, the new measures are more accurate and robust than the previous measures.<sup>145</sup>

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<sup>140</sup> Allocation to financial years was not specified. Source: Government of Victoria, *Victoria: Leading the way, Economic statement*, April 2004, p.14

<sup>141</sup> Department of Innovation, Industry and Regional Development response to the Committee's 2004-05 Budget Estimates questionnaire, pp.9-12

<sup>142</sup> Budget Paper No. 3, *2004-05 Service Delivery*, pp.150-151

<sup>143</sup> Department of Innovation, Industry and Regional Development response to the Committee's 2004-05 Budget Estimates questionnaire, p.19

<sup>144</sup> Budget Paper No. 3, *2004-05 Service Delivery*, p.344

<sup>145</sup> Department of Innovation, Industry and Regional Development response to the Committee's 2004-05 Budget Estimates questionnaire, pp.17-18

The Committee is aware that 13 performance measures from the 2003-04 Budget have been discontinued.<sup>146</sup> Apart from four that have been replaced by similar measures, most relate to media campaigns that finished in 2002-03.

The Committee noted that four of Tourism Victoria's objectives relate to the provision or use of tourist facilities.<sup>147</sup> However, there are no performance measures in the 2004-05 Budget (or Tourism Victoria's annual report) which measure the provision of tourist infrastructure, or visitor use or satisfaction with tourist facilities.<sup>148</sup>

The Minister advised the Committee that research is undertaken internally to measure the use of tourist attractions, accommodation and related tourist facilities. Measurement of stakeholder satisfaction, including visitors, is undertaken at a local government level. The Minister also informed the Committee that an expansion of the current number of performance measures to include visitor use or visitor satisfaction is considered contrary to the Department of Treasury and Finance's aim to streamline performance measurement.<sup>149</sup> The Committee is disappointed with this response from Treasury.

The Committee recommends that:

**Recommendation 96:**                    **The Department of Innovation, Industry and Regional Development and Tourism Victoria develop performance indicators to measure visitor use of, and satisfaction with, tourist facilities and report these in the annual report of Tourism Victoria**

### **9.11.3 Key issues impacting on the portfolio**

The department's response to the Committee's *2004-05 Budget Estimates questionnaire* and the estimates hearing identified two issues that will affect the Tourist portfolio and its Budget Estimates for 2004-05.

#### **(a) Melbourne Convention Centre**

The Committee notes the proposal to build a convention centre adjacent to the Melbourne Exhibition Centre and that the absence of a very large convention centre has reduced Victoria's competitiveness. The Committee understands that the redevelopment will include an integrated exhibition and convention centre, with a

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<sup>146</sup> Based on comparison of performance measures in 2003-04 and 2004-05 Budget papers. Budget Paper No. 3, *2004-05 Service Delivery*, pp.150-151; Budget Paper No. 3, *2003-04 Budget Estimates*, pp.190-192

<sup>147</sup> Tourism Victoria, *2002-03 Annual Report*, pp.5, 43-44

<sup>148</sup> Budget Paper No. 3, *2004-05 Service Delivery*, pp.150-151

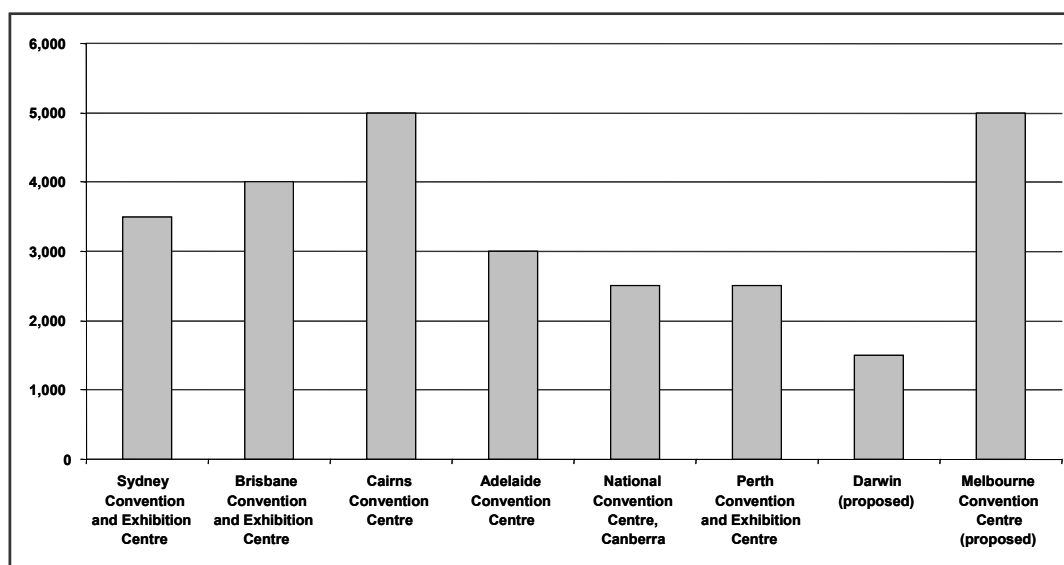
<sup>149</sup> Hon J. Pandazopoulos, MP, Minister for Tourism's response to the Committee's follow-up questions, pp.8-9



5000 seat plenary hall and integrated development of the surrounding Southbank site.<sup>150</sup>

The Committee notes that the Government expects that the proposed convention centre will attract international and domestic conventions to Melbourne and generate additional delegate spending of \$3.3 billion over 25 years (\$129 million per year), resulting in an increase in Gross State Product of \$5 billion over 25 years (\$197 million per year). The Melbourne Convention Centre will have the equal largest seating capacity of any Australian city (refer to exhibit 9.7).<sup>151</sup>

**Exhibit 9.7: Convention centre seating capacity Australian cities**



Source: Department of Innovation, Industry and Regional Development, Melbourne Convention Centre Redevelopment, Questions and Answers document from website, [www.iird.vic.gov.au](http://www.iird.vic.gov.au), July 2004

The Committee understands that the total construction cost of the core convention centre buildings is anticipated to be \$367 million, with \$24 million expected to be expended in 2004-05.<sup>152</sup> In addition, the City of Melbourne is expected to make a significant contribution to the project, totalling \$43 million, comprising capital costs (\$20 million), footbridge and road connections (\$17 million) and marketing (\$6 million).<sup>153</sup>

<sup>150</sup> Government of Victoria, *Victoria: Leading the way, Economic statement*, April 2004, pp.12–13

<sup>151</sup> Department of Innovation, Industry and Regional Development, *Victoria: Leading the Way – Economic Statement*, Melbourne Convention Centre Redevelopment, accessed on [www.iird.vic.gov.au](http://www.iird.vic.gov.au)

<sup>152</sup> Budget Paper No. 3, *2004-05 Service Delivery*, p.264

<sup>153</sup> Website, [www.iird.vic.gov.au](http://www.iird.vic.gov.au), Department of Innovation, Industry and Regional Development, Melbourne Convention Centre Redevelopment, Q & A's, July 2004

The project will be delivered under Partnerships Victoria.<sup>154</sup> The scope of services to be delivered by the private sector will include the design, construction, finance and maintenance of the new convention centre, together with the development of the precinct as a whole. Expressions of interest are to be called for in late 2004, with construction to be completed in 2008.<sup>155</sup>

Due to the size and complexity of the project and the strategic significance for Victoria, the department needs to develop a risk management plan covering all aspects of the project, including tendering, contract planning and management, financing, construction, and delivery of the project on time.

The Committee recommends that:

**Recommendation 97:**                    **The Department of Innovation, Industry and Regional Development ensure that a risk management strategy is developed for the Melbourne Convention Centre Project to make certain that the project is effectively managed and delivered on time and within budget.**

**(b)            *The affect on regional tourism of Jetstar at Avalon airport***

The Committee is aware that the new low cost Qantas-owned domestic airline Jetstar commenced flights in May 2004 from Avalon airport near Geelong. The Government expects that around 1000 Victorians will be employed directly by the low cost carrier over the next few years and there will be about 3000 indirect jobs.<sup>156</sup>

The Minister informed the Committee that Tourism Victoria has committed funding to provide outdoor signage welcoming visitors to Victoria. The Victorian Government has provided funding to alter directional signage in Victoria so there is no confusion regarding Avalon airport and Tullamarine.<sup>157</sup>

The Minister advised the Committee that Tourism Victoria and Jetstar have developed a cooperative marketing plan to build tourist visitation to Melbourne, Geelong and the Great Ocean Road through flights into Avalon airport. A Jetstar Tourism Task Force has been established which includes representatives from Tourism Victoria, Jetstar, Geelong Otway tourism and the City of Geelong to discuss and agree on marketing activities. Planned activities include press advertisements, 15-second television advertisements, radio and the Internet.<sup>158</sup>

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<sup>154</sup> Budget Paper No. 3, *2004-05 Service Delivery*, p.264

<sup>155</sup> Department of Innovation, Industry and Regional Development, Melbourne Convention Centre Redevelopment, Q & A's, July 2004

<sup>156</sup> Invest Victoria, media release, *Qantas low cost carrier to be based in Melbourne*, 4 December 2003

<sup>157</sup> Minister for Tourism's response to the Committee's follow-up questions, pp.10-11

<sup>158</sup> *ibid.*

The Committee notes the approach taken by Tourism Victoria to jointly develop with the private sector and local Government, a strategy designed to enhance tourism particularly in regional Victoria.

The Committee recommends that:

**Recommendation 98:**                    **The Department of Innovation, Industry and Regional Development monitor and report on the impact on tourism in the Geelong and Otway region, following the commencement of Jetstar flights at Avalon airport.**

## **9.12 Industrial Relations portfolio**

Victoria does not have a state-based industrial relations system except for some specialist legislation, having transferred most of its industrial relations powers to the Commonwealth Government in 1996. Industrial relations matters in Victoria are regulated through the Commonwealth Government's Workplace Relations Act.<sup>159</sup>

The core responsibility of the Industrial Relations portfolio is to create and promote a positive industrial relations environment and build better workplaces.<sup>160</sup>

### **9.12.1 2004-05 outlook for the portfolio**

The Minister informed the Committee of the following priorities for the Industrial Relations portfolio in 2004-05:<sup>161</sup>

- advocating a better industrial relations framework in Victoria;
- helping ensure that all Victorian employees have access to federal award minimum conditions;
- providing advice to potential investors;
- promoting innovative workplace practices; and
- promoting cooperative public sector industrial relations.

No initiatives are listed in the 2004-05 Budget Papers for Industrial Relations Victoria.<sup>162</sup>

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<sup>159</sup> Industrial Relations Victoria, *Industrial Relations in Victoria*, accessed on [www.irv.vic.gov.au](http://www.irv.vic.gov.au)

<sup>160</sup> Department of Innovation, Industry and Regional Development, *2002-03 Annual Report*, p.5

<sup>161</sup> Hon. R. Hulls, MP, Minister for Industrial Relations, Overhead presentation, 16 June 2004, p.6

<sup>162</sup> Budget Paper No. 3, *2004-05 Service Delivery*, pp.289–290

However, the Committee observed that one of the action statements in *Victoria: Leading the way* proposes changes to assist the Government to intervene in significant industrial disputes. The Taking New Directions in Industrial Relations action statement is discussed later in this section.<sup>163</sup>

The Minister advised the Committee that the operations of Industrial Relations Victoria (IRV) were reviewed in 2003-04.<sup>164</sup> The following new tasks have been identified for IRV:<sup>165</sup>

- funding the development of model approaches to promoting workplace flexibility;
- sponsoring the development of human resource and industrial relations capacities in the automotive and components industry;
- working to address image, skills and industrial relations issues in the Victorian building and manufacturing industries; and
- developing packages for new investors and smaller investors who do not typically engage Government for assistance with industrial relations issues.

While the Budget Papers did not identify specific funding for the above proposals and tasks, expenditure for the Industrial Relations portfolio is expected to increase by \$2.3 million (or 18.7 per cent) in 2004-05.<sup>166</sup>

### 9.12.2 Performance measures

The Committee notes that there are 11 performance indicators in the Industrial Relations output group, including one new measure. The indicators cover quantity (including the number of programs delivered and number of general enquiries), quality (mainly relating to client satisfaction), timeliness (such as advice delivered in agreed timeframe) and cost of outputs.<sup>167</sup>

The new measure is number of responses to general workplace inquiries which has a target of 7,000 in 2004-05. The Minister advised the Committee that this new measure reflects a core responsibility of the portfolio to advise on key industrial relations laws.<sup>168</sup> It replaces the measure *education and communication strategies deployed within agreed timeframe*.

Three indicators from the 2003-04 Budget Papers have been discontinued.<sup>169</sup>

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<sup>163</sup> Government of Victoria, *Victoria: Leading the Way*, Economic Statement, April 2004, p.28

<sup>164</sup> Hon. R. Hulls, MP, Minister for Industrial Relations, transcript of evidence, 16 June 2004, p.4

<sup>165</sup> Government of Victoria, *Victoria: Leading the Way*, Economic Statement, April 2004, p.28

<sup>166</sup> Budget Paper No. 3, *2004-05 Service Delivery*, pp.148–149

<sup>167</sup> *ibid.*

<sup>168</sup> Hon. R. Hulls, MP, Minister for Industrial Relations, transcript of evidence, 16 June 2004, p.4

<sup>169</sup> Budget Paper No. 3, *2004-05 Service Delivery*, p.344

The Committee believes that, on the whole, the performance indicators adequately cover the main areas of the portfolio's activities. However, the Committee has two concerns:

- the quantity and quality indicators of program delivery are too aggregated, with all the portfolio's programs combined into both measures; and
- there is no overall measure of Victoria's industrial performance (this issue is discussed below).

The Committee considers that separate performance indicators should be developed and reported for major programs so that the implementation and effectiveness of each program can be assessed.

The Committee recommends that:

**Recommendation 99:**                    **The Department of Innovation, Industry and Regional Development develop and report separate performance indicators for each major program in the Industrial Relations portfolio.**

### **9.12.3    Key issue impacting on the portfolio**

The department's response to the Committee's 2004-05 Budget Estimates Questionnaire and the estimates hearing identified one issue that will affect the Industrial Relations portfolio and its Budget Estimates for 2004-05.

#### **(a)            New directions in industrial relations**

One of the action statements in *Victoria: Leading the way* proposes changes to assist the Government to intervene in significant industrial disputes. The Taking New Directions in Industrial Relations action statement proposes that the Government will:<sup>170</sup>

- introduce a new Emergency Powers Act. The new legislation will consolidate Victoria's emergency powers and make specific reference to the use of such powers in circumstances of serious industrial disputation. The legislation will stipulate the terms and conditions under which work shall be performed, pending formal resolution by conciliation and arbitration; and
- seek from the Commonwealth the power to bring applications to the Industrial Relations Commission to terminate bargaining periods in circumstances where industrial action is threatening the health, safety or welfare of Victorians, or causing significant damage to the state's economy.

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<sup>170</sup> Government of Victoria, *Victoria: Leading the Way*, Economic Statement, April 2004, p.28

The Minister informed the Committee that there are currently nine separate Acts dealing with emergency situations, the main ones being the Essential Services Act, the Vital State Industries (Works and Services) Act, parts of the Electricity Industry Act and the Gas Industry Act. There are significant inconsistencies and it is confusing to business and employees. Consolidating all the legislation under one Act will improve certainty for business and help attract investment into Victoria.<sup>171</sup>

The Minister advised the Committee that new Emergency Powers Act will only apply during the period of an emergency where an essential service or industry or vital state project is threatened or affected by industrial action. The new powers would only be used as a last resort, and in circumstances where the wellbeing of the community was at risk because of an industrial dispute and unable to be resolved due to the inadequacies in federal industrial relations legislation.<sup>172</sup>

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<sup>171</sup> Hon. R. Hulls, MP, Minister for Industrial Relations, transcript of evidence, 16 June 2004, p.5

<sup>172</sup> Hon. R. Hulls, MP, Minister for Industrial Relations, media release, *New directions in industrial relations*, 20 April 2004