

VERIFIED TRANSCRIPT

PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

Inquiry into 2006-07 budget estimates

Melbourne—13 June 2006

Members

Mr W. R. Baxter

Ms C. M. Campbell

Mr R. W. Clark

Mr B. Forwood

Ms D. L. Green

Mr J. Merlino

Mr G. K. Rich-Phillips

Ms G. D. Romanes

Mr A. Somyurek

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Witnesses

Mr J. Brumby, Minister for State and Regional Development, and Minister for Innovation;

Ms F. Thorn, secretary;

Ms J. Niall, deputy secretary, business development;

Mr L. Bruce, executive director, strategy and policy; and

Mr L. McDonald, director, regional infrastructure development, Department of Industry, Innovation and Regional Development.

The CHAIR—Welcome. I declare open the Public Accounts and Estimates Committee hearings on the 2006-07 budget estimates for the Treasury, State and Regional Development and Innovation portfolios. I welcome the Hon. John Brumby, Minister for State and Regional Development and Minister for Innovation, Ms Fran Thorn, secretary, Department of Innovation, Industry and Regional Development, Ms Jane Niall, deputy secretary, business development, departmental officers, members of the public and the media. In accordance with the guidelines for public hearings, I remind members of the public they cannot participate in the committee's proceedings. Only officers of the PAEC secretariat are to approach PAEC members. Departmental officers, as requested by the minister or his chief of staff, can approach the table during the hearings. Members of the media are also requested to observe the guidelines for filming or recording proceedings in LCCR.

All evidence taken today by this committee is taken under the provisions of the Parliamentary Committees Act and is protected from judicial review. However, any comments made outside the precincts of the hearing are not protected by parliamentary privilege. All evidence given today is being recorded. Witnesses will be provided with proof versions of their transcripts. Once you receive your transcripts, please attend to them within 48 hours. Minister, could you please give us a brief presentation on the more complex financial and performance measures that relate to budget estimates for State and Regional Development and Innovation.

Mr BRUMBY—Thank you, Chair and committee members. To give some background, I will run through slides for five minutes or so.

Slides shown.

Mr BRUMBY—Of course it is a very diverse department. This slide really shows you the focus of our department; some of the challenges. Although obviously a matter for discussion later on, the budget focus—which was about meeting the challenge—is really about addressing some of those issues: the high Australian dollar, high energy prices, and of course the need to build a more competitive economy, particularly focusing around skills. The Department of Innovation, Industry and Regional Development does those things.

You will see the focus of the department: investment attraction, trade, developing innovative industries, regional development and marketing Victoria. Some of the key achievements in investment attraction. As you know, we set targets for investment attraction. Smaller targets were set under the former Kennett government. We have continued with the practice of setting targets for facilitated investment. You can see some of the substantial ones there; most recently Frontera. Ford, of course, announced jointly with the federal government, with the Prime Minister and the Premier making that very big announcement. And a range of others there from Maryvale with Australian Paper, through to Hawker de Havilland and the Boeing contract where they are making the tail assemblies for the Boeing 787 Dreamliner.

We have also collaborated with a number of other organisations, VECCI in the City of Melbourne; the international business centre. We have led the way, as this committee knows, in agreements with other states on investment facilitation to make sure that there are no unnecessary bidding wars between the states.

In the innovation area we have really pushed our efforts more internationally; the \$6 million VISTECH deal with Israel. I will be announcing the first R&D projects under that fund in the near future; most recently, when the Premier and I were in Chicago, the deal between Monash University, the National Stem Cell Centre and the University of San Diego, California in relation to regenerative medicine and stem cells. The Synchrotron: we now have eight partners signed up and \$40 million committed for the first tranche of beam lines. Of course, our STI initiative of which we are very proud; all of the evaluation to date. You can see the numbers there and the slide shows just what a spectacularly successful program this has been.

I think the committee would be aware of the life sciences statement which the Premier, Minister Pike and I released earlier this year; \$230 million of state government announcements which will lead to close to three-quarters of a billion dollars of total additional investment in the life sciences sector. I am most pleased about the announcements we made: \$50 million for the Walter and Eliza Hall has since been matched by the federal government and \$53 million for the Australian Centre for Neuroscience and Mental Health Research. Funding was announced in the recent federal budget towards that. We also put aside funding for new medical schools

in regional Victoria. Within two weeks of that announcement the federal government was also able to announce recurrent funding.

On regional development, we released Moving Forward last year in November; \$502 million over four years is a very substantial commitment. The Regional Infrastructure Development Fund and a new Provincial Victoria Growth Fund are the twin funds driving that. It builds on our very strong record over the last six years, and will mean that we can continue to drive investment and jobs growth, but importantly manage the population growth, which as I will show you in a moment is increasing very rapidly in provincial Victoria.

I thought I would show you this slide. I have shown you a variation of this before. The grey line there is the Australian rate of population growth. The red line, or the dark brown line as you see it, is Victoria's rate of population growth. You will see that just in the last year we have overtaken the national rate of population growth, so we are just on, or above 1.2 per cent; the first time in 40 years we have exceeded that national rate of population growth. But I think the standout curve there is the black line, which is the population growth in provincial Victoria. You can see that we were negative back in the mid-nineties, back into the low positives, and then it has really taken off in the last four years. We actually have a rate of population growth in provincial Victoria now of 1.3 per cent which exceeds the rate of population growth for Victoria as a whole.

This is some analysis which Treasury did for me a fortnight ago which shows the jobs growth this decade compared with the last decade. We have been averaging 90,000 jobs in the last six years, compared with the previous six-year period—40,000 versus 90,000. It gives you a good example of the extent to which jobs growth is powering ahead in provincial Victoria.

This is regional investment facilitated. Again, you can read the numbers yourself. These are the numbers from the department as it used to be; the Department of State and Regional Development. Prior to that, Department of State Development, averaging around \$400 to \$500 million back in the second half of the last decade, and over the last four years has been averaging closer to a billion dollars. This shows that across the state the number of investments facilitated are widespread. If committee members want to ask me later, I am happy to give examples in each of those regions, but you can see that it is very widespread.

This is the Regional Infrastructure Development Fund: really just trying to make sure that members understand the breadth of RIDF and how many projects have been funded under it; more than a hundred projects to date. We have approved more than \$318 million for projects as at June 2006, and the total value of those, if you take into account third party contributions, local government, community groups and in some cases federal government and private sector, is \$800 million plus.

This is building approvals; again showing the extraordinary recovery in activity in provincial Victoria. You can see there, back in 1999, about \$1½ billion of approvals; for the year up to January 2006 more than \$3½ billion, so a more than doubling of those building approvals on that calendar year basis.

That shows a strong curve for both residential and non-residential for the commercial areas. Commercial are obviously things like office buildings, the biggest of which would be the new Bendigo Bank Building in Bendigo, which is about \$80 million. The new TAC in Geelong would be very large when the tender is determined there. So both of them are good curves and both showing very strong growth. That completes my presentation.

The CHAIR—Thank you very much, Minister. Could I take you to Budget Paper No. 3, page 150, where reference is made to the Australian Synchrotron. Could you inform the committee in more detail on what progress has been made in advancing the user groups and securing partners in the project?

Mr BRUMBY—Yes, I can. About the Synchrotron generally, some people may have seen a couple of articles in the press over the weekend for science students to go and visit the Synchrotron and learn more about it. It is very much a national facility. It is the Australian Synchrotron. You will remember when we constructed this we said that we aimed to have around \$45 million to \$50 million in funding from other partners, particularly state governments and other universities. I am pleased to advise the committee that the national science community is funding the first nine beam lines. We have seen to date commitments from nine organisations, including the New Zealand government, so universities, research organisation, other

universities and other governments. The extent of the financial commitment to date is \$40 million, and I expect to make further announcements in the near future. The Synchrotron is about our vision.

It is about leadership, it is about collaboration. I should say that amongst the founding partners, we have partners like the state of Queensland, and I think full credit to Queensland. They were obviously very disappointed when we made our decision to go ahead and to build the Synchrotron. They now accept that it is truly a national facility, that many of their researchers will want to use it; and they are one of the founding Beamline partners. We are building it on time and on budget. The first light will be in the not too distant future and it is truly about the collaboration. It is truly a national facility.

I can also announce to the committee that Melbourne has just won the right to host the 10th Synchrotron Radiation Instrumentation Conference in 2009 and this is a conference which usually rotates between Europe, the US and Asia-Pacific. It is the first time, obviously, it has been in Australia and we will see something like 800 experts from around the world coming to Melbourne in 2009. As the committee knows, synchrotrons are so important now in almost every aspect of industrial life—whether it is making clothing, whether it is making fine foods like chocolate. In the pharmaceutical and life sciences industry I guess the best example is Relenza which is now being manufactured of course by GSK in Melbourne. Relenza was discovered using a Synchrotron and in the future all of those researchers will be able to use the Synchrotron at Monash University.

Finally, I remember an article—I think it was in *The Age* just a couple of weeks ago—about the surge in property development around the Synchrotron at Monash University from people building new industrial facilities, research facilities and related accommodation, as the private sector believes there will be large numbers of people coming from around Australia to use that facility, and there will. It is a great fit there with the National Stem Cell Centre and the new Centre for Regenerative Medicine that we funded in Healthy Futures.

The CHAIR—Thank you very much. Mr Clark.

Mr CLARK—Could I refer you to page 147 of Budget Paper No. 3 and the targets for jobs derived from investments facilitated and new investments facilitated. If you go back through comparable measures over previous years and, for example, refer to page 130 of last year's Budget Paper No. 3, you would see that the actual in 2003-04 for investments facilitated was \$2.46 billion and jobs derived were 7,995. The expected outcome for this year is \$1.6 billion investments facilitated and 5,000 jobs derived. What is the reason for the fall in the expected levels of investments facilitated and jobs derived?

Mr BRUMBY—The target is over four years but I do not think there is any difference in the target, is there? Fortunately, the secretary has the 2005-06 budget as well and the target for 2004-05 was 5,000. We have set a target for 2005-06 of 5,000 and the target for 2006-07 is 5,000.

Mr CLARK—No. My question does not relate to the targets; it relates to the actuals in previous years versus the expected. If you take the whole time series you will see that it has been falling from 2003-04 in terms of actuals and the expected outcome for 2005-06.

Mr BRUMBY—Yes, but you do get fluctuations from year to year. The key question is whether the actuals exceed the target. So we do not make any commitment on—

Mr CLARK—The investments facilitated have fallen from \$2.46 billion to \$1.6 billion, and that is a significant fall deserving some explanation.

Mr BRUMBY—The target is set over an average four-year period and you do get fluctuations. Obviously Ford has just announced an investment of \$1.8 billion. It is a very large investment. Some years ago, in 2003, we had General Motors, the engine plant, which was \$450 million. So by its nature, large capital investment is lumpy, but I think the key thing is that we exceed the target. I might ask the secretary to comment as well.

Ms THORN—As the minister said, the targets are over a four-year period because it is lumpy. We

have commissioned research in the last 12 months that indicates that in the years to come developed economies such as our own can no longer expect to see the very big investments and so we are continuing to take a cautious approach to the setting of targets.

Mr BRUMBY—But again I say the key thing is that we achieve the targets that we have set, and we do.

The CHAIR—Thank you. Ms Romanes.

Ms ROMANES—Minister, I refer to page 150, Budget Paper No. 3. With reference to your department's participation in biotechnology forums, could you please outline Victoria's progress in achieving its objective to be a top-five location globally by 2010.

Mr BRUMBY—We do have that target by 2010 to be one of the top five in the world. We released our first plan back in 2000-01; our first five-year plan for biotechnology. We found that over the first two years we substantially achieved our targets well within the five-year period so we released an amended plan which had more aggressive targets. I must say we were on track to achieve all of those targets as well. We do commission research every year by the independent *Blake Industry Report*. The most recent report is for March 2006 and that shows, in the last year, there has been a 30 per cent increase in corporate R&D expenditure, to \$413 million. There has been a 30 per cent increase in sales to \$5.9 billion. There has been a 50 per cent increase in aggregate market capitalisation of \$16 billion and there has been a 50 per cent increase in the number of clinical trials under way or planned, with 38 trials.

They are very strong results. They mean that we are ahead of the targets that we set in our plan and there are a number of highlights. We have GSK now with two Relenza production lines which are under way. We have CSL which has announced the successful completion of the phase 1 trials of the pandemic flu vaccine. Biota has signed recently a \$US112 million deal. Stapharma has recently won a \$US20 million grant from the NIH to commercialise its HIV anti-infective program.

You will have seen recently research developed in partnership between Australian researchers, Queensland researchers, CSL and Merck, which is human papilloma vaccine which will be approved, we hope, in the not too distant future, which is another great Australian breakthrough. In terms of where we are at top five in the world, I think we can say we are top five in flu pandemic treatment and management. Secondly, we are top five in the world in stem cells, where *Forbes Magazine* has identified Australia as a leader in this area. We are a leader in cervical cancer; as I said, CSL with Merck, which is the new cervical cancer vaccine Gardasil, which is extraordinarily exciting and will virtually put an end to cervical cancer for women. Bionanotech, where I mentioned before, Stapharma. Also malaria, which does not affect too many Australians, but the Walter and Eliza Hall is a world leader in this area for a disease which is still the biggest killer in the undeveloped world. It is Victorian researchers who are really leading the way in that area.

Mr RICH-PHILLIPS—Minister, I would like to ask you about the funding on page 316 of Budget Paper No. 3, listed as the world-class Victoria business investment campaign which has a description to leverage off the investment opportunities presented by the Commonwealth Games; funding is provided et cetera. Can you outline to the committee, please, the investment opportunities that were created by the Commonwealth Games, referred to there, and exactly how will that \$3 million be acquitted? Exactly what sort of campaign do you have in mind? It is a fairly substantial commitment for a single year.

Mr BRUMBY—You are asking about two separate things, I think. You are asking about a campaign which has been, and is, under way; the world-class performance campaign. Have I heard the question properly?

Mr RICH-PHILLIPS—The world-class Victoria campaign, listed on page 318.

Mr BRUMBY—Yes, if we are talking about the same campaign, I think you will have seen the television advertisements?

Mr RICH-PHILLIPS—Right.

Ms THORN—So the campaign ran during the Commonwealth Games.

Mr BRUMBY—In terms of the Commonwealth Games, the biggest part of the program was through Business Club Australia, which was in partnership with the federal government. We contributed financially to that and the federal government contributed financially to that. A number of federal ministers were involved. I thought it was an outstanding investment by the state in promoting Victoria and Australia. You asked, 'Well, what were the benefits of that?' As one who hosted an enormous number of businesspeople at games events, I attended numerous breakfasts which were attended by literally hundreds of businesspeople around different themes—biotechnology, manufacturing, financial services, links with countries such as the UK and China. I thought the branding of Victoria, the networks and the contacts that we built up during that period were outstanding. I am happy to go through at length, if the committee wishes, all of the things we did as part of that. We will be evaluating it.

The Commonwealth Games Business Benefits Program was a \$4 million program. As part of that, we undertook Business Ready, which was a joint initiative with the City of Melbourne. Over 5,000 businesses took part in that program. The Victorian Industry Capability Network actively promoted procurement opportunities to Victorian businesses through the Games Industry Link website. As a result, more than 1,800 Victorian businesses secured more than \$240 million in games related expenditure. In addition, over 340 companies benefited from the \$522 million in games infrastructure spending such as the MCC redevelopment.

I mentioned Business Club Australia. The club attracted more than 7,800 members, 35 per cent of which were international. As I said, it was a combined Commonwealth-state—

Mr RICH-PHILLIPS—How many of those were from your own department? I noticed that a lot of DIIRD people were registered as members of Business Club Australia.

Mr BRUMBY—Of the 7,800? I think you overestimate the size of my department. I will find out and give you an answer to that. We also had the business benefits program, the launching of the Australian Technology Showcase and we are, of course, developing a post-games strategy to ensure that we continue to promote our expertise and capabilities to international major events, such as the Beijing 2008 Olympics, the Delhi 2010 Commonwealth Games and the London 2012 Olympics. That strategy includes the launch of the Australian International Sporting Events Secretariat, in conjunction with the New South Wales government, to leverage the great brand name that we have internationally off the back of the Commonwealth Games and the Sydney Olympics in 2000.

As part of the world-class performance campaign, there are seven advertisements. They highlight a variety of different Victorian industries and are designed to demonstrate Victoria's business capabilities to an interstate and international audience. We ran a similar campaign in 2002, which received strong support from the business community and industry groups, with groups like VECCI, for example, publicly praising the government for the initiative.

The seven advertisements were: Toyota, which was about the export success of the Camry. I think we should be proud of Toyota. I would be amazed if anyone is not proud of Toyota. They are exporting around 100,000 Camrys a year to the Middle East. Innovonics, winning the contract to supply the New Jersey underground because of their innovative and high-quality CCTV cameras. That is a good example of a Victorian firm succeeding internationally. Victorian Olive Oil, the award-winning success in the growth of Victorian olive oil. I think you know the numbers on olive oil, but Australia imports about \$170 million worth of olive oil a year. The two biggest olive plantations in Australia are now based in Victoria, at Boort and at Rainbow Bend. This is a great market for us internationally, particularly the developing markets in China and in India. The fourth advertisement featured Jindi cheese, which is one of the best in the world. Dairy, of course, is the largest single industry exporter from Victoria. With Melbourne Airport, which is privately owned, we promoted the fact that they constructed a runway for the A380 in record time, for which they won a prize. That is a good story about how well we do big projects in Victoria. Hawker de Havilland, as I said before, won the deal for the Boeing 787 Dreamliner. The last advertisement was WaveStar, which is a high-performing small business.

They ran extensively during that period. I think they were a great advertisement for our state. I have not had a single email, letter or complaint about any of those advertisements. On the contrary, I have had plenty of people who have said they are a great thing and make them proud to be Victorians. They are a good example of things we do well. They are not political in any way. They are about how well our state does things and what a good place we are to invest in.

Mr RICH-PHILLIPS—Were those seven ads the only component of that \$3 million campaign? Were there other aspects that you can break down and perhaps provide on notice?

Mr BRUMBY—We can provide that, but the notes that I have here of the world-class performance campaign indicate that it was \$2.9 million, which probably rounds out to the \$3 million that you mentioned, and that that was the focus. However, I will check that and give you all of the information in relation to that.

The CHAIR—Thank you. Mr Merlino.

Mr MERLINO—Minister, I refer you to page 155 of Budget Paper No. 3, the performance measure, 'Small Towns Development Fund RIDF projects funded.' You can see there that the 2006-07 target is significantly increased on previous years. The note in the papers refers to the Moving Forward statement. Could you expand on the Moving Forward statement and the reasons why the targets have increased.

Mr BRUMBY—The targets have increased because we provided more money in Moving Forward. Small Towns was promised in the 2002 election. The program was such a success that, in Moving Forward, we decided to expand it. As you can see, we expanded it significantly. In the first few years of the program, in this term of government, we had been requiring \$2 of funding for every \$1 from government. We changed that in Moving Forward to \$1 for \$1. The reason we did that is because for many of the smaller councils—and I am thinking of those particularly in the north-west of the state where they have big geographic areas but sparse populations; places like West Wimmera, Buloke, Yarriambiak and councils like that—where they do not have the rate base, \$1 for \$2 is very important. I am pleased to say that, under the Small Towns Development Fund, we have now committed \$20 million to over 250 projects across Victoria, which has generated \$43 million worth of investment.

During the financial year 2005-06—the one that is almost over—90 projects were approved, fully committing \$10.3 million against the allocation. That has all been approved. Since November last year, when we announced Moving Forward, 67 projects have been funded, with a total grant value of \$7.9 million. I have lots of examples in my notes of projects that we funded, but the one that stands out in my mind is a little place called Marnoo, which I think is in Northern Grampians Shire. A couple of years ago they had an unfortunate incident. They had an arsonist who burnt down some of the buildings in town. You can imagine what happened to the little town and you can imagine what happened to morale. We were able to work with the council in constructing some new public places and restoring some of the buildings which had been destroyed, and I opened those on Remembrance Day last year, with what was a very large crowd in Marnoo. We were able to put in \$140,000 to help them with improvements in Shanahan Park. There are so many people there from the council, the community, the RSL and local VFF groups who would say that the Small Towns Development Fund was very important in turning around morale and opportunity for a town which had taken a real beating over the last couple of years.

The CHAIR—Mr Baxter.

Mr BAXTER—I also want to return to RIDF. The Auditor-General, in his report *Public Sector Agencies* in May 2003, examined the fund and made some comments about the long lead times. To some extent, that was why it was often difficult to deliver in terms of what was announced and what was actually spent in the year. We have now had four or five years of experience, yet we still seem to be having trouble getting a degree of near the target. For example, in the 2004-05 budget papers, the government advised its target expenditure was \$78.7 million. In the 2005-06 budget, the government advised the expected outcome for 2004-05 was \$76.7 million, yet the budget we have just had brought down reveals the actual expenditure for that year was only \$36.4 million. Why are we having so much difficulty getting close to the target, now having had five or six years experience with the fund and acknowledging the long lead times, because I think this committee over a number of reports has made recommendations and certainly made comments about

getting the information that is provided to the parliament and the public as accurate as possible. Why are we still having these sorts of problems?

Mr BRUMBY—The answer is that we are not. I know the leader of the National Party in the Legislative Assembly produced—and he is entitled to table whatever he likes in parliament—a table. What is apparent looking at that table is that what he has done is double-count some numbers. He has included original budget numbers plus carry-overs, so he is double-counting. So he has a number which is much larger than that which was actually allocated for expenditure. The simplest way to describe this is to think back to our first term in office. We promised \$170 million in our first term, which we committed; we provided in the budget. We also provided some of the interest on that, so I think the number was closer to 180 than 170.

In our second term we said we would provide a further \$200 million and we committed that over the forward estimates period. If you take those two numbers in aggregate over our first two terms in government, what we said we would provide and what we have provided through the budget process is around \$370 million. What you will find to date is that we have approved projects of \$318 million. We are not yet at the completion of this term in office. We still have a little while to go and I do not see a problem with that. I would say that we are on track

As to the approvals versus the payment, the actual payment depends on the speed with which a project proponent proceeds to undertake construction, if it involves a construction project. The Auditor-General would be very critical of us if we paid funds to proponents prior to them meeting the guidelines and undertaking the necessary pre-procedures. I will give you a couple of examples. RMIT in Hamilton, and some members would be aware of this: RMIT required 30 months to complete from the time it was announced in September 2000. It is not any fault of the government's and you might remember the late Bruce Chamberlain was very involved with that project. It had been one of the old vet lab facilities. We provided the money to RMIT. The capital improvements had been made but we approved the funds. It was then a matter for RMIT as to how quickly they commenced work. As soon as they commenced work, we paid the money over.

I will give you a second example, and these are typical of many: Wodonga Enterprise Park. You would be aware of this one, where Visy located. The council applied for that. We approved the grant. I announced that grant in February 2002 but that project was completed in 20 months. The grant was for \$1.2 million, so this was to get the industrial estate right with light, power and gas, which then made it attractive for Visy to locate there. There was a delay between the project approval and the project payment of 20 months. I do not see a problem with that. As I say, I think the error which Peter Ryan has made is to double-count some rephrasing which occurred, so he has got a much bigger number than was ever promised or provided for. I am happy to go through and give you a reconciliation of that.

The other thing, just as an aside, and I know you are not using his material; but in an article in the *Weekly Times* it said we had committed \$570 million and how come only \$318 million—we committed an extra \$200 million in moving forward in November but that was over the next five-year period, so that is all in the forward estimates. We are not committing against that now, we are committing against what we already have.

Mr BAXTER—I am not going to get into any arguments about double-counting, because a fair bit of double-counting goes on in this place anyway, but don't your two examples, Minister—of Wodonga and Hamilton—prove the point I am making, that we surely ought to be able to get closer to the target than we have been getting in each of the last five years, between what one budget says is the target for the year and what actually occurs during the year? It is 50 per cent out. That seems to be me to be less than ideal.

Mr BRUMBY—Bear in mind too that we use accrual budgeting, so it is not actually when the cash is paid, it is when the commitment is made.

Mr BAXTER—Which surely should narrow the avenue for error?

Mr BRUMBY—I am open to suggestions but again think of the Visy one. I am not sure what it is you would have us do. The council needs to know.

Mr BAXTER—It is very small. That is one point—

Mr BRUMBY—But they need to know well in advance that the government has approved the funding so that they can then go and get the services which are provided to the industrial estate. They have to get the gas, they have to get the electricity, they have to get the water authority, they have to get the waste water treatment, so they do all that. Until that work occurs, we do not make a payment.

Mr BAXTER—The department knows that anyway, so surely it would have factored those sorts of delays into making these sorts of calculations. On the Hamilton one, presumably it was known it was going to take 30 months for RMIT to gear up? I am just trying to get, from the committee's point of view—

Mr BRUMBY—No, I think RMIT's view was that they would be much quicker than that and they were delayed for a few reasons. Some of you will remember they had some issues back then with some of their property holdings. They ran some deficits at the time and they had to restructure their capital program. Again, it is not any fault of the government's. We have done the right thing. They made an application, we approved it, it was strongly supported by local members of parliament in that area: a big thing for Hamilton, positive thing for Hamilton. We approved it. The other extension of what you are saying is you would have us approve all projects for a three- or four-year term of government all in the first 12 months or 18 months. I am not sure that is good public policy either because I think people a year or two years down the road should have an opportunity to bid for funding.

Mr BAXTER—I am not suggesting for one moment I would do it like you are suggesting I might. I am just trying to get greater accuracy in the forecasting.

Mr FORWOOD—Minister, if you have approved \$320 million today—

Mr BRUMBY—It is \$318 million, around that.

Mr FORWOOD—Whatever—can you tell us how much has actually been paid out?

Mr BRUMBY—I do not have that number. I can get that number for you. It is a lesser amount than that. The projects announced to date, \$318 million. The cash expenditure is \$174.6 million.

The CHAIR—Thank you. Mr Somyurek.

Mr SOMYUREK—Minister, if I can pursue the theme of accuracy of forecasting, I refer you to Budget Paper No. 3, page 146, table 3.4, output summary. There we have developing innovative industries, a budgeted figure for 2005-06 of \$145.5 million and we have a revised figure of \$222.1 million. That is a significant disparity of \$76.5 million or \$39.5 million. I notice that there is a note item there to life sciences statement initiatives. Can you please delineate to the committee what exactly is this life sciences statement?

Mr BRUMBY—Thank you for the question. Again, it highlights why sometimes numbers in budgets do move around. That is what we expected to spend but the revised number is significantly higher. That is because we announced a life sciences statement, called Healthy Futures, which had \$230 million of initiatives, of which \$60 million to \$70 million were spends in the 2005-06 financial year.

Healthy Futures was about the Walter and Eliza Hall Institute, the new Centre for Neuroscience, based in Parkville precinct, the new Australian Centre for Regenerative Medicine and the amalgamation of the Austin and the Burnett—I have copies of that here—plus up to \$30 million for regional medical student places and support for the Victorian Cancer Agency and Australian Cancer Grid. Healthy Futures was exceptionally well received by the medical research and life science and university groups. As I say, the funding that we committed has now been matched in a number of instances by the federal government, which we are very pleased about, and it means that we are leading the world in a number of areas. WEHI is now the region's largest medical research institute, so it is a very substantial institute.

The Australian Centre for Neuroscience, which brings together four facilities, will be one of the world's largest single neuroscience facilities. The Austin and Burnett will be the largest infectious diseases institute in Australia, and the Australian Regenerative Medicine Institute will be the world's largest core stem cell

research institute. These are spectacular commitments and spectacular achievements for our state. They do cost money—\$230 million. As I said earlier in my introduction, if you take into account federal government funding plus third party funding, philanthropic funding and private funding, you get about \$750 million of activity.

The CHAIR—Thank you. Mr Forwood.

Mr FORWOOD—Minister, I am sorry I was late. I was doing my budget speech.

Mr BRUMBY—I am sure that it will make illuminating reading.

Mr FORWOOD—I doubt it. Tell me, if you can, where you are up to with your discussions with Alcoa. If Alcoa did decide to proceed with the additional potline at Portland, which output group would you be using to provide whatever facilitation funds might be required?

The CHAIR—In relation to the second part of the question, the hypotheticals are not in order, but the minister can speak in relation to matters in the first part of the question.

Mr FORWOOD—I think that we would be interested to know which output group the funds were going to come from.

The CHAIR—If the minister wishes to, he can, but it is entirely up to the minister.

Mr FORWOOD—There is only \$27 million in investment facilitation and attraction and that will not buy much of Alcoa.

Mr BRUMBY—Let me go to that generally. I am happy to look at the second part of the honourable member's question. The Alcoa site at Portland when it was built was originally designed to allow for the building of a third, or even potentially a fourth, potline which, if constructed, would double the size of the existing operation. A third potline alone would have the potential to produce around 225,000 tonnes per year of aluminium, generate well over \$1 billion of new investment, and something like 1,500 jobs would flow from a 36-month construction period, with some hundreds of ongoing jobs and an export increase of around half a billion dollars a year. We have been in discussions with Alcoa over the last two years. As you are aware from what has been said publicly, there is a subcommittee of cabinet which I chair in the absence of the Premier. There is also a team of advisers within government that is advising government and, essentially, we are talking to Alcoa to see if the right conditions can be created for them to make such an investment in Victoria.

They are a global company. They look around the world for the best sites, where they can obtain energy at very low prices. People say that aluminium is really molten electricity, so the supply of secure electricity at very competitive world prices is really the key to them. In turn, they have been talking to the energy industry for some time. They have been talking to coal producers and gas producers. With Alcoa, we have been looking at a range of other issues which include things like greenhouse considerations and, not unimportantly, the world price for aluminium, which is probably the single most important thing from Alcoa's point of view. Alcoa has also been talking to the federal government about issues such as greenhouse and what attitude the federal government would take to potential carbon prices in the future. Those discussions between Alcoa and the federal government are confidential. I have been briefed on those, of course, but they are commercial-in-confidence, and they will continue to talk to the federal government about some of those issues.

Discussions are proceeding well, but at the end of the day what will drive this investment is the right business case, and that means getting the right combination of particularly power—power availability, power prices—with the right greenhouse emissions that make it attractive for Alcoa to commit to an investment. In the 2006 budget we have put aside \$2.2 million for the project team. There are a number of advisers to government on this. They include KPMG who are looking at regulatory, commercial and financial issues, Allens Arthur Robinson who are looking at legal issues, CRU Strategies who are looking at aluminium sector specialist issues, Access Economics who are looking at the economic impact, McLennan Magasanik who are looking at

the energy price and energy issues, and Acumen Alliance who are looking at any related probity issues. As I said, I chair the subcommittee of cabinet in the absence of the Premier. Members include the Minister for Environment and Water, the Minister for Energy Industries and Resources, and also the Premier, and that is supported by an IDC.

The output would be the regional economic and community development out put, so any decision that is made in the future will go in that column.

Mr FORWOOD—Thanks.

The CHAIR—Thank you. Ms Green.

Ms GREEN—Thank you, Chair. Minister I refer you to Budget Paper No. 3 and page 155, and the performance measure which refers to 'towns with works commenced to enable connections under the natural gas extension program'. My question is, how many towns are to be connected to natural gas? Secondly, can you outline when it is expected that these towns will be connected? Thirdly, can you outline the economic benefits to these towns? I think you know that I have a close relationship with one of them.

Mr BRUMBY—I think you do, don't you, in Hurstbridge? Is that right?

Ms GREEN—Yes. That is the one.

Mr BRUMBY—This is a program that we promised at the 2002 election and we said we would make \$70 million available under the natural gas program. In our first budget after the election we provided that \$70 million in future RIDF funding. We have allocated all of the \$70 million. It has been allocated to 34 towns. Customers are now connected to natural gas in a number of locations, including Bairnsdale, Yarra Glen, Woori Yallock, Wandin, Creswick and the new areas of Koroit. In the Yarra Ranges, Multinet already has gas flowing to a number of places including, as I said, Yarra Glen, Wandin, Seville, and has commenced reticulation in Woori Yallock. We now have in excess of 1,000 customers using natural gas and, if you look at those connections, there have been some great success stories, particularly in the food and health areas. I know that in Bairnsdale one of the first connections was Patties Foods, and it has cut their business costs by around \$500,000 a year; also Bairnsdale Hospital and Fennings Timber are using natural gas. Those three Gippsland customers are saving about \$1 million per annum.

Paynesville is also being connected at the moment. The St Andrews Beach, Somers and Balnarring supply mains on the Mornington Peninsula are now also completed, and SP AusNet is also progressing rapidly with construction in Creswick, the Macedon Ranges and Port Fairy. To date, we have seen more than 300 kilometres of pipeline laid and, by the time the work is complete, there will be more than 950 kilometres. The difference between using bottle gas and natural gas, as your own constituents will have told you, is a saving to households of \$600 to \$1,200 a year. It is a huge savings for them and there are not too many other ways you can put \$600 to \$1,200 after tax into a family's household each year. So particularly for lower income households, this is an enormous economic boost to people who have been connected. That program is going well, is on schedule, and consistent with what we promised in 2002.

Ms GREEN—Thank you.

The CHAIR—Thank you. There is a follow-up from Mr Clark.

Mr CLARK—Yes. You will recall that in November 2002 you made a series of announcements promising natural gas to various towns around Victoria including, according to my list, Avoca, Bright, Beechworth, Myrtleford, Alexandra, Bonnie Doon, Smythesdale and Yea. In each of them you made the announcement in a similar form—for example:

I am confident Labor can deliver for the Bright, Myrtleford and Beechworth communities if we win the election.

In respect of the towns that I have named, does the government still intend to honour its promise to provide natural gas to those towns?

Mr BRUMBY—I think you will find, if you read all the press releases, that what the government said and what generally I said in a number of cases was that, 'Such-and-such a town would be a strong contender under the government's natural gas program,' which is an absolutely accurate and fair comment to make. When you actually go through the project proposals, we allocated \$70 million. In a number of cases, including some that you have mentioned, Robert, in your statement there, we did not even get a bid. We did not get a proposal from a community and, in the vast majority of the other cases, there was no gas company which was even prepared to bid.

Mr CLARK—Yes, but your promise was not conditional on any of that. It was, 'I am confident Labor can deliver.'

We will work with the local community and the relevant gas distributor to ensure Bright, Myrtleford and Beechworth are among the towns to benefit.

Mr BRUMBY—Yes. We provided \$70 million.

Mr CLARK—And they have not benefited.

Mr BRUMBY—Well, hang on. We went out to tender. We invited tenders and, in many of those cases that you have mentioned, we not only did not get a local proponent—for example, a council—but we did not get a company that had any interest at any price in providing gas. You know the history of the gas industry in Victoria. We do not own the gas industry; it is privately owned companies. If there is no company anywhere in the state interested in providing gas, we are hardly going to step in and do it.

Mr CLARK—Your promises were not conditional on that.

Mr BRUMBY—We are hardly likely to buy back the gas industry and do it for them. I do not know if that is what you are suggesting. There was no bid.

Mr CLARK—You have made a promise and you have not delivered.

The CHAIR—Mr Clark, you have got the next question.

Mr CLARK—Thank you, Chair. Can I refer you to the announcement that you made in November 2005 of \$31.5 million of funding for the entrance to the Gippsland ports. Can you tell the committee what progress is being made with that.

Mr BRUMBY—Gippsland Lakes.

Mr CLARK—Yes, the Gippsland Lakes, and to secure accessibility to the ports. Can you tell the committee whether you are confident that that funding and that project is going to ensure the long-term viability and use of the entrance?

Mr BRUMBY—I am happy to get you further advice on that. We made that commitment, as I recall, in the Moving Forward statement. It is a very substantial commitment to improving what is a longstanding problem to the entrance to the Gippsland Lakes. If you are familiar with that, you will know that there is a dredge there which is called the *April Hamer*. It is not equipped to do the job which is necessary to keep the port open and, on the basis of advice from the Gippsland Port Authority, as I recall, and from DSE, we made available funding which will enable that entrance to remain open, navigable and safer. In terms of the process, I am happy to give you further information and details on the time frames and process for that.

The CHAIR—Minister, we have time for two more questions on these portfolios. I refer you to Budget Paper No. 3, page 154, on regional development, where reference is made to 'more quality jobs in thriving, innovative industries across Victoria'. Would that include promoting investments in the biofuel production area?

Mr BRUMBY—It does. Regarding biofuels and ethanol, these are significant growth opportunities for Victoria in the years ahead. I say that for two reasons: firstly, I think we are all concerned about the environment and wanting to produce a better environment, and particularly about the amount of greenhouse that is generated by the transport industry. Biofuels and ethanol do offer the prospect of some reduction in overall emissions, so there is an environmental benefit. Sometimes that benefit is overstated. Nevertheless, there is an environmental benefit from using biodiesel and ethanol in contrast to traditional fossil fuels. Secondly, though, there are significant regional development opportunities from developing a local energy generating and fuel generating business.

I was in the United States last year in November, specifically looking at some of the energy initiatives there, and in the US they have a very large alternative fuels and renewable fuels industry, particularly based around ethanol. It produces some environmental benefits but it also reduces the balance of payments deficit and provides a thriving regional industry, particularly in the mid-west states. I think there are huge opportunities to get better energy outcomes, better environmental outcomes, and create new industries off the back of these alternative fuels. In Victoria, we already have a number of successes. In Barnawartha we worked closely there with biodiesel producers to facilitate that investment. That plant is currently being constructed—I visited there about nine months ago—and is expected to be operating by early 2007. That is using a number of source fuels, including a lot of animal waste, animal product and animal fats. That is 60 megalitres.

Secondly, we have recently given planning approval to Australian Ethanol in Swan Hill, which is a 100-megalitre proposal. That is a large investment which will involve not just the production of ethanol but also, through the use of recycled water, some plantation opportunities associated with that in the Swan Hill area. As I said, planning approval has been granted and fundraising is under way by that consortium. Most recently, the Axiom Energy project was announced in May 2006, and that is a biodiesel facility in Geelong of 150 megalitres. I want to put those three in perspective, because if you have been doing your arithmetic, 310 megalitres, the target which was set by the federal government for biofuel production by 2010 was only 350 megalitres for the whole of Australia. These three plants alone in Victoria will account for 310 megalitres.

In Moving Forward last year, \$100,000 was put aside to develop a road map for the alternative fuels industry. That work is virtually complete and I will be releasing that in the near future. I believe that there are great opportunities here, as I said, of better energy outcomes, better environmental outcomes, a smaller balance of payments deficit, and also great prospects for regional development and new industries. It is an interesting area for us.

The CHAIR—Thank you. Mr Rich-Phillips, the last question.

Mr RICH-PHILLIPS—Thank you, Chair. Minister, I would like to ask you about output funding for the facilitation and the export promotion groups on pages 147 and 148. Your departmental response to the committee indicated that the reason for the increase this year was due to carryover of initiatives from last year for both of those groups. Can you explain, please, what initiatives have been carried over and what is the amount of that carryover.

Mr BRUMBY—Is this in relation to exports or investment facilitation?

Mr RICH-PHILLIPS—Both.

Mr BRUMBY—For investment facilitation and attraction, I understand the increase in 2006-07 reflects some carryover from 2005-06, and the carryover was \$3.7 million according to the notes I have here. There is sometimes a carryover because, by their nature, some of these expenditures are lumpy. By way of example, an investment component might be the Ford Motor Co. They may, for various reasons, wish to announce in the 2005-06 financial year instead of the 2006-07 financial year. The federal government may wish them to announce a project at a particular time as well, and a month or two will obviously make a difference from one financial year to the next, particularly when it is around this period. So you do get some variation, which I think is modest in an overall allocation of around \$23 million or \$24 million.

Mr RICH-PHILLIPS—Is that carryover tied to specific initiatives? Are you able to track it?

Ms THORN—I am sorry, I do not have the detail with me. It would be related to some particular projects being done within the department around international investment attraction and it may be to do with the setting up of the two new offices in Shanghai and Bangalore I will need to get back to you on that to be more specific.

Mr RICH-PHILLIPS—Can you take that on notice.

Mr BRUMBY—We are happy to take that on notice.

Mr RICH-PHILLIPS—Likewise with the export group.

Mr BRUMBY—Again, that is carried forward. Some of that is because we rely on other partners overseas for joint export promotions, and sometimes it is related to tourism as well.

Ms THORN—Export initiatives also require people to apply for assistance. Much of the export program is grants to new or expanding exporters, and it depends on the level of grants being sought and the timing and the year when the grants were applied. It will be carried forward with that, but again we can get back to you.

Mr RICH-PHILLIPS—Thank you.

The CHAIR—Thank you very much. We will take a 10-minute break and then resume on Treasury.

Witnesses withdrew.

Committee adjourned.