

## **CHAPTER 6: DEPARTMENT OF INNOVATION, INDUSTRY AND REGIONAL DEVELOPMENT**

### **Transcript of Evidence**

#### **6.9 Industrial Relations portfolio**

*The transcript for the hearing on this portfolio will be included in a future report of the Committee.*

## **Transcript of Evidence**

### **6.10 Industry and State Development portfolio**

*Please note the Industry and State Development transcript and the Small Business transcript are combined into one transcript.*

# VERIFIED TRANSCRIPT

## PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

### Inquiry into budget estimates 2007–08

Melbourne — 4 May 2007

#### Members

Mr G. Barber	Mr G. Rich-Phillips
Mr R. Dalla-Riva	Mr R. Scott
Ms J. Graley	Mr B. Stensholt
Ms J. Munt	Dr W. Sykes
Mr M. Pakula	Mr K. Wells

Chair: Mr B. Stensholt  
Deputy Chair: Mr K. Wells

#### Staff

Business Support Officer: Ms J. Nathan

#### Witnesses

Mr T. Theophanous, Minister for Small Business and Minister for Industry and State Development,  
Mr W. Hodgson, Secretary,  
Mr I. Munro, deputy secretary, business support,  
Mr B. Foskett, chief executive officer, Invest Victoria,  
Mr L. Bruce, acting deputy secretary, business development, and  
Mr D. Hanna, deputy secretary, economic policy and planning, and chief executive officer,  
Innovation Economy Advisory Board, Department of Innovation, Industry and Regional  
Development.

**The CHAIR** — I declare open the Public Accounts and Estimates Committee hearings for the 2007–08 budget estimates for the portfolios of small business, industry and state development, and major projects. On behalf of committee members I welcome the Honourable Theo Theophanous, Minister for Small Business, Minister for Industry and State Development and Minister for Major Projects; Mr Warren Hodgson, Secretary of the Department of Innovation, Industry and Regional Development; Mr Ian Munro, deputy secretary, business support; Mr Ben Foskett, chief executive officer, Invest Victoria; Mr Lachlan Bruce, acting deputy secretary, business development; departmental officers, members of the public and the media.

All evidence taken by this committee is taken under the provisions of the Parliamentary Committees Act and protected from judicial review. There is no need for evidence to be sworn; however, any comments made outside the precincts of the hearing are not protected by parliamentary privilege. All evidence given today is being recorded, and witnesses will be provided with proof versions of the transcript by email for their verification. The committee requests that verifications be returned within two working days of receiving the proof. Transcripts and PowerPoint presentations will then be placed on the committee's website.

Following a presentation by the minister committee members will ask questions related to the budget estimates. Generally the procedure followed will be that relating to questions in the Legislative Assembly.

In accordance with the guidelines for public hearings, I remind members of the public that they cannot participate in the committee's proceedings. Only officers of the PAEC secretariat are to approach the PAEC members. Departmental officers, as requested by the minister or his chief of staff, can approach the table during the hearing. Members of the media are also requested to observe the guidelines for filming or recording proceedings in the Legislative Council committee room. I ask that all mobile telephones be turned off.

I now call on the minister to give a presentation of around 10 minutes on the more complex financial and performance information that relates to the budget estimates for small business as well as for the Industry and State Development portfolio. Thank you, Minister.

**Mr THEOPHANOUS** — Thank you, Chair. It is a pleasure for me to be here before the Public Accounts and Estimates Committee, as a former chair of a similar committee. I do not think it was called public accounts then — I think it was called economic and something development — but I am very pleased to be here.

#### **Overheads shown.**

**Mr THEOPHANOUS** — I want to try to take the committee through what we are doing in the portfolio and the rationale behind the portfolio as well. The first thing to say is that there have been some significant changes to DIIRD following the 2006 election. We have now moved responsibility for skills, the ICT sector, film and TV and major events to be part of the DIIRD portfolio. I think members would be able to understand the rationale for that, in particular the skills element. We are very mindful of matching skills to what is required in industry.

There are some new ministerial portfolio line-ups as well. The Premier changed the old manufacturing and export and financial services portfolio to call it the Industry and State Development portfolio, of which I am the minister, and it also has separate areas for skills and ICT. Of course there are continuing functions, which include innovation, regional and rural development, tourism, and industrial relations as well.

What does it mean? DIIRD I think clearly has responsibility for the entire broad economic portfolio, which includes skills, investment attraction and facilitation, export facilitation and support, regional development, small business, innovation, manufacturing services industries, ICT, international promotion, and industrial relations. So you can see it is a very broad group of responsibilities.

This will facilitate more effective integration of the various arms of the economic development agenda — for example, skills, with manufacturing and investment attraction. It is important to understand that creation of the Industry and State Development portfolio reflects the growing integration of the economy and the focus that the government is bringing to this. Manufacturing services, financial services and infrastructure, included through my other portfolio of Major Projects, are increasingly interlinked as pillars of the economy and in driving our economy forward. The Premier was I think very deliberate in deciding on the portfolios that he gave to me.

Moving on to the next overhead dealing with the priorities in the Industry and State Development portfolio, we want to continue the strong performance in investment attraction and facilitation. We need to grow our exports, we

need to deliver the Victorian manufacturing statement — which I am hoping to do later in the year — implement the defence industry road map, and, of course, build on our international connections. I will speak more broadly, perhaps in answer to questions, Chair, about some of these priorities and why there are these new challenges for this portfolio in working in an increasingly globalised economy and also where there are some significant new challenges, such as global warming, that we have to deal with as well.

In the small business portfolio, a very large part of our businesses are in fact small businesses — 96 per cent are small businesses. We want to be able to provide world-class service, we need to reduce the regulatory burden, and, of course, skills is emerging as a major issue for small business and we have taken some initiatives in that regard.

In terms of achievements, we have achieved strong business investment. Business in Victoria continues to be strong, reflecting the strength of the economy. Business investment remained at near-record levels in 2006 and in 2006–07 business investment will be almost double the level in 2000–01, as the graph shows.

The next overhead shows strong export outcomes. As you can see, total exports in 2006–07 reached 29.1 billion, and annual growth for 2006–07 is in double figures as well.

In relation to this one, ‘Achievements 2006–07’, under ‘strong employment growth’ and 68 900 people over the past year, that is a lot of new jobs. We have historically very low unemployment levels of 4.9 per cent and solid population growth, up 1.4 per cent above Australia as a whole, so we are attracting a very large number of people coming here but we are also providing jobs for them.

‘Investment attraction and facilitation’, as you can see there, is another strongly performing area. Two billion of investment is expected to be facilitated in 06–07, which exceeds the target which we set of 1.6 billion, so we are ahead of that target. And 5000 jobs are estimated to be associated with these investments.

Under ‘New initiatives’, for industry and state development there is 9.9 million for *Opening Doors to Export*. You can see they are listed there, and I am happy to answer questions on them. In the small business area we will be investing 9.3 million, as the budget papers show, in order for the small business commissioner to continue his work. I will be happy to talk about the small business commissioner later.

As you can see from ‘New initiatives’, new initiatives are important to the DIIRD portfolio, but they are not the whole story. As I think I have indicated with the previous slides, DIIRD has a very broad set of objectives, and it achieves them on an ongoing basis. I have to say, Chair, even though we sometimes say the no 1 priority is in education for this government, and it certainly is, we also know that in order to achieve that no. 1 priority we need to have a strong, robust economy, and that is what I see as my job and the job of DIIRD to achieve. I think they have been very successful in that over the last few years. I think that is it.

**The CHAIR** — Thank you very much, Minister. I think we have about an hour and 20 minutes for questions. I would like to follow on from where you left off and ask you to tell us a bit more about this \$9.3 million for the small business commissioner. As a strong supporter of small business, I want to know how is that going in terms of business approaching the small business commissioner and what is this \$9.3 million for?

**Mr THEOPHANOUS** — Thank you for the question, Chair. As I said in my introduction, small business is an important driver of the economy. Ninety six per cent of our businesses are in fact small businesses. I think there are in excess of 300 000 businesses in total, so we are talking about a lot of people and a lot of employment in the small business sector, but one of the things that happens in small businesses, of course, is that there are disputes, and sometimes those disputes are retail tenancy disputes, sometimes they are disputes on other issues.

In May 2003 the Bracks government established the Office of the Victorian Small Business Commissioner, which was at that time the first of its kind in Australia. The key functions of the office are therefore: dispute resolution, investigations, monitoring government practices, and information and education. Under the Retail Leases Act 2003 and the Small Business Commissioner Act, the VSBC (Victorian Small Business Commissioner) also has the power to mediate small business complaints. Since December 2006 it has had the power under the Owner Drivers and Forestry Contractors Act to mediate disputes between hirers and contractors as well. So it has a significant ambit of responsibility. Since its inception it has dealt with 3100 matters which have been referred to it.

It has resolved disputes valued at approximately \$130 million, and it does so at relatively low cost. Bear in mind that for each party the cost is \$95 to have a dispute mediated. The VSBC has maintained a success rate of

approximately 80 per cent as part of its record. There was no ongoing funding in the budget for the commissioner, so one of my first tasks was to identify how important it was. I had in fact received the KPMG report and examined that report. I looked at what the role of the commissioner was and so forth, and the outcome is that we are continuing to fund the commissioner in the future. It is a very important part of providing a service to small business.

**Mr WELLS** — Minister, I would like to talk to you about water restrictions and their impact on industry. As you are aware, the water storages have fallen below 30 per cent. Can the minister explain to the committee what industry-specific water savings and management plans he has in place to minimise the impact of the drought on individual industry groups, and will he provide the committee with a list of industry-specific plans to be put in place and copies of those plans?

**Mr THEOPHANOUS** — Thank you, Mr Wells. Of course water is an important issue and it is an important issue for all of us, and certainly in my portfolio the issues are important because of the effect on industry — and really on all industry because we have some very substantial users of water in the industry sector — sitting alongside the residential demand. However, it should be put into some perspective. Melbourne's demand for water accounts for only 10 per cent of Victoria's total demand for water, and Melbourne's non-residential demand makes up only 2.8 per cent of the state's total water demand. So it needs to be put into that kind of context.

We have put in place a number of programs to help industry to reduce water use. These include the Water for Industry program, a \$10 million program; the Industrial, Commercial and Institutional Fund, a \$1 million program; the Stormwater and Urban Water Conservation Fund, which is \$10 million; Enhancing Sustainability in New Investment, \$1 million; the Smart Water Fund, \$5 million. All of these have been put in place.

The Water (Governance) Bill of 2006 requires water authorities to note their top 200 water users in their annual reports from 2006–07 so the community will know which particular users within industry are using water the most. At least they will know the top 200. But bear in mind, again, the top 200 are significant users, but they account for 0.8 per cent of statewide demand, so it needs to be put into that perspective.

I think that we have also gone to work with these top 200 to develop industry plans. In fact 180 of the top 200 water users have completed water management plans, with the remainder due for completion by 30 June this year, as part of the Pathways to Sustainability program. Pathways to Sustainability will be extended beyond the top 200 to include an additional 1300 water users, saving another 13 gigalitres by 2015.

So as you can see, Mr Wells, we have been very active in this area in seeking to reduce the amount of water, identifying who the top 200 are and ensuring that they all have water plans. Now we are moving to extending those water plans to a further 1300 water users in order to ensure that industry does its bit to reduce the amount of water that is being consumed.

**Mr WELLS** — Can I just clarify a point? You have identified the 200; then they have to provide a water plan to you?

**Mr THEOPHANOUS** — Sorry?

**Mr WELLS** — Is that my understanding of it? You have identified the 200 largest water users. Then is it their role to provide a water plan to you, as minister, as an industry plan? I am just getting clarification on that point.

**Mr THEOPHANOUS** — I think they provide that plan to the actual water suppliers, as I am informed.

**Mr HANNA** — It is certainly not to the minister here. If it is to a minister, it will be to the minister for water. I will have to check that.

**The CHAIR** — You will find on page 332 in budget paper 3 an explanation of that particular program, the Top 1500 Industry Program.

**Mr THEOPHANOUS** — What I can tell the committee is that they are not reported to me as minister or to him.

**Mr WELLS** — So the industry plan is from the minister for water?

**Mr THEOPHANOUS** — The minister for water has responsibility for that plan. My department works with the top 200 to ensure that they meet their obligations under the plan, as we work with all industries to ensure that they meet a whole range of obligations, including ones that are related to trying to reduce electricity consumption and all sorts of other obligations that we try to encourage industry to meet.

**Mr PAKULA** — Minister, in budget paper 3 on page 139 there is a whole range of small business supports. The government spends a significant amount on programs and services for small business. I am wondering how we know that the needs of small business are actually being met and that the services represent value for money.

**Mr THEOPHANOUS** — Thank you, Mr Pakula. Of course, this is an important aspect of what we do, because there is not much point in having a series of programs and spending a significant amount of money on these programs if you then have no idea about how successful the programs are. So it is important for us to identify, as far as we can, the extent to which they represent value for money for the government.

The way in which we do this is through a number of sources, but a very important way is through client satisfaction surveys. These surveys have indicated that the Victorian government small business programs are very well regarded. Of the 3973 participants at 317 workshops and seminars on Under New Management, which was one of the programs, 90 per cent rated the workshops and seminars as either excellent or good. Another program, Women's Access to Finance, held 63 seminars involving more than 739 participants — again, more than 90 per cent rated the seminars as either excellent or good. In relation to the small business mentoring and counselling program the satisfaction rating was 74 per cent, and overall with Grow Your Business, which was another program, 91 per cent rated that saying they were very or quite satisfied.

There are a number of others. I might just mention the Energise Enterprise 06, which was very good — 95 per cent reported that the event they attended was good or very good. As you can see, we not only try to help people with these programs, we also, in doing that, survey their satisfaction levels so that we can assure ourselves that what we are actually doing is thought by our customers to be value for money and useful to them.

**Dr SYKES** — I am interested for you to perhaps expand on opportunities you see in relation to reducing the regulatory burden on small business. I put it in the context that as I sit in the Parliament many, if not most, pieces of legislation that pass through the house have an impact on small business in country Victoria. For example, the working-with-children legislation had an impact on newsagents that historically employed young children to be paperboys and papergirls. In essence, following the letter of the law with newsagencies, it was very difficult for young boys and girls to continue to be paperboys and papergirls and therefore they lost that opportunity to earn pocket money and to learn a work ethic.

Similarly, the penalty rates that have been introduced for working on Sundays have resulted in businesses initially upping the price of their product on a Sunday — for example, Bouwmeester's Bakery at Benalla upped the price of their cappuccino by a dollar. They found there was market resistance, so their solution was to put off the salaried employees and work harder themselves in an attempt to keep going.

Another one is the issue of the working-with-children legislation whereby a volunteer is required to have a police check, and that is undertaken at the cost of the taxpayer, not the individual. But if that same volunteer with a police check clearance wants to work with children in an employed situation, they have to go and have another police check for which they have to pay — I think it is \$70. So those are three examples where I have seen a negative impact. Can you flesh out where you can see opportunities to reduce the impact of regulatory burden, perhaps looking at those three in particular?

**Mr THEOPHANOUS** — Thank you, Dr Sykes. Perhaps in answering your question I should say that a big part of your question related to industrial relations, and I am not the Minister for Industrial Relations, so I am not sure that I am the right person to ask that particular question of. But there is a system of awards. There are community standards in relation to when and how old children need to be in relation to protecting children at work, and those community standards you are aware of. But I am not the responsible minister in relation to those in any case.

What I can tell you in relation to the broader question you put to me, which was about reducing the regulatory burden on small business, is I think the important thing to say here is that we actually have a target for this; the government has a target. It is a three-pronged approach to reducing the burden through a commitment to cut the existing administrative burden of regulation by 15 per cent over three years and 25 per cent over the next five years. We also have a self-imposed initiative for all ministers such that where there is a new regulation to be enacted a compensating one must be removed. So in that sense we have capped the number that can go forward, and then put a target on ourselves in relation to reducing the amount of regulation that small business might face. We are also continuing to promote non-legislative initiatives to reduce the regulatory burden by trying to make it easier for businesses to navigate their way through information on a range of regulations that are administered by the agencies.

Some initiatives include services such as the Victorian Business Line, Victorian business centres, the Business Victoria website and the world-class service initiative, which provide a kind of integrated service to businesses seeking advice and information on regulatory requirements across all levels of government. So businesses can access those services and can find out what they need to do in terms of regulatory requirements right across government. There is a new small business regulatory impact assessment manual, which is a new manual to assist regulators in calculating the cost to business of new regulatory proposals — that is a recent initiative that we brought out — and a new business consultation database as well, which is due to commence in May 2007. Both of these initiatives I launched.

They will allow businesses to have direct input into the regulatory process as we develop new regulations. There will be a database which must be consulted called the business consultation database. There is an interstate business transfer service currently under development which will also reduce the regulatory burden on business seeking to relocate to Victoria or open a Victorian branch. This is something for which we are also undertaking a program of reviews to identify the necessary actions to reduce compliance burdens combined with incentive payments similar to those under national competition policy.

Reducing red tape is one of our major priorities for small business. I suppose with small business, and to some extent with business generally, when you speak to business they talk to you about regulatory burden, they talk to you about inputs. These are the things that they want governments to address. I am sure I will be asked questions later about inputs, but we are certainly in the business of reducing the costs to business, and I think they have been significantly reduced over time.

I will not respond to that in answer to your question, but the second part of that is reducing this regulatory burden. It is something we need to be vigilant on, and I believe the government has gone a long way and has a very significant program going forward to reduce that regulatory burden.

**Mr SCOTT** — Minister, in a table located on page 139 of budget paper 3 a reference is made to ‘World Class Service initiative’. Could you please advise the committee what progress has been made with this initiative?

**Mr THEOPHANOUS** — Thank you, Mr Scott. As I said just before, regulation and its associated compliance burden continue to be a concern for small businesses given that they often time poor and have limited resources to be able to address the regulatory burden.

The Victorian small business master key, the VBMK — it is not all that catchy, but it is a good initiative — was announced in Victoria *Leading the Way* in April 2004. We provided \$6 million over three years to that program. The second phase of the VBMK was announced in the new program announced for small business in *Time to Thrive*, the small business statement, in August 2006 under the title ‘World Class Service’. This committed an additional \$18 million through to 2010.

There is a significant amount of money being invested in this Victorian business master key program, and the services developed by that service make it easier for businesses to deal with government through integrated and customer-centric service delivery, both online and over the phone. It is a key element of the government’s commitment to reducing regulatory burden on business. The first release of services occurred in December 2005. These services allow businesses to find and manage government information and conduct their licensing and registration transactions.

Businesses can search all government websites in one go as a result, access step-by-step online learning guides, find the right contact, ask questions across a wide range of government matters, and use the first stage of an



integrated online account to manage their business licences, permits and registrations. For those who do not know it, it can be accessed through [www.business.vic.gov.au](http://www.business.vic.gov.au).

**The CHAIR** — It's good we are on the internet.

**Mr BARBER** — Tiger Airways — your very successful coup there — can you detail for us — —

**Mr THEOPHANOUS** — A coup?

**Mr BARBER** — I know you are proud of it so you will want to talk about it. Can you detail what incentives you offered to get them to locate here — just to give you some prompts — under the headings of tax expenditures, subsidies or other kinds of spendings or any other kind of regulatory breaks?

**Mr THEOPHANOUS** — Thank you for your question, Mr Barber. As I indicated in the house yesterday, this is a very important investment for the state. It will create a significant number of jobs — we estimate about 1000 jobs.

It will generate, according to what the company has said, something in the order of 2 million additional airline trips in the first year of operation. That is a lot of people being able to access cheap fares. It will make Melbourne the cheap fare capital of Australia. It will mean that more than 60 per cent of airfares out of Melbourne will be what you might call at the cheaper end of the scale or the low-cost end of the scale. Melburnians and Victorians will be able to benefit from this by very substantially reduced airfares. As we have seen already, even the fact that Tiger is being mentioned has generated quite a significant amount of activity already and people are benefiting from it from their competitor announcing \$3 airfares — if you buy one, you get another one for \$3. This will be great news for the state.

The other thing I will add is if you think that the 2 million extra trips are actually going to be taking trips from existing carriers, you will be sadly mistaken, because what has been the case in other markets where this has occurred is that it has created additional flights. We expect the majority of the 2 million extra trips will not be taking flights away from existing carriers but will be adding new people wanting to go to places because it is cheaper now to travel right throughout Australia.

It has been shown that the Tiger model, where it was used in Asia but also in other parts of the world, has led to a stimulation of travel in all the markets that it has been in rather than simply just taking market share. I know that you want me to answer your question in relation to financial assistance that may or may not have been given — —

**Mr BARBER** — And other sorts of breaks. If you do not want to tell us the amount, tell us the types of assistance that the package consisted of.

**Mr THEOPHANOUS** — I know that there has been a bit of criticism in the newspapers but I think it is important for members of this committee in particular to clearly understand this. There is a reason why the government does not reveal the level of assistance packages. It has been a longstanding practice. It has been tested on a number of occasions, but let me explain what I think are the reasons. Firstly, facilitation packages are commercially sensitive for the recipient, not just the government. They demand commercial-in-confidence type arrangements with us. These arrangements, for them, are sensitive in relation to their competitors knowing what level of assistance may or may not have been given. There is an issue about that.

**Mr WELLS** — Minister, your views have changed from when you were in opposition, because I remember quite clearly that when you were in opposition when it came to commercial in confidence you never accepted it. What has been the change?

**Dr SYKES** — The Tiger changes its stripes!

**Mr THEOPHANOUS** — Whenever you want to talk about my views in opposition I think you would need to actually quote somewhere where I said something rather than use more generalised things like that. I think when I was in opposition I was certainly mindful that there are some commercial-in-confidence arrangements, as I think you have been over the years, Mr Wells. You know very well that not everything can be simply put out publicly.

And there are some other reasons for this. From the government's point of view the last thing we would want in a kind of cutthroat situation, in the highly contestable situations that we face in this department, is for all of our competitors to know how we think, to know how we structure packages, to know how we might talk to businesses that want to come and invest in this state, because it would be just like giving away the one competitive advantage that we might have.

What I can tell you is this: in putting the package together it was very clear to me that we were not on the top of the list in relation to Tiger Airways at the beginning of this process. We were not up the top; other states were in fact ahead of us. Not only that, I can also tell you that other states in the end were prepared to facilitate to a larger extent than Victoria was.

What got us over the line was being able to sell what we have to offer here in Victoria — and that part of it is the most important part, because no matter what you give as a facilitation package, if the business case does not work, if the infrastructure is not available to the business, if they do not actually start making money after a period of time, if the industrial relations climate is not in place — if all of these things are not there, I can tell you what happens: they come in for a little while and then they disappear. So when we did this, we were talking to this company for a long period of time.

I found it absurd, in the *Age* today, David Davis quoting me and saying we had pulled something out of the bag, that I knew we had to pull something out of the bag, suggesting somehow that we then finished up paying a lot more money or something of that nature. In fact, do you know what I was referring to? If he had been there when I mentioned this to the press, what I said was 'Yes, Victoria ultimately pulled something out of the bag'. What I pulled out of the bag was a Richmond Tigers footy jumper, and I gave it to Tiger and said, 'Come down to Melbourne, because not only do we have all these other things for you, we have also got a football team that has your name' — —

**Dr SYKES** — And they are losers!

**Mr BARBER** — Minister, if we got it for the price of a footy jumper, I would be thrilled. Can you go back to my question?

**Ms GRALEY** — He is a Bulldogs supporter, too.

**Mr THEOPHANOUS** — To completely twist what I had said in relation to a football jumper into somehow suggesting that the government — —

**Mr BARBER** — Fill the vacuum, Minister, and just explain to me if tax expenditures were involved, if subsidies of other types or regulatory breaks were involved. If you do not want to tell us the amount, at least tell us the categories under which it fell.

**Mr THEOPHANOUS** — I think, as the Premier has said, we did provide assistance for training for the company. We were very keen to make sure that they are able to train up their staff — the on-ground staff and the staff that will be used on the aircraft itself — so we have provided a bit of assistance to help them in skilling up the new workforce that they have got.

We have also provided some assistance in relation to what we call cooperative marketing. When we say 'cooperative marketing', remember that that cooperative marketing does not just market the Tiger brand but it markets Melbourne. It has to market Victoria and Melbourne, and in that sense it is kind of a joint approach. It benefits Victoria because it is targeted towards bringing people into Victoria. It might be funds that we might use anyway ordinarily in trying to market our state from a tourism point of view.

They are two of the elements that were in the package. I think, though, as I said before, the decisions that were made by Tiger were made on very good grounds. I can tell you, having been involved in this process, that the other states do not hold back any punches. To give you one example, the other states were trying to find reasons around industrial relations as to why they should not come into this state — because of the poor industrial relations situation.

We had to counter that — and we did. Not only did we counter it by showing how some of the statistics that might have been given to Tiger were not really reflective of what the state's position is, we actually managed to get Tiger

in touch with the major union that they would be involved with, to get some assurances from them about how they would operate in this state.

I venture to say that the fact that we have been prepared to go to the point of doing that kind of contact with this company in order to get this deal over the line shows you the extent and the depth of effort that it took. That is why when we launched it I was very pleased to thank everyone at DIIRD for the enormous amount of effort that it took to get this company here. We should be proud of this. This is going to result in cheap airfares, it is going to result in greater tourism into the state and it is going to be a win in terms of a huge number of Victorians being employed as well.

**Ms GRALEY** — You recently visited my electorate, and I know you know how important business is to my constituents and, of course, to all Victorians. I was wondering if I can refer you to page 139 of BP3, entitled ‘Small business support’. Could you indicate what progress has been made towards implementing the initiatives referred to in the table there?

**Mr THEOPHANOUS** — Thank you for the question. I am aware of the page you are referring to. Small business support, of course, is of significance to us. We have done this under the title ‘Time to Thrive’, which is subtitled ‘Supporting the changing face of small business’. It is a practical and far-reaching action plan to ensure Victoria continues to lead the way in supporting small business growth.

Time to Thrive has a number of different programs underneath that major title, but the package is a package of \$98 million. So if you think about this, this is a significant amount of money that is going to be expended in order to help small businesses to thrive in this state. It is targeted at reducing red tape. It is targeted at providing a fairer deal for small business, and it is targeted at skilling small business for growth.

I will just mention some of the programs that are under this \$98 million program. There is My Business, My People business skills for the future. I launched this program not long ago. It is a \$10.7 million initiative to help small business address what they tell us is one of their major issues — it is skilling their people and then keeping the skilled people within their organisation. It is a double problem for them. They first of all have to find them, they have to skill them up and then they have to keep them if they are going to remain competitive. What is becoming increasingly clear to those small businesses is that the fundamental aspect of their business that makes their business work is not what they are selling, it is not what they producing, it is actually their people. Once they understand that and how important their people’s commitment to the business and the skills of their people are to them being successful, they are able to go from smaller businesses to larger businesses. This program is \$10.7 million. It is accessible to all small businesses that want to try and access it and improve the skills of their workers.

More than 300 Under New Management seminars have been done throughout 2007. We have free health and safety consultants for small business, delivered through the Victorian WorkCover Authority. More than 600 small businesses have benefited from this service. This is where you get the Victorian WorkCover Authority to come in with a health and safety consultant and tell you how you can construct your business so that you do not finish up having a WorkCover claim. There is a small business procurement hotline providing advice and assistance on how to win government business as well. So there is a range of such businesses, but I might finish in answering your question with a quote from Tim Piper, the Victorian director of AIG, the Australian Industry Group. He said:

The Australian Industry Group is pleased the state government recognises the need to assist to small businesses to develop and welcomes Time to Thrive. Planning for and access to skilled workers for small manufacturers is vital for the development of the Victorian economy and the \$11 million provided to address this is welcomed by industry and especially manufacturers.

That is a pretty good endorsement.

**Mr RICH-PHILLIPS** — Minister, I would like to go back to the small business commissioner you mentioned earlier and the KPMG report. Can you run through the recommendations of that report that presumably you have picked up in getting ongoing funding. Has that report being released and, if not, will you make it available to the committee?

**Mr THEOPHANOUS** — The answer to your question is that the report has not been released, but in further answer to your question I do intend to release the report. As I think it is appropriate, I examined the report myself. I use the report to make decisions about the future of the small business commissioner. We have made those decisions now. We have decided to continue to fund the small business commissioner and for the office to

continue its operations. That report was generally favourable in relation to the operation of the small business commissioner, but it did have some recommendations that the small business commissioner needed to take up and use. We were happy to pass them on.

In a general sense the report indicated that the small business commissioner is 'very effective and reasonably efficient' — that was the final conclusion — 'in achieving their policy objectives'. It found that the key stakeholders see substantial value in what that small business commissioner does, particularly its role as a low-cost, successful mediation service for business and business-to-government disputes. It found that the commissioner's dispute resolution and mediation activities had been effective in allowing greater numbers of businesses to access this low-cost dispute process and it made 17 recommendations to improve effectiveness and efficiency of this sector. They have been considered by management and are being used to inform strategic and operational planning for the 2006–08 and beyond. So we were reasonably happy with this. I am happy to make it available to the committee as well as launch it publicly.

**Mr RICH-PHILLIPS** — Is it likely to be soon — the public launch?

**Mr THEOPHANOUS** — We have not set a date, but I will try and ensure it is done relatively quickly.

**Mr DALLA-RIVA** — Minister, I refer you to budget paper 3, page 138, on export promotion. In particular I draw reference to last year's PAEC hearing where it was referred to the then minister that there needed to be a substantial increase in the number of exports grown to meet the government's Opening Doors to Export strategy in 2004. In particular I refer to the report on the 2006 budget estimates, page 286, where it speaks specifically about those issues and the fact — you will not have this minister, but I will quote:

The committee noted that to achieve the target number of exporters (24 500 companies by 2010), there would have to be an increase of over 130 per cent between 2004-05 and 2009-10.

I draw your attention to the current budget paper I referred to earlier in respect of quality and that is the client satisfaction with export assistance offered. I note the target had been set at 90 per cent and in fact the expected outcome for the current financial year is 73.

Would that be an indication that the Office of International Business and Export, in fact the area of export promotion, has in fact been anything but, and could you explain how you are intending to reverse this decline in client satisfaction so that we can actually see an increase in export outputs?

**Mr THEOPHANOUS** — Thank you. What I might do is answer in a general sense, but I might pass on to Ian Munro to give a bit more detailed responses as well. In a more general sense, exports is one of the things we are very interested in focusing on now. In fact the review that we are doing on the VGBOs is partly in order to refocus our emphasis more on exports than what you might call investment facilitation. If you think about the Australian funds market there is a lot of money in Australia at the moment — a lot of funds ready to be invested. In fact we now have the fourth-largest amount of money under funds management in the world, at more than \$1 trillion under funds management, so there are plenty of funds in Australia that are available for investment in Australian businesses.

What we need to do, and what I am keen to focus on — and that is one of the reasons why the Premier decided to look at the VGBOs — is to put a greater amount of emphasis on our export facilitation and increasing our export drive. The reason we did this — I must say to you that in fact we have done a lot of this already. Sometimes you have heard me speak about the automotive industry where we have increased the amount of exports in a way that has virtually saved the industry, because if it was reliant only on the domestic market the automotive industry probably would have collapsed by now. It now exports 45 per cent, or thereabouts, of the cars that are produced outside of Australia. It is that which is holding, but if you go back a few years that figure was significantly lower than that. Manufactured exports have been increasing out of Victoria. It has been a very important part of us being able to have a strong economy. Can you add something further, Ian?

**Mr MUNRO** — I could, I think, specifically about the point you raised in terms of that client satisfaction, the 73 per cent. I have to say that we have scratched our heads as to where that came from. My answer would be that it is an early indication, a measurement that was taken early on, and that we would have confidence that it would get up to the 90 per cent. As you will note in the target for the next years — 2007, 2008 — we have changed

the system, four out of five, so that is why it becomes 80 instead of 90. I am not sure where that figure came from. We have had a look to see the basis of that, but we are confident that it will get up to the 90 per cent.

**The CHAIR** — When you do find out perhaps you could tell us.

**Mr MUNRO** — Certainly.

**The CHAIR** — Minister, I want to refer you to investment facilitation and attraction at page 137. We have had some discussion on this before, but looking at the various units of measures and expected outcomes et cetera, I know have we discussed Tiger, but can you tell us a bit more what you are expecting to achieve or what has been achieved under the various headings in a little bit more detail rather than simply Tiger?

**Mr THEOPHANOUS** — Yes, I certainly can. I am sure people on this committee understand — I am not sure perhaps some others who may not be as involved in the economic side of government, but I am sure people on this committee understand just how significant and important investment facilitation is and in some respects how sensitive it is too.

We are involved in trying to facilitate investment in a range of areas, and we do so by a number of different processes. There is an amount of money which is identified in the budget papers which is put in as our investment facilitation budget, if you like. But as well as that budget you will almost invariably find that when we report on the output in later years the output is significantly higher than the amount that we had budgeted for, and that is because obviously we use a Treasurer's Advance, quite often in order to facilitate investment — I guess of the Tiger variety. That is why the output always comes in as a lot higher than what was budgeted for. In fact I was asked the question again by David Davis, who seems to mix these things up. He asked me another question in Parliament in which he tried to suggest that we had reduced the amount, because he compared the output with the budgeted figure rather than comparing the actual numbers.

But in respect of your question — investment attraction. The amount that was attracted and facilitated by DIIRD — let me just put this to you because there is a small amount, a relatively small amount in the budget, but let me just put to you what we actually achieved. We achieved a record \$2.48 billion of investment resulting in the creation of an associated 6091 jobs. That was the total estimated amount of money that got invested into this state as a result of investment facilitation by DIIRD. Just imagine what the state would be like if we did not get that \$2.5 billion of additional investment arising out of this facilitation-type activity.

Let me just point out for regional Victoria how important this is. In regional Victoria we were well above the figures for 2004-05, with a record \$1.125 billion of investment attracted and facilitated in 2005-06, with an expected result of 1598 jobs. That is 1600 extra jobs in regional Victoria; and in regional towns, you know, 20 jobs makes a huge difference, sometimes 10. So we are talking about 1600 jobs being facilitated just by this program alone.

The majority of investment attracted and facilitated was concentrated in the following areas: in forest products, \$593.4 million; in the automotive sector, \$551.8 million; in food, 351.4 million; in tourism, 253 million; and retail services, 221 million. So in the IT and T — information technology and telecommunications — sector, investments in that sector, we generated the greatest amount of employment, with 1078 jobs expected to result from investments attracted and facilitated. The food industry gave us 935 jobs, the retail sector, 827, the automotive sector, 709, and on it went.

So if you think about these investments, they are very significant investments. Just to cite one of the investments we have facilitated, the Ford Motor Company investment of \$1.8 billion over 10 years to implement its new Falcon project and create a global design centre for SUVs and light commercial vehicles in Victoria. I do not think people really understand just how important these industries are to us, but if you were to go and visit the Ford centre in Broadmeadows, not the part where they actually make the cars but across the road where they have all their engineers and designers — I mean I was astonished when I went down there. I thought there would be maybe a hundred or a couple of hundred people at most that would be working down there on designs and engineering of cars.

It turns out it has expanded this and it has 1000 people working on this. Designers and engineers are producing designs and engineering for cars that are not even being made in Australia. This is the sort of future that we have to try and promote in our industries if we are going to keep ahead of the game and keep our people employed. I am

very proud of what we do in this sector of facilitation. I think it is something that should be supported across parties.

**The CHAIR** — Thank you very much, Minister. I have seen the one at Toyota, for example. It is similarly very good.

**Mr THEOPHANOUS** — Yes, Toyota is the other one

**Mr WELLS** — Victoria's annual share of national exports has slumped to a historic low of 12.1 per cent from 20 per cent in 1999. Since 2001 the value of Victoria's goods exports has fallen a further \$3 billion, or 13 per cent, to \$20 billion annually. This is very similar to what Richard Dalla-Riva was saying. Under trade development export promotion in the budget, the value of exports facilitated and imports replacement has also declined over recent years. I note that on page 138 of budget paper 3, the budget target for exports facilitated and imports replacement for 2007–08 is \$689 million. That is the same target for the expected outcome as what you had last year. So this is down from a high point of \$2121 million in 1998.

I also note, Minister, on page 8 of the *2007–08 Victorian Budget Overview* that total Victorian goods exports grew by 5.1 per cent, but given this can you explain why the outlook exports facilitated and imports replacement is not greater than the \$689 million target especially, as I said before, as that figure of 1998–99 was up as high as \$2121 million?

**Mr THEOPHANOUS** — Again I might talk to you first of all about our long-term target on exports. The government has set itself a long-term target to increase goods and service export revenue to \$30 billion and to double the number of exporters by 2010. We set that target in 2002. To help achieve these goals, the government committed \$11 million over three years in the Opening Doors to Export plan to introduce five new programs, expand overseas offices and fund major participation in the Aichi World Expo.

In the 2006 election we reinforced that commitment to exports by announcing funding of \$4.8 million, to continue this Opening Doors to Export program, and funding of \$4.8 million to establish the Victorian Export Network. Total exports in Victoria grew by 4.6 per cent, \$1.3 billion in 2005–06, to reach a total of \$29 billion. Goods exports were valued at more than \$18.9 billion and services exports at \$10.1 billion. If the current growth rate continues, the export target of \$35 billion by 2015, which is our new target, will in fact be achieved. But we are not taking anything for granted in this very competitive environment.

These figures jump around a bit, but, for example, goods export figures for the February quarter increased by 5.9 per cent compared to February 2006. These increases were driven by a boost in the export of aluminium, meat and pharmaceutical products. So it is a market which kind of moves around a bit. It included increases of 55 per cent of non-ferrous metals to \$581 million, and there was a 19 per cent increase in meat to \$362 million. Whilst the government has exceeded investment targets in the past, there is no certainty that this situation will continue. To account for the long lead times associated with some projects and the volatility of the investment attraction and facilitation market, the government maintains a rolling target over a four-year period for the amount of new investments facilitated and the number of jobs delivered for new investments facilitated.

In 2005–06 this four-year rolling target was \$6.4 billion in new investments facilitated, and an associated 20 000 new jobs. This equates to the annual average target of \$1.6 billion in new investments facilitated and 5000 new jobs.

At the end of the day this is partly about job creation, and we are creating jobs at a rate of 1000 per week in the state. We are creating more jobs than virtually any of the other states, except for the resource-rich ones, in particular, Queensland. We are creating a lot of jobs and we are creating a lot of investment, and the economy is continuing to grow, as the budget papers show. Did you want to add anything to that?

**Mr MUNRO** — Perhaps only to indicate where the 689 came from — that would be helpful. It is the same figure; it is there from a previous year. This is something that the department, in looking at the contributions towards exports, looked at to obtain about \$100 million out of the trade fairs and missions program, around \$90 million out of the industry capability network, so that is ensuring we use local participation, and around \$500 million, adding up to the 689, coming out of the investments. These are exports relating to the investments that the department or the government is facilitating. That is where that figure comes from.

**Mr WELLS** — It is just that when you look at the figures it looks like you are going backwards. In 2005–06 the actual is 864; then you are sliding backwards to 689.

**Mr MUNRO** — What the figure is going to be in the end, we would be confident that in 06–07 it will be greater than 689, and obviously in 07–08 we will go further again to increase that. So I can assure you that exports within the department are a major, major priority in terms of investments. Everyone understands how important it is.

**Mr PAKULA** — Minister, on pages 34 and 35 of budget paper 3, I want to go to the issue of the reduction in stamp duty on new motor vehicles. In your capacity as industry minister, can you outline the benefits that the reduction will have for locally manufactured vehicles, which you were discussing recently.

**Mr THEOPHANOUS** — Thank you, Mr Pakula, and I am pleased to see that Mr Barber has come in for the answer to this question in relation to stamp duty on new cars.

**Mr BARBER** — I drank too much of that water. Thank you for asking, though, Minister.

**Mr THEOPHANOUS** — The first thing to understand is the size of the tax cut. It is a very significant tax cut. It is worth \$177 million over the five years, and it took effect from 1 May. We think this is about cutting taxes to families. It is targeted very squarely at your average working family and the sorts of cars they might buy. It will deliver \$600 worth of savings, which represents a 40 per cent cut to stamp duty on cars valued between 35 000 and 45 000. Some of those cars would be the Toyota Camry Grande, the Holden Commodore, the Ford Falcon and the Ford Territory. So there is a capacity for those cars to get a significant reduction in stamp duty. Of course it also means that some other cars can also get reductions even higher than that.

When this was thought about — I know that some people would have preferred that we just targeted this entirely on small cars, and I know that Mr Barber has made that point that we should be targeting this entirely on small cars or on cars like the Prius in order to reduce emissions.

However, can I just make this point: people are going to buy cars. What we have in this state is a very old — in fact, one of the oldest car fleets in the developed world. Many of our cars are more than 10 years old. If we can get people to buy new cars, there is actually an environmental benefit in that.

If they trade in their old six-cylinder Commodore and buy a new six-cylinder Commodore, the new six-cylinder Commodore is better for the environment. It has more environmental controls on it, it uses less petrol compared to the older one and it is, of course, most importantly, a much safer car as well. So from whatever side you want to look at it, it is a good thing.

When we did this we also had to balance one other thing: whether we like it or not, the majority of cars produced in this state and in this country are six-cylinder cars or bigger family cars. Even the four-cylinder Camry is still a relatively large car. We do not produce the very small-type cars that are on the market at around \$15 000 or thereabouts. We do not produce those cars here. We would never be able to produce them competitively, because they are produced on an absolutely huge, massive scale in countries abroad that we just cannot compete with. So one of the issues for us is always to bear in mind the question of jobs when we do these things as well. This is a boon for the average family, and most working families — —

**Mr BARBER** — A payroll tax cut — 177 million; the same thing?

**Mr THEOPHANOUS** — It is not the same thing because this will stimulate an important sector of our economy which happens to be centred here in Melbourne. The automotive industry is in Victoria. The vast majority of it is in Victoria, it is not in other states, and we wanted to stimulate that industry on the one hand and we wanted to get Victorians into newer cars. They have got options — if they want to go and get a smaller car, that is fine too, but the majority of them still do want to buy family cars. We were going to help those families to buy these new cars, get into a safer car and create Victorian jobs. It is a win-win-win situation for everyone, and I am surprised that people cannot bring themselves to support what is a really important program for our industry and for helping Victorians.

**Mr RICH-PHILLIPS** — Minister, I would like to ask you about the VGBOs. I have had concerns for some time about the effectiveness of some of the offices, and Shanghai is an example. I know it pre-dated you as

minister, but its set-up was a debacle. It took the best part of two years to get up and running with chains of executive directors. Questions on notice that you answered earlier this year suggested that in terms of its investment performance it was fairly mediocre.

You ordered the review by David Buckingham of all VGBOs. Can you outline for me what the process is in terms of time lines — when you expect to receive that information and the actual process in terms of whether there is a submission process that he is undertaking as part of that review and when we can expect to see the results of that?

**Mr THEOPHANOUS** — I should start by saying that in fact the review was ordered by the Premier. It is an important, government-wide review. We actually do not just have VGBOs; as you probably know we also have tourism offices and a number of other offices as well in various parts of the world, so David Buckingham was given the job, in a very short period of time, of reviewing the overall emphasis and effectiveness of those offices.

As I said in answer to an earlier question, we have been targeting those offices at attracting investment into Victoria. That was the major emphasis that we had asked them to do. We are now putting more emphasis on exports as a way of internationalising the Victorian economy. We want them to do a bit more in that area.

The other thing is that we needed to have a look at how effective the locations were and how they worked together and so on. It is actually quite an important job, this. It is a very important review. We had offices located in London, Frankfurt, San Francisco, Chicago, New York, Hong Kong, Shanghai, Nanjing, Dubai, Tokyo and Bangalore as VGBOs. That is a pretty good spread around the world, but it might not be the ideal spread. It might not be the best places to have them in. We have limited resources, but we want to use these as effectively as we can.

The operating costs, in fact, are in excess of \$7 million, so we are talking about a significant amount of money and — —

**Mr RICH-PHILLIPS** — Shame, they call it, Shanghai sat empty for so long.

**Mr THEOPHANOUS** — As you said, I was not the minister when Shanghai was commissioned, and I think there were some initial problems — I recognise that — in the Shanghai office.

I have not formally received the report as yet, so I am not in a position to say what the report says and I do not want to pre-empt it, but I think that one of the things the report would be looking at very closely is how to get better cooperation between those offices, how to get better cooperation between the offices and the tourism offices — perhaps how to use some other things that have not been done in the past — maybe some more people like out-people who might go out from the offices to some other city in a similar region, that kind of thing, or maybe even focus on particular industries. These are the sort of things that are up in the air in the mix, if you like, for consideration by David Buckingham. It is a complicated issue. I think it is nearing completion. I expect to see the report come to us soon.

I would simply say about this that what is important to me on this particular issue is that we get cross-party support for these offices. It is important, because we do come under criticism from time to time in the press about the overseas offices and about spending taxpayer money on those overseas offices and keeping a network overseas. But let me tell you, having gone through some of the export figures before in answer to a few other questions, you know they do facilitate an enormous amount of economic activity. That figure of \$2.5 billion of economic activity, well you might say, ‘Well, you know, is it worth spending \$7 million in order to facilitate or help to get \$2.5 billion of activity into Victoria?’. My answer to that is yes. But what happens is that if this became a political football in some way or other, then it just undermines the operation of those offices. I do not mind genuine criticism when it happens, and it is important that we get them working effectively. So that is why we are doing the review, and we want to overcome any problems that may have occurred in the past in relation to any specific office to allow us to make them as effective as we can.

**The CHAIR** — Minister, I think we have exhausted questions. I have one question which, on behalf of the committee, I would like you to take on notice: what resources in staffing and costs does your portfolio department anticipate applying to serving PAEC hearings and inquiries based on experience over the past few years? I want to thank you and thank the departmental officers.

**Witnesses withdrew.**



## **Transcript of Evidence**

### **6.11 Information and Communication Technology portfolio**

*The transcript for the hearing on this portfolio will be included in a future report of the Committee.*

## **Transcript of Evidence**

### **6.12 Innovation portfolio**

*Please note the Innovation transcript and the Regional and Rural Development transcript are combined into one transcript.*

# VERIFIED TRANSCRIPT

## PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

### Inquiry into budget estimates 2007–08

Melbourne — 4 May 2007

#### Members

Mr G. Barber	Mr G. Rich-Phillips
Mr R. Dalla-Riva	Mr R. Scott
Ms J. Graley	Mr B. Stensholt
Ms J. Munt	Dr W. Sykes
Mr M. Pakula	Mr K. Wells

Chair: Mr B. Stensholt  
Deputy Chair: Mr K. Wells

#### Staff

Business Support Officer: Ms J. Nathan

#### Witnesses

Mr J. Brumby, Minister for Regional and Rural Development and Minister for Innovation,

Mr W. Hodgson, secretary,

Mr D. Hanna, acting deputy secretary, economic policy and planning, and chief executive officer, Innovation Economy Advisory Board, and

Mr D. O'Brien, chief executive officer, Regional Development Victoria, Department of Innovation, Industry and Regional Development.

**The CHAIR** — The committee welcomes Mr Warren Hodgson, Secretary of the Department of Innovation, Industry and Regional Development, Mr David Hanna, acting deputy secretary, economic policy and planning, and Mr Daniel O'Brien, chief executive officer, Regional Development Victoria. I call on the Treasurer to give a presentation of around 5 minutes— it will probably be a miracle presentation if he can do it in 5 minutes — on the more complex financial and performance information relating to budget estimates for the portfolios of innovation, and regional and rural development.

**Overheads shown.**

**Mr BRUMBY** — Thank you, Chair, I will run through this very briefly. Here are some general slides on the economy. I think, as everybody is aware, on public accounts the economy has been performing very strongly in regional Victoria. There has been record building investment, record jobs growth and record population growth. We have also facilitated a very large number of new investment projects.

The government is particularly proud of this graph which shows the population growth, people coming to regional Victoria. Melbourne is now the fastest growing capital city in Australia; it is adding more people each year than any other capital city. But regional Victoria is now growing faster than for Victoria as a whole.

This is a graph of the jobs growth rate. I used that slide before in the Treasury presentation. In unemployment rates, we have seen significant reductions in every region. They, of course, would be much larger were it not for the increasing labour force participation rates. We have also seen with a strong economy in regional Victoria a lot of people who in the 1990s had given up looking for work coming back into the labour force.

Obviously the Australia economy in general has been growing well. The regional Victorian economy has been growing extra well. I think that is what this slide shows. The key part there is this share of national building approvals that have been generated out of regional Victoria — that is the black line. We were running at about 4.5 per cent; we are now running at almost 6.5 per cent of national building approvals. So our economy is increasing its presence and its scale as part of the national economy.

We are particularly proud of the Regional Infrastructure Development Fund. It was the first bit of legislation introduced by the Bracks government, and we have now contributed over \$353 million to 143 projects. Those projects are worth close to \$1 billion, and the beauty of these is, as you can see, that there is nowhere in this state that has not had the opportunity to benefit from this program. It is right across, and you will see all of the examples there again, which I am happy to provide the committee with.

I should just say I was asked a question previously, Chair, and one of the projects I forgot to mention was the Bendigo recycled water pipeline, which, of course, was opened the other day by Minister Thwaites and Minister Turnbull, which provides many gegalitres of recycled water for Bendigo. The thing that made that work was in fact a contribution from RIDF to build the pipeline between Bendigo Mining and the recycling facility. It is a great example of how this project contributes.

I mentioned Water for Industry — it seems to be topical today. Here is another example: \$10 million there is a Water for Industry program. It has been very successful. As I said, there was Leongatha plus Energy Brix and Australian Paper, 6.7 gigs — so big, big water savings. We have also been successful attracting Unilever to Tatura. We are making some progress I think with the biofuels industry, and we have got a number of subprograms operating out of RIDF — the Regional Aviation Fund, Local Roads to Markets and so on.

Our *Moving Forward* statement 2005, 502 million over five years. It is fully funded going forward, and we are moving through the implementation of that.

Some examples of what we have been doing: CRISP, the community regional industry skills program, has been a spectacular success for us. The sponsorship for local events — the Stawell Gift. The Stawell Gift was dying a slow death, I think, in the 1990s. It has now been resuscitated and it has got probably another 100 years left in it. It is now the major male prize and the major female running prize and it is attracting more and more tourists. There are a couple of other examples there as well.

Some more examples of what we are doing. We are also trying to lever here off things like the Wimmera–Mallee pipeline to get additional agribusiness investment. Other RDV achievements — and I want to compliment Regional Development Victoria. They have had a big job in the last year and a lot of pressure, as we all know, in regional

communities. They responded beautifully as the lead government agency, with the bushfire recovery task force, 138, and the drought package. That has brought much-needed assistance to regional areas.

On innovation, I think almost without exception every commentator would describe our status as a leader in this area. Our STI program, biotechnology, what we did last year through Healthy Futures, stem cell research — and of course the upper house vote last night 23–16, so we are now the first state in Australia with the stem cell legislation for somatic cell nuclear transfer — and of course the Australian Synchrotron, which is now past first light. The beam lines are being installed, and it will begin full operations in July with five operating beam lines. It is a magnificent project.

Film and television: this was an industry which literally was on its knees when we won government. We undertook a review headed by Sigrid Thornton. We have doubled funding for Film Victoria and we have also provided support for the new film studios, and the rest has followed. I think if you get the framework right and support right, you build on the creative talents of our people and you get some great results. Victoria last year actually topped national film production, so we came in ahead of New South Wales. It is a long, long time since that has been the case. Last year *Ghost Rider* was also filmed here, and the big one is this, *The Pacific*, Steven Spielberg, the biggest television miniseries in the world — great links to Melbourne back to the war room, the cabinet down at Victoria Barracks, all that old scenery there. People forget that during that period, the Second World War, there were 40 000 Americans here in Melbourne. Australia was under siege. That series, following *Band of Brothers*, will go all around the world. Needless to say there has also been some strong Australian production, and *Romulus, My Father* is being premiered I think at Castlemaine Film Festival in just a few weeks time. That is it.

**Ms GRALEY** — Can you please provide further details of the on-flow benefits for Victoria from the number of biotechnology partnerships facilitated as outlined at page 140 in budget paper 3?

**Mr BRUMBY** — The key issue there is that, as you know, we have had two plans. Our first plan, 2001, was a five-year plan, but we achieved all our targets two years ahead of schedule. We announced a new plan in 2003–04, and we are well ahead of schedule on that. One of our targets, as you know, is to be in the top five biotechnology locations in the world by 2010, and again I would say to the committee that, although we are not a country in our own right, we are well on track to achieving what is a very ambitious goal.

Why do I say that? Because in a number of areas we are already in the top five in the world. If you look at stem cells, for example, when you talk about stem cell research in Australia you are essentially talking about Victoria. Most analysts — *Forbes* magazine and others — would describe Australia as a ‘surprising leader’ in stem cell research, and for Australia I think you really read Victoria.

We are also in the top five in the world in the fight against flu, both human and avian influenza. That is led by CSL and Biota in collaboration with GSK. Cervical cancer, a great story there; one of the first products coming on to the market through CSL is Gardasil, and we all know about that. That is a great Australian success story, a great success story for CSL now being distributed worldwide by Merck. Things like dairy innovation where we were also in the top five in the world, so in a whole range of these areas we already rank in the top five.

One of our targets in the biotech plan was that we would have deals and partnerships totalling more than \$1 billion by 2007. I am pleased to say that not only have we met this target ahead of schedule, we have now exceeded the \$2 billion mark. And ditto, things like corporate, biotech, R and D. Our target was over \$500 million per annum of research by 2007, and we are on track here. Last year we had 455 million, that was in 05–06, and we believe we will exceed that \$500 million mark.

Many people would say that biotechnology is the world’s fourth great revolution. We have been through the ag revolution, we have been through the industrial revolution, we are moving through the IT revolution, and biotechnology is really that fourth big revolution, and Victoria is the best positioned of any of the states to take the opportunities from that. The opportunities are really better health, better longevity, better environment and a better economy.

**Mr DALLA-RIVA** — Just in relation to the Australian synchrotron, I note that it is about to come online. In respect of any projected annual recurrent costs that are going to be associated with it, what percentage of those costs will the Victorian government contribute?

**Mr BRUMBY** — The Victorian government has contributed \$157 million to the construction of the synchrotron. In addition we now have, I think it is 11 beam line partners — the other states of Australia, New Zealand, the medical research institutes, ANSTO, CSIRO — who are all contributing to the first suite of beam lines, and the aggregate investment is in excess of \$200 million.

It has always been our belief that the commonwealth should fund the operating cost of the synchrotron. The reason we say that is that is the case in every other country around the world. There are 65 synchrotrons around the world, and in every other country around the world the national government takes the lead role in funding what is national scientific infrastructure. In addition, if you look in Australia's case, all of the other national scientific infrastructure is paid for by the commonwealth. The best example is ANSTO, which of course is based in New South Wales, where 100 per cent of the operating costs are met by the commonwealth; CSIRO, which has a budget of half a billion dollars a year plus. So it has always been our view, and I know the view of the states and the other beam lines partners, that it is the commonwealth that should make that contribution.

Notwithstanding that, I understand that the federal government in the budget on Tuesday will confirm that they are prepared to contribute 50 million in operating expenses over the next five years towards the synchrotron; the Prime Minister did inform the Premier of that just recently. While that is not an ideal funding base — our view has always been that the commonwealth should meet the whole cost — it is certainly better than a zero contribution, and that is the view that has been expressed by the Premier to the Prime Minister.

In terms of Victoria's position, there is actually in a sense an operating company — it is not a Victorian facility, it is a national facility; we may have paid for it but it is a national facility, it is an Australian synchrotron. There is an operating company. We went through a tender process for the operator. The operator is ANSTO, in partnership with a private company, Worley Parsons. We will now talk to what we call the founding partners, which are the other states, Monash University, Melbourne University, ANSTO, CSIRO, the medical research institutes and the New Zealand government, about the balance of the funding arrangement, and it would be, I think, inappropriate for me today to pre-empt that discussion.

Those founding partners are not aware of the funding offer from the commonwealth. They will be after today, I guess, and they will be after the budget next week — I think the federal Treasurer alluded to this in the press this morning. So we will now have those discussions and I do not want to pre-empt those discussions, but obviously all of the parties want to make sure that there is full funding going forward, and all of the parties will. But we will have those discussions about how best to meet that gap.

I should say that on 1 July five beam lines will start. Some of them are just fantastic in the research that they are going to do, particularly I think in the medical technology area, and as you know, all the studies that were done on this show that the estimated annual financial benefit of this, direct and indirect, is something like \$65 million a year to the national economy, with much of that benefit of course being Victoria's.

**The CHAIR** — I refer you, once again, to page 140 in budget paper 3 on science, technology and innovation. You mention there about the value of projects attracted by S and T funding, or facilitated under your science, technology and innovation program. Can you talk about the benefit of this program, the funding that you are providing to Victoria's overall biotechnology industry?

**Mr BRUMBY** — We have had about two programs, two \$310 million programs, Chair — in total \$620 million through our STI program. I think if you add up all of the innovation initiatives of the government, it is close to \$1.8 billion, so it is a very substantial commitment. We do want to make sure we get value for money; we want to make sure that we are getting the best possible outcome, so we have had two independent assessments done of our STI programs.

The second of those was done in 2005-06 — I think it was Allen Consulting — I need to confirm that but I believe it was Allen Consulting that did that for us. They calculated that the economic benefit of the STI program over that period 2000-14 was that real GSP would be \$3.9 billion higher, real investment in Victoria would be \$1.2 billion higher, real private consumption in Victoria would be \$1.2 billion higher, and there would be an overall increase in employment of about 1700 jobs.

This is a great program; it is a program which is funded through until 30 June 2008, so at some stage in the next year the government will be focused on the nature and shape of a replacement program for that — but that will be a

matter for next year's budget. Work is already starting on that across government, but this has been a bottleneck, I guess, in terms of the contribution it has made to science in our state.

**Mr WELLS** — I noted with interest your comments that the federal government should be doing more about helping our farmers with the drought and water shortages. I also note that Rural Finance is Victoria's specialist rural lender and is wholly owned by the Victorian government. Are you aware that the farmers who are on their knees have recently received a letter, which says:

Accordingly effective from 1 May 2007 the interest rate on your working capital facility will increase by 0.2 per cent to 9.85 per cent.

I am wondering whether you would suggest that that is the way the Victorian government is helping these farmers, especially in light of the very first line of the letter which says that the interest rate has actually increased based on media speculation. I am wondering if you could assist those farmers and address the increase in interest that these farmers have received in this letter.

**Mr BRUMBY** — I do not know who has set you up to that question, but that is not a program that is being run as part of drought programs. Rural Finance operates and competes in the market as a bank.

**Mr WELLS** — Yes.

**Mr BRUMBY** — Yes, it is a bank.

**Mr WELLS** — Wholly owned by the Victorian government.

**Mr BRUMBY** — I do not set the interest rates, the same as Peter Costello does not set the interest rates for the Reserve Bank; I do not set the interest rates for the Rural Finance Corporation. I would be amazed if you are actually suggesting today that I should. I hope you are not suggesting that.

**Mr WELLS** — No, I am just wondering — —

**Mr BRUMBY** — I am missing the point of the question, then.

**Mr WELLS** — You were saying that the federal government should be doing more to assist farmers, and I am just wondering how the state government sees this 0.2 per cent increase for the struggling farmers who are facing drought and water shortages. Do you support that these farmers should be slugged with the additional increase in the percentage based on media speculation when in fact, Treasurer, wasn't the announcement made just recently that interest rates were going to be put on hold? If that is the case, why would you then want to increase this as of 1 May?

**Mr BRUMBY** — I cannot believe this is a serious question.

**Mr WELLS** — I will send you a copy of the letter later.

**Mr BRUMBY** — Peter Costello does not set the interest rates for the Reserve Bank and John Brumby, or any Treasurer before him, does not set the interest rates for the Rural Finance Corporation. I would be amazed — and I may be amazed, it appears! — if any Victorian politician or political party would ever suggest that the Treasurer of the day should set interest rates for a financial institution which operates in a competitive global banking market. We have been through this debate in Australia in the 1980s, 1990s and again in this decade. Rural Finance operates in the market.

In turn, Kim, farmers do not have to borrow from Rural Finance. They can borrow from Bendigo Bank, Westpac, NAB, ANZ, Commonwealth Bank, Rabobank, Elders or whoever they choose to borrow from. If they do not like the interest rates, they should change banks. I assume that the letter you are referring to was sent to a normal commercial customer where the bank has increased rates following four successive increases in interest rates by the Reserve Bank, but it is operating as a private bank.

In relation to drought assistance there are legislative requirements, and if a farmer qualifies for a drought assisted loan, they get a discount of 80 per cent, a subsidy, in the first year and 50 per cent in the second. I will just say on that, that obviously if you are getting an 80 per cent discount on a loan and you are paying normal commercial rates, in the first year you are actually getting a real rate of interest which is below the rate of inflation. So that is an

agreed position between the commonwealth and the state. But I think that whoever has given you that letter is mixing up the regular commercial practices of the bank. I do not instruct the board; I do not set interest rates; I do not know any Treasurer who ever has; and I do not know any Treasurer who ever would.

**Mr WELLS** — But you are happy to support the Rural Finance increasing interest rates based on media speculation?

**Mr BRUMBY** — Are you are happy to support the Reserve Bank increasing interest rates?

**Mr WELLS** — Are you happy that they base it on media speculation?

**Ms MUNT** — I would also like to draw your attention to the synchrotron which does begin full operations in July with five beams. It will, I think, aid eventually in the very early detection of breast cancer, so it is going to be wonderful for women. But I would particularly like to ask if you could explain why the client management beam line user groups for the Australian Synchrotron performance measure has been discontinued. This refers to page 139 in budget paper 3, which is headed 'Developing Innovative Industries'.

**Mr BRUMBY** — Which budget paper was it?

**Ms MUNT** — Budget paper 3, page 139, under 'Developing Innovative Industries'. Can the minister explain why the client management beam line user groups for the Australian Synchrotron performance measure have been discontinued.

**Mr BRUMBY** — The reason for that is that the synchrotron is now operational, and will be from 1 July. This was a program we had in place as we moved up towards the investment there in the beam lines; now, of course, the first stage will be opened in July and all of the nine beam lines will be commissioned by the end of next year. The nine beam line user groups have all been assisting in the design and the development of the beam lines.

I will repeat what I said before: we have successfully attracted 10 partners; they have contributed something like \$50 million towards the suite of nine beam lines, and you are going to see some fantastic work coming out of the synchrotron in the future.

**Ms MUNT** — Particularly for early breast cancer research?

**Mr BRUMBY** — Particularly, but I haven't got any information on that, I'm sorry.

**The CHAIR** — We can find somebody who can provide it to the committee.

**Dr SYKES** — I have a question in relation to bushfire assistance measures — and along with many other people in the fire-affected areas, I do appreciate the large number of assistance measures that have been made available.

On a clarification before I get to my specific question: first of all, the \$138 million that you have nominated as being assistance measures for bushfires, it is correct to say that not all of that is directly relevant to the fire-affected communities. For example, the \$60 million or so going into the CFA and SES, a lot of that is going to support CFA and SES structure that is unrelated to the current fire-affected areas?

**Mr BRUMBY** — That is correct.

**Dr SYKES** — Just leading on from that — —

**Mr BRUMBY** — I have not got it in front of me, but I think there are 18 CFA stations that we announced. We brought forward funding for those. Not all of those are in bushfire areas, but the reason there are fire stations there is because they are in fire-prone areas that may be affected by fires in the future.

**Dr SYKES** — I think we agree.

**Mr BRUMBY** — Yes.



**Dr SYKES** — Just out of interest, what is the value of the volunteer inputs through the CFA and SES? A figure has been put to me in normal times of about \$500 million a year. Given the massive input by the volunteers in combating these megafires, is there a dollar value being placed on that?

**Mr BRUMBY** — I haven't seen a dollar value. There may be one around, I haven't seen one, but obviously we all value extremely highly the extraordinary contribution that is made. I don't know what the dollar figure is. I heard a figure quoted once — if you add up the total value of volunteering in the Victorian economy, it is worth something like a couple of billion dollars. It is a huge contribution that volunteers make; I am well aware of that. I do not know what the number is, except to say it is very, very substantial.

The challenge, of course, as you are aware, going forward, is to make sure that we maintain that volunteer base. Many of the volunteers started their volunteering younger in life. They are now moving on, and some of them are getting older, as we all are, and the trick is to make sure that amongst the younger generation we continue to get the same uptake of volunteerism.

We have always rejected the view — and I think the volunteer organisations, the CFA and others have too — that we do not want to be in the business where you pay a volunteer, because then they are no longer a volunteer. That removes the whole notion of volunteering. We did, in the bushfire package, provide quite a bit of funding towards supporting volunteers. So there was \$11 million of grants for emergency service volunteer groups; there was \$3 million put aside for new equipment for volunteers, and there was also a valuing volunteers program, which was \$2 million or \$3 million.

If you put all of that with the new equipment — the better trucks, the better fire stations — I think that is the best way of supporting and helping our volunteers to make what they do, in a sense, a bit easier because the quality and support they get in clothing and equipment is better. They do a fantastic job; we all know that. There is no difference amongst politicians on that, and the more we can encourage volunteers going forward, the better we will be prepared to fight bushfires and other emergencies in the future.

**Dr SYKES** — That didn't get to my question, although it was leading to it. Accepting that fact — and I think we are to a large extent in agreement on that — a large number of the volunteers are in fact property owners in the areas involved in the CFA or SES activities. One of the situations we have had is where wild fire on Crown land came out of Crown land and burnt private property.

There is agreement that when fire containment lines are put in on private property, that containment line is rehabilitated and any damage done to fences when putting containment lines through is paid for. However, you have a situation where, when these fire containment lines are put through, sometimes they elect to back-burn from those containment lines and you then burn out tens of kilometres of fencing and hundreds of hectares of private land. Those back-burns can be done either with or without the agreement of the land-holder.

At this stage the land-holders who have had that situation occurring on their places are being told that they have to bear nearly all of the cost of the tens of thousands of dollars of fence replacement. There is a small amount of money available through a Rural Finance grant, but overall they can be out of pocket 40, 50, or 60 thousand dollars for making a contribution towards the containment of a fire, when other techniques would have cost the government a lot more. Those issues have been raised with me, and in spite of you saying you get many positive letters, I actually get a few negative ones, some of which I send on to you.

**Mr BRUMBY** — Yes, I see them and I always look at them.

**Dr SYKES** — Are you prepared to take that one on as a point of principle to ensure that people who make a contribution do not carry the can unnecessarily?

**Mr BRUMBY** — As you know there are some complex issues in here which have been under consideration by various governments for the last two decades on things like fencing and fencing adjoining Crown land and so on. It is not really my portfolio responsibility but I was chair of the bushfire task force. I am happy to have a look at that. I think you should raise that with both Minister Thwaites and also Minister Cameron when he is here. We do provide a small subsidy, as you know, to make up the gap between insurance and the non-insurance level on a piece of fence, but I know you are asking a more broad question — —

**Dr SYKES** — I can actually comment on that subsidy, Treasurer, and that is that that is a subsidy of up to \$400 for the excess on insurance.

**Mr BRUMBY** — Yes, that is correct.

**Dr SYKES** — I am advised by one person who has incurred a \$55 000 fence repair job that his insurance company imposes no excess, and for a lot of his neighbours that excess subsidy is irrelevant, so it is a nice gesture, but in fact it has no material value.

**Mr BRUMBY** — As you know, the view of the VFF and others too is that, while they would always like government to be putting in more money for things like fences and so on, they also do not want to discourage farmers from taking out insurance. So it is always a fine balance; but I do look at the letters you send in, and I am happy to look at those, but it is probably more appropriately a matter for Minister Thwaites or Minister Cameron.

**Mr PAKULA** — Treasurer, DIIRD staff might remember that in my previous job I used to harass them about the extension of natural gas to certain country towns. It has proved to be fairly important for getting some dairy factories operational. On page 409 of budget paper 3, DIIRD has a discontinued performance measure for towns with works commenced to enable connection under the natural gas extension program. My question is in three parts. Firstly, how many towns are to be connected to natural gas and why has this measure been discontinued? Secondly, can you outline the expected time line of the first connection of these towns? And thirdly, can you outline some of the economic benefits to towns that have been connected?

**Mr BRUMBY** — Thank you for that. The original commitment was that 34 towns were to be connected to gas. I am pleased to say that work has now commenced in all 34 towns, so that, in essence, is the answer to the question.

By the way, that was above the target we set in 06–07. There were 34 to be connected, the target was 30, we have actually commenced work in all 34. Physical works to supply the final four towns of Korumburra, Leongatha, Wonthaggi and Inverloch commenced in April 2007. I have got to say I remember going down to Leongatha to announce the extension there — I think it was about 18 months ago — and I remember the then mayor at the time standing up and saying that for that community the extension of natural gas was just as significant as the extension of electricity supply to that region in 1907 — so nearly 100 years later. This has been extraordinarily well received, as you have noted.

It has also been incredibly important to industry — to the food industry — but also if you go down to places like Port Fairy, GSK with its pharmaceutical manufacture there. That is one of the very few stand-alone plants in the world of that size, and it is there because it is a good location, there is a good workforce and there is natural gas.

Customers are now connected in 20 of the 34 towns. Connections have also occurred in new areas of Koroit and Don Valley as a result of the rollout, and connections in the remaining towns — that is, the complete connection program — will occur over the next two years.

Savings: I think you are aware of the savings, but these are huge savings. You think of all of the ways in which you can put cash into someone's pocket. Swapping from bottled gas to natural gas saves most households \$600 to \$1000 per year — and that is after-tax income. I have had particularly needy families come up to me, perhaps a single parent with one or two kids, and they are \$20 per week better off, money in the pocket, after tax, as a result of shifting to natural gas.

This has not only been great for industry, which I know is your particular interest in this, there have been many companies. As I said, the food industry — Patties Foods, of course, was the big one I forgot; Bairnsdale hospital; Fennings Timber; I mentioned GSK; and there are others. It has made a huge difference. It has been a fantastic program.

**Mr BARBER** — I would like to ask you about the bay dredging project, if that is okay?

**Mr BRUMBY** — Our largest single export out of Victoria is processed dairy products, so it is a fair question.

**Mr BARBER** — And it is about the piece of work that was done for Treasury, the *Port of Melbourne Economic Contribution Study* by PWC. My question is whether the work and the assumptions here still form the

basis of the business case for the project, which I am sure you will be working on in the next year. In particular, the trade and shipping forecasts broken down by containers, grains and crude oil and the analysis that they produce of likely shipping movements. That is one part of what is in the study.

The other is the estimates of the costs, which at the time of this report to you were 568 million, or 465 NPV — about half a billion dollars, whatever you want to call it — and whether those projections for shipping movements are still the ones you are working off, whether you are going to do any more analysis, whether they are likely to change, and whether these estimates of the costs are still the estimates of the costs. I thought we had already had about 300 million of costs accrued so far, so I am not sure why it is still 568.

**Mr BRUMBY** — The two things — on shipping movements, and to be fair I do not have all of the data in front of me, but on shipping movements, just the background, I guess, the fastest-growing industry in the world is world trade. If you look around the world this year, real GDP around the world will grow by about between 4 and 5 per cent, dragged up obviously by China and India. But growth in trade will grow by about twice that amount. That reflects just the more global economy we are in and the fact that there are fewer trade barriers today than there were. Everyone knows the numbers on China, which in many manufactured goods now —, look at things like clothing, China is producing more than 60 per cent of all the clothing in the world.

So products are moving around the world much more. In turn, if you look at the Asia-Pacific region, which is the fastest growing region, the real GDP rates are closer to 8 or 9 per cent, and again trade is growing at a faster rate than real GDP. So then when you come back to looking at shipping, the numbers going forward in most of the documents predict growth in shipping volumes of between 4 and 7 per cent, or 4 and 7½ per cent per annum.

But to be honest I think they are probably pretty conservative numbers, just because of what is happening elsewhere in the world. Everyone will make their own judgements about that, including lots of different economists, but at the bottom end they are very conservative numbers. What has been happening over the last decade is growth has been much more than that. If you look in Sydney, they have been growing at 7½ per cent, for example, but have got more problems in many ways than we have in Melbourne. They have some particular environmental issues. So you are going to see growth in that, And then of course if you compound forward, if something grows at 7 per cent per annum, after 10 years the volume has doubled — that is the compounding impact. So they are the projections going forward.

In terms of the economic cost benefit, there have been three studies, including the PW study. They all use different models, and the main difference between the studies about whether you get a really big net value or you get a more modest one is whether you translate the efficiency gains in Victoria right across the national economy, which I think you probably should do. But if you do that you get a much, much bigger economic value of the project. The one that we released recently with the port study had a more conservative assessment. I think it was \$2 billion net economic benefit.

In terms of the costs of the project, we will not get a final picture obviously on the costs of the project until it has gone through the final panel process. The supplementary environment effects statement basically gives it an in-principle green light to proceed. As you know, there are processes which involve the panel; they have got to assess that. The public is able to make submissions. They will assess that and the panel will give a report back to government, and subject to that report the project will either proceed or it will not proceed. At that stage, when we get that report, we will be in a better position in the port to identify all of the costs of the project. It will be in excess of half a billion. I do not think it is correct to say that 300 million has been spent already. There have been some significant costs. The government has also contributed, I think, about 14 or 15 million two budgets ago to some of the preliminary work — I think that number is broadly right, but it can be checked anyway.

There is a final point I would make about the project — and I am obviously a very strong supporter of the project. Ships are getting bigger. I could give you all the data on just how big they are getting. In fact, if you do not deepen the channel you will get more ship movements across Australia, because they will not be able to fill the full capacity. So if people worry about the number of movements, you will have fewer movements if you have got bigger ships that are able to fill to full capacity, and I would have thought that was a good environmental outcome. So I am a supporter; my views are well-known, but there is a process to go through, and the final costs will be known when we get the final panel report.

**Mr BARBER** — With respect to shipping movements, that kind of sounded like a no. You are basically saying even those big compounding numbers are probably conservative.

**Mr BRUMBY** — They are saying 2000 — —

**Mr BARBER** — My real question was: are you going to sit with the information that is there as your basic business case for shipping movements, or are you going to carry on any further work to adjust those this year?

**Mr BRUMBY** — To my knowledge, and I am not the minister for ports, there is no more economic assessments going on. As I said, I think there have been three studies to date. We have released the most recent ones which came as part of the supplementary EES. The growth numbers going forward, as you know, are in here: 2005–10, 6.7 per cent; 2011–20, 5.6 per cent; 2021–35, 4.7. If you are asking me are we going to revise them up; I do not believe we are going to revise them up. If you are asking my opinion — you know, I get around the world; I see the growth that is occurring in places — I think they are probably conservative numbers. So if anything you will see stronger growth from that, which in my view only strengthens the case for the channel deepening project. Otherwise you are going to get more and more ships that cannot fill up to full capacity and they are going to be moving in and out only loaded halfway, and that is not a good thing for the environment.

**Mr SCOTT** — I refer the minister to the creative industries section on page 141 in budget paper 3. I ask the minister to provide details on what the Victorian government is doing to foster growth of the local film, TV and digital media industries.

**Mr BRUMBY** — I think the big thing there has been, as I said before, the support we provided for the construction of Melbourne Central City Studios. We needed to do that. Everyone who uses those studios says they are among the very best in the world; in terms of their audio qualities, the soundproofing and so on, they are absolutely the best in the world. We have contributed to that. We have doubled the filming, as I have said, of Film Victoria.

The consequence of that was last year Victoria topped Australia's film production. We have just signed up on *The Pacific*. *The Pacific* will contribute somewhere between \$100 million and \$180 million into the Victorian economy. It is just huge. The modelling that is done on the number of direct and indirect jobs, full and part time, is nearly 4000 jobs, so it is just going to have a huge impact. Most importantly, in the case of *The Pacific* you are going to see streetscapes that are clearly, readily identifiable with Melbourne. They will also do some shooting in country areas.

In this year's budget we added to our support for the film industry. There was 2.8 million for the new generation film, television and digital media strategy. It is 1.6 million over the next two years to establish the Melbourne International Film Festival investment fund; 800 000 for the development of the Melbourne international festival marketplace to take place during the film festival; and 400 000 over two years for the digital media fund to secure X|Media|Labs internationally recognised digital media think tank and production workshops.

I have opened a couple of the media lab conferences we have had here before. We get 600, 700 people here for many of the sessions. They are the best in digital media from all around Australia and around the world. You look at this whole leadership in the creative industries — iTTeam, film, digital media, all of the creative arts — this is an enormous economic strength for our state. We have supported it, and it is the right thing to do in terms of where our economy goes in the future.

**The CHAIR** — We will try to get in three more quick questions.

**Mr RICH-PHILLIPS** — Minister, I would like to ask you about the regional aviation fund. How is that going to work? I presume you will solicit applications? Will the grants be capped at particular amounts? Will you call for a co-contribution from the operators of facilities? What about eligibility criteria — is it only local government-operated airports that will be eligible? What are the details?

**Mr BRUMBY** — We promised this in the election campaign, as you are aware. We said we would do that, and we have funded it in this budget. The program will commence from 1 July, in the new financial year. Regional Development Victoria is currently finalising the guidelines. They will then present them to me, I will approve them and they will go out into the market. The 5 million is available.

As you know, we have done, under the Regional Infrastructure Development Fund, some projects in the past — Mildura, Shepparton, Latrobe Valley, Portland, Warrnambool. We have done those. This will put a bit of structure around it. Generally what you find is there are some contributions as well from third parties, particularly local government. We would love to have some contribution from the commonwealth but I am not hopeful of that. I would say we will probably have the guidelines out within the next month, but there is \$5 million available.

**Ms GRALEY** — Talking about the Regional Infrastructure Development Fund, in budget paper 3 at page 145 DIIRD has some performance measures for the fund. I wonder if you could outline the projects funded in the 2006–07 year and the economic development potential of the projects. And also, if we have got some time, can you explain why DIIRD has exceeded its 2006 target by twice the number of projects?

**Mr BRUMBY** — The table I had on before, and now have up, gives you an idea of how expansive that is across the state. The most recent one I announced on that, I think, was the Wangaratta performing arts centre. The beauty of the Regional Infrastructure Development Fund is we have used it on water projects, we have used it to attract industry. We are using it in Geelong down there on the waterfront, as you know, the Dennys Lascelles building, which is part of the package for Deakin University to attract more students to secure the medical school and other expenditure.

We have used it on aerodromes and, as you see there, in Wangaratta. It is just a great program. The chairman of the committee in Wangaratta said they had been waiting more than 30 years to find a government to support their performing arts centre, and it was finally funded under our Regional Infrastructure Development Fund. The total value of projects which we have funded is now \$1 billion, and those projects have leveraged, of course, other private sector investment. The funding has been across a number of areas, as you can see there, from water through to industry. Some of those other projects, as you can see there, include the Gippsland Water Factory, which will cost \$140 million, and we are putting \$50 million into that, so that is a very large project indeed.

In answer to the last question, asking if I can explain why we have exceeded the 2006–07 target by twice the number of projects, I cannot. I do not know if the CEO or the secretary can.

**The CHAIR** — Your goal was 10, and 22 were done.

**Mr BRUMBY** — It is a very popular program; that would be the only answer I have got. It is a very popular program.

**Mr O'BRIEN** — There was a lot of impetus as a result of the *Moving Forward* statement, so that sort of accelerated in particular the Small Towns Development Fund projects.

**The CHAIR** — A final question.

**Mr DALLA-RIVA** — Just on the same page — page 144.

**Mr BRUMBY** — Of which paper?

**Mr DALLA-RIVA** — Budget paper 3. On page 144 I note in the total output costs that the target had been set at \$28.6 million. The expected outcome is only going to be \$22.8 million, which is a reduction of \$5 million.

**Mr BRUMBY** — Page 144; yes.

**Mr DALLA-RIVA** — Page 144, total output costs on the regional economic development and investment relating to facilitating employment, investment and economic growth. I note that there is a reduction of \$5 million from the target compared to the expected outcome. Indeed the target for 2007–08 compared to 2006–07 is an 8.7 per cent reduction on what was anticipated. I am just curious why it would be the case that you are reducing those dollars at a time when we actually need some economic prosperity in the regional area and why you would actually made a reduction and not spend that money that was allocated.

**Mr BRUMBY** — I think there are a couple of things getting mixed up there. If you look at the 2005–06 number in the right-hand column, the number was \$16.9 million.

**Mr DALLA-RIVA** — Yes. I did not ask about that, though.

**Mr BRUMBY** — No, but in your summary or the background to your question you said there had been a reduction. It is not correct to say there has been a reduction. In 2005–06 we spent \$16.9 million. The expected outcome in 2006–07 is \$22.8 million, so it is not correct to say there has been a reduction.

**Mr DALLA-RIVA** — There has, because you anticipated spending \$28.6 million, so you have actually underspent your proposal by \$5 million. I am curious what some of the areas are that you did not commit to.

**Mr BRUMBY** — I am advised that the answer there is that that number does not account for carryover. I am advised that the carryover is \$6.3 million, so probably if you add \$6.3 million to \$22.8 million, you will get pretty close to \$28.6 million.

**Mr DALLA-RIVA** — What is the carryover comprised of?

**Mr HODGSON** — It is unspent moneys from the previous year.

**Mr DALLA-RIVA** — Yes, I understood that; that is what ‘carryover’ means. But specifically?

**Mr O’BRIEN** — Can I perhaps clarify a couple of things. There have been considerable additional funds that have come into Regional Development Victoria to deal with drought and to deal with bushfire. That is not picked up in these figures. So there has been a local infrastructure works program, which is probably about a \$14 million program which we have had the money in, and we have worked with our local government partners to put the money at the door, creating 370 new projects. So part of the backlog or the reason some of the money is not out the door is the fact that we have focused our attention elsewhere. These are programs that are slightly delayed but not delayed by a long time.

Another good example would be the Make It Happen in Provincial Victoria campaign. One of our milestones was to get to the second stage of that campaign in November-December, when the bushfires were obviously at their peak. We did not spend the money then, so we delayed that campaign for a couple of months. We are talking the difference between months, not programs that were dropped.

**Mr DALLA-RIVA** — That is all right.

**The CHAIR** — We might wrap it up. That concludes consideration of the budget estimates for the portfolios of Treasury, Innovation and Regional and Rural Development. I thank the Treasurer and departmental officers for their attendance today. It has been a very useful session, and where questions were taken on notice the committee will follow up with you in writing at a later stage. The committee requests that written responses to those matters be provided within 30 days, and we will table the responses in Parliament. Thank you very much, Treasurer.

**Witnesses withdrew.**

## **Transcript of Evidence**

### **6.13 Regional and Rural Development portfolio**

*Please note the Regional and Rural Development transcript and the Innovation transcript are combined into one transcript.*

# VERIFIED TRANSCRIPT

## PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

### Inquiry into budget estimates 2007–08

Melbourne — 4 May 2007

#### Members

Mr G. Barber	Mr G. Rich-Phillips
Mr R. Dalla-Riva	Mr R. Scott
Ms J. Graley	Mr B. Stensholt
Ms J. Munt	Dr W. Sykes
Mr M. Pakula	Mr K. Wells

Chair: Mr B. Stensholt  
Deputy Chair: Mr K. Wells

#### Staff

Business Support Officer: Ms J. Nathan

#### Witnesses

Mr J. Brumby, Minister for Regional and Rural Development and Minister for Innovation,

Mr W. Hodgson, secretary,

Mr D. Hanna, acting deputy secretary, economic policy and planning, and chief executive officer, Innovation Economy Advisory Board, and

Mr D. O'Brien, chief executive officer, Regional Development Victoria, Department of Innovation, Industry and Regional Development.



**The CHAIR** — The committee welcomes Mr Warren Hodgson, Secretary of the Department of Innovation, Industry and Regional Development, Mr David Hanna, acting deputy secretary, economic policy and planning, and Mr Daniel O'Brien, chief executive officer, Regional Development Victoria. I call on the Treasurer to give a presentation of around 5 minutes— it will probably be a miracle presentation if he can do it in 5 minutes — on the more complex financial and performance information relating to budget estimates for the portfolios of innovation, and regional and rural development.

**Overheads shown.**

**Mr BRUMBY** — Thank you, Chair, I will run through this very briefly. Here are some general slides on the economy. I think, as everybody is aware, on public accounts the economy has been performing very strongly in regional Victoria. There has been record building investment, record jobs growth and record population growth. We have also facilitated a very large number of new investment projects.

The government is particularly proud of this graph which shows the population growth, people coming to regional Victoria. Melbourne is now the fastest growing capital city in Australia; it is adding more people each year than any other capital city. But regional Victoria is now growing faster than for Victoria as a whole.

This is a graph of the jobs growth rate. I used that slide before in the Treasury presentation. In unemployment rates, we have seen significant reductions in every region. They, of course, would be much larger were it not for the increasing labour force participation rates. We have also seen with a strong economy in regional Victoria a lot of people who in the 1990s had given up looking for work coming back into the labour force.

Obviously the Australia economy in general has been growing well. The regional Victorian economy has been growing extra well. I think that is what this slide shows. The key part there is this share of national building approvals that have been generated out of regional Victoria — that is the black line. We were running at about 4.5 per cent; we are now running at almost 6.5 per cent of national building approvals. So our economy is increasing its presence and its scale as part of the national economy.

We are particularly proud of the Regional Infrastructure Development Fund. It was the first bit of legislation introduced by the Bracks government, and we have now contributed over \$353 million to 143 projects. Those projects are worth close to \$1 billion, and the beauty of these is, as you can see, that there is nowhere in this state that has not had the opportunity to benefit from this program. It is right across, and you will see all of the examples there again, which I am happy to provide the committee with.

I should just say I was asked a question previously, Chair, and one of the projects I forgot to mention was the Bendigo recycled water pipeline, which, of course, was opened the other day by Minister Thwaites and Minister Turnbull, which provides many gegalitres of recycled water for Bendigo. The thing that made that work was in fact a contribution from RIDF to build the pipeline between Bendigo Mining and the recycling facility. It is a great example of how this project contributes.

I mentioned Water for Industry — it seems to be topical today. Here is another example: \$10 million there is a Water for Industry program. It has been very successful. As I said, there was Leongatha plus Energy Brix and Australian Paper, 6.7 gigs — so big, big water savings. We have also been successful attracting Unilever to Tatura. We are making some progress I think with the biofuels industry, and we have got a number of subprograms operating out of RIDF — the Regional Aviation Fund, Local Roads to Markets and so on.

Our *Moving Forward* statement 2005, 502 million over five years. It is fully funded going forward, and we are moving through the implementation of that.

Some examples of what we have been doing: CRISP, the community regional industry skills program, has been a spectacular success for us. The sponsorship for local events — the Stawell Gift. The Stawell Gift was dying a slow death, I think, in the 1990s. It has now been resuscitated and it has got probably another 100 years left in it. It is now the major male prize and the major female running prize and it is attracting more and more tourists. There are a couple of other examples there as well.

Some more examples of what we are doing. We are also trying to lever here off things like the Wimmera–Mallee pipeline to get additional agribusiness investment. Other RDV achievements — and I want to compliment Regional Development Victoria. They have had a big job in the last year and a lot of pressure, as we all know, in regional

communities. They responded beautifully as the lead government agency, with the bushfire recovery task force, 138, and the drought package. That has brought much-needed assistance to regional areas.

On innovation, I think almost without exception every commentator would describe our status as a leader in this area. Our STI program, biotechnology, what we did last year through Healthy Futures, stem cell research — and of course the upper house vote last night 23–16, so we are now the first state in Australia with the stem cell legislation for somatic cell nuclear transfer — and of course the Australian Synchrotron, which is now past first light. The beam lines are being installed, and it will begin full operations in July with five operating beam lines. It is a magnificent project.

Film and television: this was an industry which literally was on its knees when we won government. We undertook a review headed by Sigrid Thornton. We have doubled funding for Film Victoria and we have also provided support for the new film studios, and the rest has followed. I think if you get the framework right and support right, you build on the creative talents of our people and you get some great results. Victoria last year actually topped national film production, so we came in ahead of New South Wales. It is a long, long time since that has been the case. Last year *Ghost Rider* was also filmed here, and the big one is this, *The Pacific*, Steven Spielberg, the biggest television miniseries in the world — great links to Melbourne back to the war room, the cabinet down at Victoria Barracks, all that old scenery there. People forget that during that period, the Second World War, there were 40 000 Americans here in Melbourne. Australia was under siege. That series, following *Band of Brothers*, will go all around the world. Needless to say there has also been some strong Australian production, and *Romulus, My Father* is being premiered I think at Castlemaine Film Festival in just a few weeks time. That is it.

**Ms GRALEY** — Can you please provide further details of the on-flow benefits for Victoria from the number of biotechnology partnerships facilitated as outlined at page 140 in budget paper 3?

**Mr BRUMBY** — The key issue there is that, as you know, we have had two plans. Our first plan, 2001, was a five-year plan, but we achieved all our targets two years ahead of schedule. We announced a new plan in 2003–04, and we are well ahead of schedule on that. One of our targets, as you know, is to be in the top five biotechnology locations in the world by 2010, and again I would say to the committee that, although we are not a country in our own right, we are well on track to achieving what is a very ambitious goal.

Why do I say that? Because in a number of areas we are already in the top five in the world. If you look at stem cells, for example, when you talk about stem cell research in Australia you are essentially talking about Victoria. Most analysts — *Forbes* magazine and others — would describe Australia as a ‘surprising leader’ in stem cell research, and for Australia I think you really read Victoria.

We are also in the top five in the world in the fight against flu, both human and avian influenza. That is led by CSL and Biota in collaboration with GSK. Cervical cancer, a great story there; one of the first products coming on to the market through CSL is Gardasil, and we all know about that. That is a great Australian success story, a great success story for CSL now being distributed worldwide by Merck. Things like dairy innovation where we were also in the top five in the world, so in a whole range of these areas we already rank in the top five.

One of our targets in the biotech plan was that we would have deals and partnerships totalling more than \$1 billion by 2007. I am pleased to say that not only have we met this target ahead of schedule, we have now exceeded the \$2 billion mark. And ditto, things like corporate, biotech, R and D. Our target was over \$500 million per annum of research by 2007, and we are on track here. Last year we had 455 million, that was in 05–06, and we believe we will exceed that \$500 million mark.

Many people would say that biotechnology is the world’s fourth great revolution. We have been through the ag revolution, we have been through the industrial revolution, we are moving through the IT revolution, and biotechnology is really that fourth big revolution, and Victoria is the best positioned of any of the states to take the opportunities from that. The opportunities are really better health, better longevity, better environment and a better economy.

**Mr DALLA-RIVA** — Just in relation to the Australian synchrotron, I note that it is about to come online. In respect of any projected annual recurrent costs that are going to be associated with it, what percentage of those costs will the Victorian government contribute?

**Mr BRUMBY** — The Victorian government has contributed \$157 million to the construction of the synchrotron. In addition we now have, I think it is 11 beam line partners — the other states of Australia, New Zealand, the medical research institutes, ANSTO, CSIRO — who are all contributing to the first suite of beam lines, and the aggregate investment is in excess of \$200 million.

It has always been our belief that the commonwealth should fund the operating cost of the synchrotron. The reason we say that is that is the case in every other country around the world. There are 65 synchrotrons around the world, and in every other country around the world the national government takes the lead role in funding what is national scientific infrastructure. In addition, if you look in Australia's case, all of the other national scientific infrastructure is paid for by the commonwealth. The best example is ANSTO, which of course is based in New South Wales, where 100 per cent of the operating costs are met by the commonwealth; CSIRO, which has a budget of half a billion dollars a year plus. So it has always been our view, and I know the view of the states and the other beam lines partners, that it is the commonwealth that should make that contribution.

Notwithstanding that, I understand that the federal government in the budget on Tuesday will confirm that they are prepared to contribute 50 million in operating expenses over the next five years towards the synchrotron; the Prime Minister did inform the Premier of that just recently. While that is not an ideal funding base — our view has always been that the commonwealth should meet the whole cost — it is certainly better than a zero contribution, and that is the view that has been expressed by the Premier to the Prime Minister.

In terms of Victoria's position, there is actually in a sense an operating company — it is not a Victorian facility, it is a national facility; we may have paid for it but it is a national facility, it is an Australian synchrotron. There is an operating company. We went through a tender process for the operator. The operator is ANSTO, in partnership with a private company, Worley Parsons. We will now talk to what we call the founding partners, which are the other states, Monash University, Melbourne University, ANSTO, CSIRO, the medical research institutes and the New Zealand government, about the balance of the funding arrangement, and it would be, I think, inappropriate for me today to pre-empt that discussion.

Those founding partners are not aware of the funding offer from the commonwealth. They will be after today, I guess, and they will be after the budget next week — I think the federal Treasurer alluded to this in the press this morning. So we will now have those discussions and I do not want to pre-empt those discussions, but obviously all of the parties want to make sure that there is full funding going forward, and all of the parties will. But we will have those discussions about how best to meet that gap.

I should say that on 1 July five beam lines will start. Some of them are just fantastic in the research that they are going to do, particularly I think in the medical technology area, and as you know, all the studies that were done on this show that the estimated annual financial benefit of this, direct and indirect, is something like \$65 million a year to the national economy, with much of that benefit of course being Victoria's.

**The CHAIR** — I refer you, once again, to page 140 in budget paper 3 on science, technology and innovation. You mention there about the value of projects attracted by S and T funding, or facilitated under your science, technology and innovation program. Can you talk about the benefit of this program, the funding that you are providing to Victoria's overall biotechnology industry?

**Mr BRUMBY** — We have had about two programs, two \$310 million programs, Chair — in total \$620 million through our STI program. I think if you add up all of the innovation initiatives of the government, it is close to \$1.8 billion, so it is a very substantial commitment. We do want to make sure we get value for money; we want to make sure that we are getting the best possible outcome, so we have had two independent assessments done of our STI programs.

The second of those was done in 2005-06 — I think it was Allen Consulting — I need to confirm that but I believe it was Allen Consulting that did that for us. They calculated that the economic benefit of the STI program over that period 2000-14 was that real GSP would be \$3.9 billion higher, real investment in Victoria would be \$1.2 billion higher, real private consumption in Victoria would be \$1.2 billion higher, and there would be an overall increase in employment of about 1700 jobs.

This is a great program; it is a program which is funded through until 30 June 2008, so at some stage in the next year the government will be focused on the nature and shape of a replacement program for that — but that will be a

matter for next year's budget. Work is already starting on that across government, but this has been a bottleneck, I guess, in terms of the contribution it has made to science in our state.

**Mr WELLS** — I noted with interest your comments that the federal government should be doing more about helping our farmers with the drought and water shortages. I also note that Rural Finance is Victoria's specialist rural lender and is wholly owned by the Victorian government. Are you aware that the farmers who are on their knees have recently received a letter, which says:

Accordingly effective from 1 May 2007 the interest rate on your working capital facility will increase by 0.2 per cent to 9.85 per cent.

I am wondering whether you would suggest that that is the way the Victorian government is helping these farmers, especially in light of the very first line of the letter which says that the interest rate has actually increased based on media speculation. I am wondering if you could assist those farmers and address the increase in interest that these farmers have received in this letter.

**Mr BRUMBY** — I do not know who has set you up to that question, but that is not a program that is being run as part of drought programs. Rural Finance operates and competes in the market as a bank.

**Mr WELLS** — Yes.

**Mr BRUMBY** — Yes, it is a bank.

**Mr WELLS** — Wholly owned by the Victorian government.

**Mr BRUMBY** — I do not set the interest rates, the same as Peter Costello does not set the interest rates for the Reserve Bank; I do not set the interest rates for the Rural Finance Corporation. I would be amazed if you are actually suggesting today that I should. I hope you are not suggesting that.

**Mr WELLS** — No, I am just wondering — —

**Mr BRUMBY** — I am missing the point of the question, then.

**Mr WELLS** — You were saying that the federal government should be doing more to assist farmers, and I am just wondering how the state government sees this 0.2 per cent increase for the struggling farmers who are facing drought and water shortages. Do you support that these farmers should be slugged with the additional increase in the percentage based on media speculation when in fact, Treasurer, wasn't the announcement made just recently that interest rates were going to be put on hold? If that is the case, why would you then want to increase this as of 1 May?

**Mr BRUMBY** — I cannot believe this is a serious question.

**Mr WELLS** — I will send you a copy of the letter later.

**Mr BRUMBY** — Peter Costello does not set the interest rates for the Reserve Bank and John Brumby, or any Treasurer before him, does not set the interest rates for the Rural Finance Corporation. I would be amazed — and I may be amazed, it appears! — if any Victorian politician or political party would ever suggest that the Treasurer of the day should set interest rates for a financial institution which operates in a competitive global banking market. We have been through this debate in Australia in the 1980s, 1990s and again in this decade. Rural Finance operates in the market.

In turn, Kim, farmers do not have to borrow from Rural Finance. They can borrow from Bendigo Bank, Westpac, NAB, ANZ, Commonwealth Bank, Rabobank, Elders or whoever they choose to borrow from. If they do not like the interest rates, they should change banks. I assume that the letter you are referring to was sent to a normal commercial customer where the bank has increased rates following four successive increases in interest rates by the Reserve Bank, but it is operating as a private bank.

In relation to drought assistance there are legislative requirements, and if a farmer qualifies for a drought assisted loan, they get a discount of 80 per cent, a subsidy, in the first year and 50 per cent in the second. I will just say on that, that obviously if you are getting an 80 per cent discount on a loan and you are paying normal commercial rates, in the first year you are actually getting a real rate of interest which is below the rate of inflation. So that is an

agreed position between the commonwealth and the state. But I think that whoever has given you that letter is mixing up the regular commercial practices of the bank. I do not instruct the board; I do not set interest rates; I do not know any Treasurer who ever has; and I do not know any Treasurer who ever would.

**Mr WELLS** — But you are happy to support the Rural Finance increasing interest rates based on media speculation?

**Mr BRUMBY** — Are you are happy to support the Reserve Bank increasing interest rates?

**Mr WELLS** — Are you happy that they base it on media speculation?

**Ms MUNT** — I would also like to draw your attention to the synchrotron which does begin full operations in July with five beams. It will, I think, aid eventually in the very early detection of breast cancer, so it is going to be wonderful for women. But I would particularly like to ask if you could explain why the client management beam line user groups for the Australian Synchrotron performance measure has been discontinued. This refers to page 139 in budget paper 3, which is headed 'Developing Innovative Industries'.

**Mr BRUMBY** — Which budget paper was it?

**Ms MUNT** — Budget paper 3, page 139, under 'Developing Innovative Industries'. Can the minister explain why the client management beam line user groups for the Australian Synchrotron performance measure have been discontinued.

**Mr BRUMBY** — The reason for that is that the synchrotron is now operational, and will be from 1 July. This was a program we had in place as we moved up towards the investment there in the beam lines; now, of course, the first stage will be opened in July and all of the nine beam lines will be commissioned by the end of next year. The nine beam line user groups have all been assisting in the design and the development of the beam lines.

I will repeat what I said before: we have successfully attracted 10 partners; they have contributed something like \$50 million towards the suite of nine beam lines, and you are going to see some fantastic work coming out of the synchrotron in the future.

**Ms MUNT** — Particularly for early breast cancer research?

**Mr BRUMBY** — Particularly, but I haven't got any information on that, I'm sorry.

**The CHAIR** — We can find somebody who can provide it to the committee.

**Dr SYKES** — I have a question in relation to bushfire assistance measures — and along with many other people in the fire-affected areas, I do appreciate the large number of assistance measures that have been made available.

On a clarification before I get to my specific question: first of all, the \$138 million that you have nominated as being assistance measures for bushfires, it is correct to say that not all of that is directly relevant to the fire-affected communities. For example, the \$60 million or so going into the CFA and SES, a lot of that is going to support CFA and SES structure that is unrelated to the current fire-affected areas?

**Mr BRUMBY** — That is correct.

**Dr SYKES** — Just leading on from that — —

**Mr BRUMBY** — I have not got it in front of me, but I think there are 18 CFA stations that we announced. We brought forward funding for those. Not all of those are in bushfire areas, but the reason there are fire stations there is because they are in fire-prone areas that may be affected by fires in the future.

**Dr SYKES** — I think we agree.

**Mr BRUMBY** — Yes.

**Dr SYKES** — Just out of interest, what is the value of the volunteer inputs through the CFA and SES? A figure has been put to me in normal times of about \$500 million a year. Given the massive input by the volunteers in combating these megafires, is there a dollar value being placed on that?

**Mr BRUMBY** — I haven't seen a dollar value. There may be one around, I haven't seen one, but obviously we all value extremely highly the extraordinary contribution that is made. I don't know what the dollar figure is. I heard a figure quoted once — if you add up the total value of volunteering in the Victorian economy, it is worth something like a couple of billion dollars. It is a huge contribution that volunteers make; I am well aware of that. I do not know what the number is, except to say it is very, very substantial.

The challenge, of course, as you are aware, going forward, is to make sure that we maintain that volunteer base. Many of the volunteers started their volunteering younger in life. They are now moving on, and some of them are getting older, as we all are, and the trick is to make sure that amongst the younger generation we continue to get the same uptake of volunteerism.

We have always rejected the view — and I think the volunteer organisations, the CFA and others have too — that we do not want to be in the business where you pay a volunteer, because then they are no longer a volunteer. That removes the whole notion of volunteering. We did, in the bushfire package, provide quite a bit of funding towards supporting volunteers. So there was \$11 million of grants for emergency service volunteer groups; there was \$3 million put aside for new equipment for volunteers, and there was also a valuing volunteers program, which was \$2 million or \$3 million.

If you put all of that with the new equipment — the better trucks, the better fire stations — I think that is the best way of supporting and helping our volunteers to make what they do, in a sense, a bit easier because the quality and support they get in clothing and equipment is better. They do a fantastic job; we all know that. There is no difference amongst politicians on that, and the more we can encourage volunteers going forward, the better we will be prepared to fight bushfires and other emergencies in the future.

**Dr SYKES** — That didn't get to my question, although it was leading to it. Accepting that fact — and I think we are to a large extent in agreement on that — a large number of the volunteers are in fact property owners in the areas involved in the CFA or SES activities. One of the situations we have had is where wild fire on Crown land came out of Crown land and burnt private property.

There is agreement that when fire containment lines are put in on private property, that containment line is rehabilitated and any damage done to fences when putting containment lines through is paid for. However, you have a situation where, when these fire containment lines are put through, sometimes they elect to back-burn from those containment lines and you then burn out tens of kilometres of fencing and hundreds of hectares of private land. Those back-burns can be done either with or without the agreement of the land-holder.

At this stage the land-holders who have had that situation occurring on their places are being told that they have to bear nearly all of the cost of the tens of thousands of dollars of fence replacement. There is a small amount of money available through a Rural Finance grant, but overall they can be out of pocket 40, 50, or 60 thousand dollars for making a contribution towards the containment of a fire, when other techniques would have cost the government a lot more. Those issues have been raised with me, and in spite of you saying you get many positive letters, I actually get a few negative ones, some of which I send on to you.

**Mr BRUMBY** — Yes, I see them and I always look at them.

**Dr SYKES** — Are you prepared to take that one on as a point of principle to ensure that people who make a contribution do not carry the can unnecessarily?

**Mr BRUMBY** — As you know there are some complex issues in here which have been under consideration by various governments for the last two decades on things like fencing and fencing adjoining Crown land and so on. It is not really my portfolio responsibility but I was chair of the bushfire task force. I am happy to have a look at that. I think you should raise that with both Minister Thwaites and also Minister Cameron when he is here. We do provide a small subsidy, as you know, to make up the gap between insurance and the non-insurance level on a piece of fence, but I know you are asking a more broad question — —

**Dr SYKES** — I can actually comment on that subsidy, Treasurer, and that is that that is a subsidy of up to \$400 for the excess on insurance.

**Mr BRUMBY** — Yes, that is correct.

**Dr SYKES** — I am advised by one person who has incurred a \$55 000 fence repair job that his insurance company imposes no excess, and for a lot of his neighbours that excess subsidy is irrelevant, so it is a nice gesture, but in fact it has no material value.

**Mr BRUMBY** — As you know, the view of the VFF and others too is that, while they would always like government to be putting in more money for things like fences and so on, they also do not want to discourage farmers from taking out insurance. So it is always a fine balance; but I do look at the letters you send in, and I am happy to look at those, but it is probably more appropriately a matter for Minister Thwaites or Minister Cameron.

**Mr PAKULA** — Treasurer, DIIRD staff might remember that in my previous job I used to harass them about the extension of natural gas to certain country towns. It has proved to be fairly important for getting some dairy factories operational. On page 409 of budget paper 3, DIIRD has a discontinued performance measure for towns with works commenced to enable connection under the natural gas extension program. My question is in three parts. Firstly, how many towns are to be connected to natural gas and why has this measure been discontinued? Secondly, can you outline the expected time line of the first connection of these towns? And thirdly, can you outline some of the economic benefits to towns that have been connected?

**Mr BRUMBY** — Thank you for that. The original commitment was that 34 towns were to be connected to gas. I am pleased to say that work has now commenced in all 34 towns, so that, in essence, is the answer to the question.

By the way, that was above the target we set in 06–07. There were 34 to be connected, the target was 30, we have actually commenced work in all 34. Physical works to supply the final four towns of Korumburra, Leongatha, Wonthaggi and Inverloch commenced in April 2007. I have got to say I remember going down to Leongatha to announce the extension there — I think it was about 18 months ago — and I remember the then mayor at the time standing up and saying that for that community the extension of natural gas was just as significant as the extension of electricity supply to that region in 1907 — so nearly 100 years later. This has been extraordinarily well received, as you have noted.

It has also been incredibly important to industry — to the food industry — but also if you go down to places like Port Fairy, GSK with its pharmaceutical manufacture there. That is one of the very few stand-alone plants in the world of that size, and it is there because it is a good location, there is a good workforce and there is natural gas.

Customers are now connected in 20 of the 34 towns. Connections have also occurred in new areas of Koroit and Don Valley as a result of the rollout, and connections in the remaining towns — that is, the complete connection program — will occur over the next two years.

Savings: I think you are aware of the savings, but these are huge savings. You think of all of the ways in which you can put cash into someone's pocket. Swapping from bottled gas to natural gas saves most households \$600 to \$1000 per year — and that is after-tax income. I have had particularly needy families come up to me, perhaps a single parent with one or two kids, and they are \$20 per week better off, money in the pocket, after tax, as a result of shifting to natural gas.

This has not only been great for industry, which I know is your particular interest in this, there have been many companies. As I said, the food industry — Patties Foods, of course, was the big one I forgot; Bairnsdale hospital; Fennings Timber; I mentioned GSK; and there are others. It has made a huge difference. It has been a fantastic program.

**Mr BARBER** — I would like to ask you about the bay dredging project, if that is okay?

**Mr BRUMBY** — Our largest single export out of Victoria is processed dairy products, so it is a fair question.

**Mr BARBER** — And it is about the piece of work that was done for Treasury, the *Port of Melbourne Economic Contribution Study* by PWC. My question is whether the work and the assumptions here still form the

basis of the business case for the project, which I am sure you will be working on in the next year. In particular, the trade and shipping forecasts broken down by containers, grains and crude oil and the analysis that they produce of likely shipping movements. That is one part of what is in the study.

The other is the estimates of the costs, which at the time of this report to you were 568 million, or 465 NPV — about half a billion dollars, whatever you want to call it — and whether those projections for shipping movements are still the ones you are working off, whether you are going to do any more analysis, whether they are likely to change, and whether these estimates of the costs are still the estimates of the costs. I thought we had already had about 300 million of costs accrued so far, so I am not sure why it is still 568.

**Mr BRUMBY** — The two things — on shipping movements, and to be fair I do not have all of the data in front of me, but on shipping movements, just the background, I guess, the fastest-growing industry in the world is world trade. If you look around the world this year, real GDP around the world will grow by about between 4 and 5 per cent, dragged up obviously by China and India. But growth in trade will grow by about twice that amount. That reflects just the more global economy we are in and the fact that there are fewer trade barriers today than there were. Everyone knows the numbers on China, which in many manufactured goods now —, look at things like clothing, China is producing more than 60 per cent of all the clothing in the world.

So products are moving around the world much more. In turn, if you look at the Asia-Pacific region, which is the fastest growing region, the real GDP rates are closer to 8 or 9 per cent, and again trade is growing at a faster rate than real GDP. So then when you come back to looking at shipping, the numbers going forward in most of the documents predict growth in shipping volumes of between 4 and 7 per cent, or 4 and 7½ per cent per annum.

But to be honest I think they are probably pretty conservative numbers, just because of what is happening elsewhere in the world. Everyone will make their own judgements about that, including lots of different economists, but at the bottom end they are very conservative numbers. What has been happening over the last decade is growth has been much more than that. If you look in Sydney, they have been growing at 7½ per cent, for example, but have got more problems in many ways than we have in Melbourne. They have some particular environmental issues. So you are going to see growth in that, And then of course if you compound forward, if something grows at 7 per cent per annum, after 10 years the volume has doubled — that is the compounding impact. So they are the projections going forward.

In terms of the economic cost benefit, there have been three studies, including the PW study. They all use different models, and the main difference between the studies about whether you get a really big net value or you get a more modest one is whether you translate the efficiency gains in Victoria right across the national economy, which I think you probably should do. But if you do that you get a much, much bigger economic value of the project. The one that we released recently with the port study had a more conservative assessment. I think it was \$2 billion net economic benefit.

In terms of the costs of the project, we will not get a final picture obviously on the costs of the project until it has gone through the final panel process. The supplementary environment effects statement basically gives it an in-principle green light to proceed. As you know, there are processes which involve the panel; they have got to assess that. The public is able to make submissions. They will assess that and the panel will give a report back to government, and subject to that report the project will either proceed or it will not proceed. At that stage, when we get that report, we will be in a better position in the port to identify all of the costs of the project. It will be in excess of half a billion. I do not think it is correct to say that 300 million has been spent already. There have been some significant costs. The government has also contributed, I think, about 14 or 15 million two budgets ago to some of the preliminary work — I think that number is broadly right, but it can be checked anyway.

There is a final point I would make about the project — and I am obviously a very strong supporter of the project. Ships are getting bigger. I could give you all the data on just how big they are getting. In fact, if you do not deepen the channel you will get more ship movements across Australia, because they will not be able to fill the full capacity. So if people worry about the number of movements, you will have fewer movements if you have got bigger ships that are able to fill to full capacity, and I would have thought that was a good environmental outcome. So I am a supporter; my views are well-known, but there is a process to go through, and the final costs will be known when we get the final panel report.



**Mr BARBER** — With respect to shipping movements, that kind of sounded like a no. You are basically saying even those big compounding numbers are probably conservative.

**Mr BRUMBY** — They are saying 2000 — —

**Mr BARBER** — My real question was: are you going to sit with the information that is there as your basic business case for shipping movements, or are you going to carry on any further work to adjust those this year?

**Mr BRUMBY** — To my knowledge, and I am not the minister for ports, there is no more economic assessments going on. As I said, I think there have been three studies to date. We have released the most recent ones which came as part of the supplementary EES. The growth numbers going forward, as you know, are in here: 2005–10, 6.7 per cent; 2011–20, 5.6 per cent; 2021–35, 4.7. If you are asking me are we going to revise them up; I do not believe we are going to revise them up. If you are asking my opinion — you know, I get around the world; I see the growth that is occurring in places — I think they are probably conservative numbers. So if anything you will see stronger growth from that, which in my view only strengthens the case for the channel deepening project. Otherwise you are going to get more and more ships that cannot fill up to full capacity and they are going to be moving in and out only loaded halfway, and that is not a good thing for the environment.

**Mr SCOTT** — I refer the minister to the creative industries section on page 141 in budget paper 3. I ask the minister to provide details on what the Victorian government is doing to foster growth of the local film, TV and digital media industries.

**Mr BRUMBY** — I think the big thing there has been, as I said before, the support we provided for the construction of Melbourne Central City Studios. We needed to do that. Everyone who uses those studios says they are among the very best in the world; in terms of their audio qualities, the soundproofing and so on, they are absolutely the best in the world. We have contributed to that. We have doubled the filming, as I have said, of Film Victoria.

The consequence of that was last year Victoria topped Australia's film production. We have just signed up on *The Pacific*. *The Pacific* will contribute somewhere between \$100 million and \$180 million into the Victorian economy. It is just huge. The modelling that is done on the number of direct and indirect jobs, full and part time, is nearly 4000 jobs, so it is just going to have a huge impact. Most importantly, in the case of *The Pacific* you are going to see streetscapes that are clearly, readily identifiable with Melbourne. They will also do some shooting in country areas.

In this year's budget we added to our support for the film industry. There was 2.8 million for the new generation film, television and digital media strategy. It is 1.6 million over the next two years to establish the Melbourne International Film Festival investment fund; 800 000 for the development of the Melbourne international festival marketplace to take place during the film festival; and 400 000 over two years for the digital media fund to secure X|Media|Labs internationally recognised digital media think tank and production workshops.

I have opened a couple of the media lab conferences we have had here before. We get 600, 700 people here for many of the sessions. They are the best in digital media from all around Australia and around the world. You look at this whole leadership in the creative industries — iTTeam, film, digital media, all of the creative arts — this is an enormous economic strength for our state. We have supported it, and it is the right thing to do in terms of where our economy goes in the future.

**The CHAIR** — We will try to get in three more quick questions.

**Mr RICH-PHILLIPS** — Minister, I would like to ask you about the regional aviation fund. How is that going to work? I presume you will solicit applications? Will the grants be capped at particular amounts? Will you call for a co-contribution from the operators of facilities? What about eligibility criteria — is it only local government-operated airports that will be eligible? What are the details?

**Mr BRUMBY** — We promised this in the election campaign, as you are aware. We said we would do that, and we have funded it in this budget. The program will commence from 1 July, in the new financial year. Regional Development Victoria is currently finalising the guidelines. They will then present them to me, I will approve them and they will go out into the market. The 5 million is available.

As you know, we have done, under the Regional Infrastructure Development Fund, some projects in the past — Mildura, Shepparton, Latrobe Valley, Portland, Warrnambool. We have done those. This will put a bit of structure around it. Generally what you find is there are some contributions as well from third parties, particularly local government. We would love to have some contribution from the commonwealth but I am not hopeful of that. I would say we will probably have the guidelines out within the next month, but there is \$5 million available.

**Ms GRALEY** — Talking about the Regional Infrastructure Development Fund, in budget paper 3 at page 145 DIIRD has some performance measures for the fund. I wonder if you could outline the projects funded in the 2006–07 year and the economic development potential of the projects. And also, if we have got some time, can you explain why DIIRD has exceeded its 2006 target by twice the number of projects?

**Mr BRUMBY** — The table I had on before, and now have up, gives you an idea of how expansive that is across the state. The most recent one I announced on that, I think, was the Wangaratta performing arts centre. The beauty of the Regional Infrastructure Development Fund is we have used it on water projects, we have used it to attract industry. We are using it in Geelong down there on the waterfront, as you know, the Dennys Lascelles building, which is part of the package for Deakin University to attract more students to secure the medical school and other expenditure.

We have used it on aerodromes and, as you see there, in Wangaratta. It is just a great program. The chairman of the committee in Wangaratta said they had been waiting more than 30 years to find a government to support their performing arts centre, and it was finally funded under our Regional Infrastructure Development Fund. The total value of projects which we have funded is now \$1 billion, and those projects have leveraged, of course, other private sector investment. The funding has been across a number of areas, as you can see there, from water through to industry. Some of those other projects, as you can see there, include the Gippsland Water Factory, which will cost \$140 million, and we are putting \$50 million into that, so that is a very large project indeed.

In answer to the last question, asking if I can explain why we have exceeded the 2006–07 target by twice the number of projects, I cannot. I do not know if the CEO or the secretary can.

**The CHAIR** — Your goal was 10, and 22 were done.

**Mr BRUMBY** — It is a very popular program; that would be the only answer I have got. It is a very popular program.

**Mr O'BRIEN** — There was a lot of impetus as a result of the *Moving Forward* statement, so that sort of accelerated in particular the Small Towns Development Fund projects.

**The CHAIR** — A final question.

**Mr DALLA-RIVA** — Just on the same page — page 144.

**Mr BRUMBY** — Of which paper?

**Mr DALLA-RIVA** — Budget paper 3. On page 144 I note in the total output costs that the target had been set at \$28.6 million. The expected outcome is only going to be \$22.8 million, which is a reduction of \$5 million.

**Mr BRUMBY** — Page 144; yes.

**Mr DALLA-RIVA** — Page 144, total output costs on the regional economic development and investment relating to facilitating employment, investment and economic growth. I note that there is a reduction of \$5 million from the target compared to the expected outcome. Indeed the target for 2007–08 compared to 2006–07 is an 8.7 per cent reduction on what was anticipated. I am just curious why it would be the case that you are reducing those dollars at a time when we actually need some economic prosperity in the regional area and why you would actually made a reduction and not spend that money that was allocated.

**Mr BRUMBY** — I think there are a couple of things getting mixed up there. If you look at the 2005–06 number in the right-hand column, the number was \$16.9 million.

**Mr DALLA-RIVA** — Yes. I did not ask about that, though.

**Mr BRUMBY** — No, but in your summary or the background to your question you said there had been a reduction. It is not correct to say there has been a reduction. In 2005–06 we spent \$16.9 million. The expected outcome in 2006–07 is \$22.8 million, so it is not correct to say there has been a reduction.

**Mr DALLA-RIVA** — There has, because you anticipated spending \$28.6 million, so you have actually underspent your proposal by \$5 million. I am curious what some of the areas are that you did not commit to.

**Mr BRUMBY** — I am advised that the answer there is that that number does not account for carryover. I am advised that the carryover is \$6.3 million, so probably if you add \$6.3 million to \$22.8 million, you will get pretty close to \$28.6 million.

**Mr DALLA-RIVA** — What is the carryover comprised of?

**Mr HODGSON** — It is unspent moneys from the previous year.

**Mr DALLA-RIVA** — Yes, I understood that; that is what ‘carryover’ means. But specifically?

**Mr O’BRIEN** — Can I perhaps clarify a couple of things. There have been considerable additional funds that have come into Regional Development Victoria to deal with drought and to deal with bushfire. That is not picked up in these figures. So there has been a local infrastructure works program, which is probably about a \$14 million program which we have had the money in, and we have worked with our local government partners to put the money at the door, creating 370 new projects. So part of the backlog or the reason some of the money is not out the door is the fact that we have focused our attention elsewhere. These are programs that are slightly delayed but not delayed by a long time.

Another good example would be the Make It Happen in Provincial Victoria campaign. One of our milestones was to get to the second stage of that campaign in November-December, when the bushfires were obviously at their peak. We did not spend the money then, so we delayed that campaign for a couple of months. We are talking the difference between months, not programs that were dropped.

**Mr DALLA-RIVA** — That is all right.

**The CHAIR** — We might wrap it up. That concludes consideration of the budget estimates for the portfolios of Treasury, Innovation and Regional and Rural Development. I thank the Treasurer and departmental officers for their attendance today. It has been a very useful session, and where questions were taken on notice the committee will follow up with you in writing at a later stage. The committee requests that written responses to those matters be provided within 30 days, and we will table the responses in Parliament. Thank you very much, Treasurer.

**Witnesses withdrew.**

## **Transcript of Evidence**

### **6.14 Skills portfolio**

# VERIFIED TRANSCRIPT

## PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

### Inquiry into budget estimates 2007–08

Melbourne — 7 May 2007

#### Members

Mr G. Barber	Mr G. Rich-Phillips
Mr R. Dalla-Riva	Mr R. Scott
Ms J. Graley	Mr B. Stensholt
Ms J. Munt	Dr W. Sykes
Mr M. Pakula	Mr K. Wells

Chair: Mr R. Stensholt  
Deputy Chair: Mr K. Wells

#### Staff

Business Support Officer: Ms J. Nathan

#### Witnesses

Ms J. Allan, Minister for Skills, Education Services and Employment;  
Mr W. Hodgson, acting secretary;  
Ms P. Neden, deputy secretary, Office of Training and Tertiary Education; and  
Mr C. Ingham, assistant general manager, policy development, Department of Innovation, Industry and Regional Development.

**The CHAIR** — I now welcome Warren Hodgson, acting secretary, Department of Innovation, Industry and Regional Development; Patricia Neden, deputy secretary, Office of Training and Tertiary Education; Chris Ingham, assistant general manager, policy development, and who else have we got?

**Ms ALLAN** — I think that is it.

**The CHAIR** — We did have someone else down, but they are obviously not here.

We have a total of 45 minutes allocated to the skills portfolio. We are running a bit late, but I now call the minister to give a presentation of not more than 5 minutes on the more complex financial and performance information relating to the skills portfolio.

**Overheads shown.**

**Ms ALLAN** — We have just handed around our presentation.

As we have just concluded the discussion on education, it is very appropriate that we move on to the skills and training area. Alongside education, the skills area is part of our government's commitment to providing the best possible support to young people, but also in terms of providing our economy with the skilled workers that it needs. The Bracks government has very clearly identified that we need to invest in skills to drive future economic growth, and we certainly do know that making sure that we have the right supply of skilled labour requires an in-depth understanding of our local industry needs.

That is the rationale behind the creation of a dedicated skills portfolio which — as you can see on the overhead and the slides in front of you — has been the result of the move of the Office of Training and Tertiary Education from the Department of Education into the Department of Innovation, Industry and Regional Development. It has also seen the move of the adult community and further education area into the Department for Victorian Communities. Particularly the shift of OTTE into DIIRD will certainly help us better align the administration of our very good training system, which already has very good engagement with industry. It really will help drive that even further and recognise that skills are very much central to Victoria's future prosperity.

Since 1999 we have seen an additional \$1.1 billion invested in the skills and training area and that — as I said before — is alongside the \$6.1 billion in education. You can see the breakdown in front of you, but I will mention that last year we provided \$241 million in the skills statement, and there is a further \$72 million in this year's budget.

If you look at the next slide you will see that that investment is paying off. If you just take one example, Victoria is now training more apprentices and trainees than any other state. This chart shows Victoria's high performance to other states on apprenticeship completions.

For the Chair's information, we are also doing very well on apprenticeship commencements. We have recorded more commencements than the next-highest state. We have the most commencements of any state. The next-highest state is New South Wales, and we have more than 5400 extra people than New South Wales. I think that is just one example of the strength of Victoria's vocational education and training system.

It is not by accident; it has been very much the result of that additional \$1.1 billion worth of investment. It is also about where we have worked in comparison to other jurisdictions, where Victoria's system is more cost effective. As I have said, it has very strong industry engagement and continues to meet the needs of industries and individuals.

Considering the time, I will reference the slide that highlights 'Policy challenges', because that outlines the range of particular issues we have. We know about the ageing of the population and the challenges that we will have. There is also increased global competition. It is also about assisting employers with their needs to continue to invest in skills and training of their employees, and then there is a dual policy challenge around investing in higher-level skills to drive our innovation economy, which Victoria has a very strong priority on, and also upskilling the broader adult population. We have very much looked at identifying adults with lower-level skills and increasing their skill levels.

The final challenge we have is getting the federal government to invest more money, and you can see the differential there.

**Dr SYKES** — In all fairness!

**Ms ALLAN** — Yes, that is right. Bill, you and I are going to have some fun in Canberra. Finally — and I probably do not need to go through this considering the time and in the interest of getting you back on time, Chair — you will see a snapshot of budget items, and I am sure we will come to those during the presentation.

**The CHAIR** — Thank you very much, Minister.

**Ms GRALEY** — Berwick tech is a great initiative and very warmly welcomed by the members of my electorate. I refer you to page 9 of BP 3, which refers to the government's \$241 million policy statement *Maintaining the Advantage — Skilled Victorians*. Can you please outline what progress has been made towards the establishment of the technical education centres that were announced in that statement?

**Ms ALLAN** — Certainly. I mentioned this briefly in the previous presentation, because our techs are very much part of the range of different pathways that we are providing in terms of what goes on in our schools — with VCE, VET in Schools and VCAL — and of course the additional resources coming in this year's budget for our trade wings within schools.

The skills statement of last year, out of the \$241 million, provided funding to establish four technical education centres that will be based, as you have identified, in TAFE institutes. They will be purpose-built and provide high tech industry-standard facilities that will very much take advantage of the links that the TAFEs have with local industry and business. At the same time as providing students with access to the high-quality facilities and high-quality teaching and learning, we are also going to be able to provide them with those important links with industry as well.

Despite it only being announced last year, we have already delivered on two of the technical education centres. We have more than 170 students enrolled at Wangaratta and Berwick techs and those two techs started operation this year. The Chisholm TAFE operates the one that you probably know about and — Bill, out your way, Wangaratta way — Goulburn Ovens TAFE is providing the one at Wangaratta. We have also got Ballarat to come on line in mid-2007 and the Heidelberg one to come on line in early 2008.

I emphasise those links with TAFE and local industry and also the numbers of enrolments and how quickly we have been able to get them up and running because it certainly does stand in very stark contrast to the Howard government's Australian technical colleges that have very much suffered from delays, from cost overruns and very much too narrow a focus. I think that ATCs are an unfortunate example of how poor commonwealth-state relations can very much impact on service delivery. Instead of working with us — we would have been very happy to have worked with the federal government in this area and we would have loved to see the additional funding come into our TAFEs, loved to have seen the resources and supports for students in our TAFEs — unfortunately they have gone and set up an alternate system. It has resulted in great inefficiencies, but also, interestingly, it has seen the result that in fact five of the six ATCs we have here in Victoria are actually using our TAFEs to train the students. So really it is an example of where the federal government, in terms of service delivery, should leave it to the states, which have experience in this area — not spend millions and millions of additional taxpayer funding on an inefficient system. As I said, we would very much welcome those funds coming into our TAFEs, but it is not to be. We have our technical education centres that are doing very well and, as I said, sit alongside a whole range of other commitments. And also — importantly too, if I can emphasise again — the youth guarantee, which came on line this year and provides a guaranteed place in an education or training provider for young people up until the age of 20, is also a very much important part of our commitment to lift the numbers of young people completing year 12 or its equivalent.

**The CHAIR** — Thank you, Minister. Can I come back to your last slide. You mentioned the nursing skills centre of excellence at Box Hill. I am wondering if you could tell us about how this is going to tackle the nursing skills shortage?

**Ms ALLAN** — Yes, certainly. This is a great initiative. It is a consortium that has been established by Box Hill Institute of TAFE, in partnership with Deakin University, the Epworth Foundation and the Eastern Health network. This budget provides \$4.5 million towards the development of this centre; \$500 000 will be spent in the coming financial year for the engagement of the design work and the consultants on the project, with the further funding to come in the 08–09 year.

Chair, you mentioned addressing the needs of the health industry in terms of additional nurses. Since 1999, as the committee would be aware, the Bracks government has funded an additional 7200 nurses into our hospitals and health systems and we have provided extra supports, such as scholarships, for nurses to undertake postgraduate studies, particularly in those specialty areas such as mental health and critical care, emergency nursing and particularly midwifery, which we know is a critical area as well. We have also assisted more than 2500 nurses to re-enter the workforce by providing funding to help them to return to nursing and to go through the re-registration process.

So this initiative obviously builds on those additional supports of both putting extra nurses into the hospital system but also wanting to see them continue with their training to increase their qualifications, to go into those specialist areas, and also — and this is something I think I mentioned before — keep pace with technology and changes in medical diagnosis, improvements in medical technology as well. It does mean that there needs to be ongoing training for our health workforce and nurses are such a critical part of that. That is why, both in terms of addressing this from a skills shortage point of view but also in terms of assisting with the quality and the levels of skills within the profession itself, the Box Hill nursing skills centre of excellence will certainly be a great asset.

There is one additional area where we could do with some assistance. In 2007 the unmet demand for university places for nursing actually increased. We saw over half of the applicants in the first round who applied for nursing not offered a place, so I guess I would once again just repeat that we would love to see the federal government put some additional funds into university places in Victoria and see them go to those priority areas. Particularly at a time when we know we have got skills shortages, we know we have got a nursing shortage and we know we have got, at the same time, young people wanting to undertake nursing, it is an absolute crime that we are seeing young people miss out on pursuing a career in nursing just because, for some reason, Victoria has the highest level of unmet demand for university places of any Australian state.

**Mr WELLS** — Thank you, Minister. It is great to see your enthusiasm for tech schools. I thought it was federal Labor that shut down all the technical schools.

**Ms ALLAN** — Federal Labor?

**Mr WELLS** — Yes, under the Dawkins plan.

**Ms ALLAN** — No.

**Mr WELLS** — It wasn't?

**The CHAIR** — That is not on estimates.

**Ms ALLAN** — I think you might be getting confused between state education systems and federal education systems there, Kim. Dawkins was about — —

**Mr WELLS** — Dawkins was about the shutting of our technical schools.

**Ms ALLAN** — Dawkins was about technical and further education centres. Was there a question in that?

**Mr WELLS** — My question is in regard to BP 3, page 304, and also the editorial on page 305, in reference to the apprentice/trainee completion bonus, page 304. I refer you to the editorial that says:

Funding is provided to extend the current completion bonus scheme for one year ...

Does that mean it will be axed after the 2007–08 year?

**Ms ALLAN** — Thanks, Kim. Certainly this goes back to — as part of the presentation that I mentioned before, we are training more apprentices and trainees than any other state in Australia, with more commencements and more completions. I have got another little chart, with the committee's indulgence, that shows — if you can hand around — —

**Mr DALLA-RIVA** — You have got a chart for everything, haven't you?

**Ms ALLAN** — I do, just because I know I am going to get asked the questions about the detail, so it is easier to provide it in a chart. That shows how Victoria's commencements and completions are the best in



Australia. That is just for the committee's information. It is no surprise when you consider that we have got the best year 12 completion rates and the strongest investment in the skills system that we have provided over the last seven years.

In terms of the apprenticeship completion bonus, this was introduced back in the 03–04 budget, which you would probably remember, with a commitment of \$65 million over four years. Since then the Bracks government has introduced further initiatives to build on this area: the \$500 completion bonus for apprentices, which was in last year's budget; additional support through the skills statement for apprentice complete field officers; and the skills statement also provided 4500 additional pre-apprenticeship places with a tranche of these coming online in this year's budget.

In this year's budget we have provided, as you have indicated, \$24.5 million for the bonus to continue for one further year. We have done this quite deliberately to take the opportunity to sit back and consider the most appropriate and effective way we can support apprenticeships and traineeships, and I would hate this to be interpreted by any members of the committee as us stepping away from a commitment to apprentices and trainees.

The chart that I have just handed around shows how well placed Victoria is in this area, how we have been able to see Victoria's economy grow and continue the good economic prosperity that I am sure the Treasurer spoke to this committee about on Friday. But we want to take an opportunity to sit down and have a look, to talk with employer groups and talk with the sector more broadly to see how we can review in a broader context the range of incentives that are provided to industry, to individuals and to providers. It really is having a look to the future and seeing what it is that our workforce of the future needs.

I mentioned before the twin challenges that we face in the skills area: it is driving high levels of skills, it is putting more investment in higher end skills and getting people higher qualifications, and it is also about lifting the adult-level skills as well, particularly adults with low levels of qualifications. It is also another ingredient to put into the mix, and I say this quite seriously.

We have got some negotiations taking place later this year with the commonwealth for the next three-year funding agreement. We are yet to start negotiations, and obviously with the federal election it is going to cause a bit of back and forth as well. That will help us to also inform our future investment, and we want to work cooperatively with the commonwealth in whatever flavour that might be.

**Mr WELLS** — So there is no guarantee that this program will continue in the future after 2007–08?

**Ms ALLAN** — We are taking the opportunity to have a look at the program, although as I said it should not be interpreted that we will be stepping away in any shape from providing support to both industry and apprentices for them to continue to increase the number of apprentices and trainees that we have here in Victoria.

**Ms MUNT** — My electorate takes in Braeside, and in Braeside there are a number of large companies that supply the automotive industry in manufacturing. They are always eager to have a skilled workforce available to them, so I am interested in details on the Kangan Batman Automotive Centre of Excellence in Docklands, which will provide those employees to that industry. Could you please advise me how this initiative will link skills with industries such as in my area?

**Ms ALLAN** — Certainly, Janice. We have in this year's budget as you have indicated supported stage 2 of the development of the Kangan Batman Automotive Centre of Excellence down at Docklands, and whilst it is at Docklands as you said it is about supporting the automotive industry which is very important across the state whether it is in your electorate or many parts of country Victoria as well where there is industry that relies on the automotive industry here in Victoria.

This budget provides \$30 million, but this is for stage 2. Going back a couple of budgets the Bracks government invested in stage 1, which was \$20.5 million, and stage 1 if anyone has been down at Docklands, you could see it is up, it is operational and it is doing very well. So that brings our commitment to this centre over \$50 million, and it is also part of that broader investment in TAFE capital works of up to \$359 million since 1999. That is almost double the capital investment that was made under the previous government.

I know you are probably going to have a little smile at this, but I do have another chart that shows where we have made the capital investment over the last seven years. I think this is important, because when I said before about the

automotive industry is supported across the state, this chart will also show you where we put our investment right across Victoria, whether it is through our TAFE capital works program, funding more broadly through DIIRD through the Regional Infrastructure Development Fund or the science and technology initiatives that have provided funding to our universities. It is very much about driving investment in our TAFE and university facilities to improve educational outcomes which, as I said before has, a direct link to improving workforce participation and productivity.

Back to the Automotive Centre of Excellence, as you said the automotive industry is a very important industry to Victoria. It has an annual turnover exceeding \$50 billion and employment in excess of 400 000 persons both directly and indirectly. Victoria knows that we have to keep pace with this global industry. It is very competitive, and this centre will certainly help us do this in terms of providing the most modern facilities, the latest technology and the latest research that will help the Victorian workforce develop those skills to compete in this international economy.

Very briefly, I will also acknowledge the work that Kangan Batman has done in this area, because it has certainly got a very good relationship with industry, and certainly developing this central precinct will help drive that even further. There are also very important partnerships with other industry organisations in this initiative.

**Dr SYKES** — Minister, in view of the low year 12 retention rates or completion rates in country Victoria — 20 per cent below state average — that obviously increases the importance of alternative training options. I should say that I am a great fan of the school-based traineeship program, and Mansfield Secondary College in particular has been a key participator in that with wonderful outcomes for the students. But if we can just focus on apprenticeships — you have given us another chart, for which I am eternally grateful — but can you just give us another chart that gives a split into country and city apprenticeships?

Leading on from that, I understand I think in this budget there was an announcement of \$25 million going towards encouraging apprenticeship uptake. My recall is that in last year's budget there was a \$60 million reduction in support for employers taking on apprentices, and linked with that was payment only on completion — —

**Ms ALLAN** — Sorry, can you just repeat that last bit again, Bill?

**Dr SYKES** — It is my understanding in the last budget that there was a \$60 million reduction in incentives for employers to take on apprentices and that the payments were shifted to only payment on completion, not by year. Also, an employer needed a minimum of three apprentices to qualify for those incentives.

My question is: have those issues been addressed, keeping in mind that often in country Victoria the businesses are very small, often employing less than three apprentices, keeping in mind the severe impact of the drought, which is making it extremely difficult to keep the young people on, and knowing that that impact will last for several years yet?

**Ms ALLAN** — Thanks, Bill. I made comments on this in the previous presentation in terms of the different pathways, and you mentioned pathways at the start of your question, so I do not think we probably need to go back over that, other than to recognise — and you are right; country schools have been great in terms of providing, whether it is the VCAL or the VET in schools, to their students, recognising that that is the pathway that most country kids will take. That is a reality, and it has been very well supported by our schools in country areas.

In the terms of the \$60 million you are saying has been taken out in terms of incentives to employers, I can only assume you might be referring back to the — well, I am not quite sure what you are referring back to, other than the last changes that were made in this area with the 2003–04 budget, when we introduced the apprenticeship and completion bonus that we were just talking about a couple of moments ago.

In terms of what you made mention of, the criteria for three employees or more, I take it you might be referring there to the apprenticeship trade bonus that was introduced in last year's budget, that does have a requirement, I understand, for there to be a minimum of three employees, and that is where a payment is made to apprentices who reach the six-month point. So they get 250 bucks after the first six months and then a further \$250 when they reach the 12-months point. Other than that I am not quite sure what other areas you might be referring to — unless you want to — —

**The CHAIR** — You can take it on notice.

**Dr SYKES** — Can you clarify the split, country versus city? I can clarify — —

**Ms ALLAN** — What was the question about the split?

**Dr SYKES** — On the chart you have got impressive figures, on a statewide basis, of a 79.6 per hundred thousand commencement rate for apprenticeships and 45 per hundred thousand for completion. What is the country versus city split on that?

**Ms ALLAN** — Yes, we can certainly do that. We have got loads of different data that we can provide you with in terms of the split.

**Dr SYKES** — I just give you that on notice.

**The CHAIR** — That is fair enough.

**Dr SYKES** — I will get you to clarify the other three queries on notice.

**The CHAIR** — It seems to be it applies to one program and not to the other.

**Ms ALLAN** — Sorry, can I just clarify something?

**The CHAIR** — Yes, you can.

**Ms ALLAN** — I have just been advised that the criteria of three is actually the criteria for the apprenticeship and traineeship completion bonus, not the apprenticeship trade bonus. Everyone gets the trade bonus, but the criteria of three was for the completion bonus. Sorry about that — it was just to clarify it.

**Dr SYKES** — Are you doing anything to address that, given — —

**Ms ALLAN** — That goes back to Kim's question about having a review, taking the opportunity to review the apprenticeship and traineeship completion bonus. We are going to take the opportunity in the context of the commonwealth agreement coming up, the skills statement initiatives coming on board, and other incentives that have been introduced, to have a look at the make-up of that program. Also just on your question around participation in vocational education by country Victorians, 36 per cent in vocational education are from regional Victoria, and when you compare that to the population of 27 per cent, it shows that there are proportionately more country people undertaking vocational education training — again, not surprising, considering that is an option more country people take. I am happy to provide further information.

**The CHAIR** — I am sure, and on completion rates as well, Minister.

**Mr PAKULA** — Minister, I am interested in 'Returning to Earning', which is on page 309 of budget paper 3. Can you give us a bit of an outline about that program?

**Ms ALLAN** — Yes, certainly. The parents-returning-to-earning program is a continuation of the very successful parents-returning-to-work grants, which the Bracks government introduced back in 2003 and were tremendously successful in helping parents who have been out of the workforce for two years or more caring for children to re-enter, either through assisting with their retraining costs or, more directly, with their employment costs. Unsurprisingly, out of the 9000 people who received assistance from the parents-returning-to-work grant, 95 per cent of those were women.

We have continued this program, and we have continued it with \$13.2 million in this year's budget because we know that women caring for children make up the greatest proportion of people outside the workforce who are keen to get back in, and with the right set of assistance to help them, whether it is things like their child-care costs or their training costs, they can go on and participate in the workforce. This is very much something that came through the work we did as part of our \*Workforce Participation Task Force report, which I will talk about when I come back as employment minister. It is absolutely essential that in terms of continuing to drive economic growth and productivity in this state we lift participation in the workforce by women, and particularly by women with children.

Predominantly the responsibility for this sits with the federal government particularly around child care and tax concessions. I do not think one-off cash grants in an election year are going to fix the child-care problem; we need more structural improvements than that. However, the Bracks government is doing what it can by providing a targeted report to parents at this key point, and that is what is behind the parents-returning-to-earning grants. It will certainly provide approximately 12 000 grants over the next four years for the program. So when you add that 12 000 to the 9000 who have already been assisted over the past four years, there are some 21 000 people who are going to be helped back into the workforce, predominantly women who make a very good contribution not just to the local industry but also to the broader Victoria economy as well.

**The CHAIR** — Thank you, Minister.

**Mr DALLA-RIVA** — I refer you to BP 3, page 311, table A.10. I know you mentioned it briefly before in your discussion and provided us with asset investment initiatives. Do you think it is an admission that you have dropped the ball in respect of moneys that you provided given you have indicated that since 1999, \$359 million has been allocated? This financial year there is \$3.2 million allocated in the budget, which, some could argue, is about 0.8 per cent of what has been allocated. Do you think that is a fairly low average of asset initiatives for TAFEs given what you stated before?

**Ms ALLAN** — As I said before, the \$359 million is double the TAFE capital investment that was made under the previous government — —

**Mr DALLA-RIVA** — I am talking about this year.

**Ms ALLAN** — You have to look at it historically as well. We have made a significant investment in TAFE capital works over the last seven years, and you are seeing that work in the pipeline continue. It is actually \$38 million that we have in this year's budget. You have to remember that these budget papers only show new spending, and I am happy to come back with the funding from previous budgets which shows that we have actually got projects that would have been funded in last year's budget. For Richard's information, and I do not want to read budget papers to him, but if you take the automotive centre of excellence you will see how that is phased over four years. That will not be in next year's budget papers — as I understand it — because it will not be a new initiative.

This is a table that shows new asset initiatives, and in terms of our total capital spend, our total capital spend for this year — and Warren might have to give me a hand with this; it is a bit colourful — —

**The CHAIR** — It is part of the 28, 28, 28, 16 that we heard about on Friday.

**Ms ALLAN** — If I can maybe come back over the course of the hearing in terms of the total capital investment that we have made this financial year — if you can just give us a couple of minutes?

**The CHAIR** — Not too long.

**Ms ALLAN** — No.

**The CHAIR** — We can move on to the next question if you like.

**Mr DALLA-RIVA** — Just to clarify it. It is \$3.2 million — —

**Ms ALLAN** — The 3.2 is new, and we will get you the figure from the previous — —

**The CHAIR** — Okay, well why don't we do that.

**Ms ALLAN** — We will come back on that.

**The CHAIR** — We will move on to the next question.

**Mr SCOTT** — My question refers to equipment grants for community education providers which are referred to in BP 3, page 339. I would be grateful if the minister could advise how the government is supporting adult and further community education providers.

**Ms ALLAN** — Certainly. This is a very important part of Victoria's education and training system when you consider the investments we have made in schools and in TAFEs and the vocational education system more

broadly. We have also provided additional support to the adult and community education sector. Since 1999 we have actually increased funding to this area by 43 per cent, or around \$15 million. When you consider the importance of the adult community education sector, it provides great access to people for education and training. We have, I think, over 340 adult and community education providers in the state. They have a very wide spread, they have a very high presence and profile in country Victoria in particular. They do provide that entry point to further training.

I mentioned before the parents-returning-to-work grants. Many of those grants were used in the ACE sector by women undertaking entry-level courses so that they could get back into the workforce. That is why in this year's budget we have provided an additional \$4 million over two years for equipment grants to ACE providers, to assist those providers with accessing and purchasing the latest and newest technology, and eligible organisations will be able to apply for two types of grants: one of up to 5000 and the other up to 10 000.

There is a range of categories that they will be able to apply for, whether it is for improving communications and computer equipment, assisting equipment for learners with special classroom needs and particular learning needs, things to assist with administration and also providing some equipment in the ACE area that will be the equivalent of the sort of equipment that will be used in the workplace as well. It is really making sure that we can support TAFEs with equipment and put tech things into the schools. It is about providing the ACE sector and those learning environments with the equipment and with the facilities that they need to support a very big group of learners in our community.

We often think of the ACE sector as providing those short courses, but they do provide a very important role in terms of helping young people improve their literacy and numeracy, adult learners in particular with literacy and numeracy, and, as I said, it provides a really important accessible point to education and training for people who can then go on to TAFE or university and further education. That is why we are seeing this investment in equipment grants for the ACE sector.

**Mr DALLA-RIVA** — Minister, I refer you to budget paper 3, page 59, 'Later years and youth transitions'. On two of the quantities under major outputs/deliverables in performance measures — the first one is the enrolment in VET in School certificate programs. I note in 2005–06 the actual is 47 000, the expected outcome for the current financial year is 45 and the expected target for the next financial year is 45.

The question is: why are the enrolments in those certificate programs dropping? It is akin to the second last on that same page 'VET in Schools students completed a qualification'. In 2005–06, 13 077, expected outcome is a reduction to 12 800, with the target again set at 12 800. Again, why are there less VET in School students completing qualifications? Perhaps you could cover that particular issue?

**Ms ALLAN** — Certainly. Just to confirm — you are talking about the ones that talk about VET in Schools? That is actually a question that is Minister Lenders' responsibility. If you remember back in the education services presentation I said anything that happens in the post-compulsory area outside of schools is mine and anything that happens inside the schools is John's.

**Mr DALLA-RIVA** — So both those questions relate — enrolments and the VET — —

**Ms ALLAN** — Yes, they would be best for John's area. Yes, because it happens in schools. As I said, if it were VET outside of schools — so in TAFEs or in the ACE sector or somewhere else — that would be my responsibility. I know it gets a bit confusing; it is like this with education versus education services from time to time.

**Mr DALLA-RIVA** — No, that is all right.

**Ms ALLAN** — That is one I can happily pass on to John for you.

**Mr DALLA-RIVA** — I am sure and now predict his question will come, I guess.

**The CHAIR** — Hansard will record it, and I am sure it will be passed to the minister.

**Mr DALLA-RIVA** — I am sure there will be 43 advisers onto it!

**The CHAIR** — We might have a short break. I thank the witnesses for their information on the skills portfolio. We will come back in a couple of minutes regarding employment.

**Witnesses withdrew.**

## **Transcript of Evidence**

### **6.15 Small Business portfolio**

*Please note the Small Business transcript and the Industry and State Development transcript are combined into one transcript.*

# VERIFIED TRANSCRIPT

## PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

### Inquiry into budget estimates 2007–08

Melbourne — 4 May 2007

#### Members

Mr G. Barber	Mr G. Rich-Phillips
Mr R. Dalla-Riva	Mr R. Scott
Ms J. Graley	Mr B. Stensholt
Ms J. Munt	Dr W. Sykes
Mr M. Pakula	Mr K. Wells

Chair: Mr B. Stensholt  
Deputy Chair: Mr K. Wells

#### Staff

Business Support Officer: Ms J. Nathan

#### Witnesses

Mr T. Theophanous, Minister for Small Business and Minister for Industry and State Development,  
Mr W. Hodgson, Secretary,  
Mr I. Munro, deputy secretary, business support,  
Mr B. Foskett, chief executive officer, Invest Victoria,  
Mr L. Bruce, acting deputy secretary, business development, and  
Mr D. Hanna, deputy secretary, economic policy and planning, and chief executive officer,  
Innovation Economy Advisory Board, Department of Innovation, Industry and Regional  
Development.



**The CHAIR** — I declare open the Public Accounts and Estimates Committee hearings for the 2007–08 budget estimates for the portfolios of small business, industry and state development, and major projects. On behalf of committee members I welcome the Honourable Theo Theophanous, Minister for Small Business, Minister for Industry and State Development and Minister for Major Projects; Mr Warren Hodgson, Secretary of the Department of Innovation, Industry and Regional Development; Mr Ian Munro, deputy secretary, business support; Mr Ben Foskett, chief executive officer, Invest Victoria; Mr Lachlan Bruce, acting deputy secretary, business development; departmental officers, members of the public and the media.

All evidence taken by this committee is taken under the provisions of the Parliamentary Committees Act and protected from judicial review. There is no need for evidence to be sworn; however, any comments made outside the precincts of the hearing are not protected by parliamentary privilege. All evidence given today is being recorded, and witnesses will be provided with proof versions of the transcript by email for their verification. The committee requests that verifications be returned within two working days of receiving the proof. Transcripts and PowerPoint presentations will then be placed on the committee's website.

Following a presentation by the minister committee members will ask questions related to the budget estimates. Generally the procedure followed will be that relating to questions in the Legislative Assembly.

In accordance with the guidelines for public hearings, I remind members of the public that they cannot participate in the committee's proceedings. Only officers of the PAEC secretariat are to approach the PAEC members. Departmental officers, as requested by the minister or his chief of staff, can approach the table during the hearing. Members of the media are also requested to observe the guidelines for filming or recording proceedings in the Legislative Council committee room. I ask that all mobile telephones be turned off.

I now call on the minister to give a presentation of around 10 minutes on the more complex financial and performance information that relates to the budget estimates for small business as well as for the Industry and State Development portfolio. Thank you, Minister.

**Mr THEOPHANOUS** — Thank you, Chair. It is a pleasure for me to be here before the Public Accounts and Estimates Committee, as a former chair of a similar committee. I do not think it was called public accounts then — I think it was called economic and something development — but I am very pleased to be here.

#### **Overheads shown.**

**Mr THEOPHANOUS** — I want to try to take the committee through what we are doing in the portfolio and the rationale behind the portfolio as well. The first thing to say is that there have been some significant changes to DIIRD following the 2006 election. We have now moved responsibility for skills, the ICT sector, film and TV and major events to be part of the DIIRD portfolio. I think members would be able to understand the rationale for that, in particular the skills element. We are very mindful of matching skills to what is required in industry.

There are some new ministerial portfolio line-ups as well. The Premier changed the old manufacturing and export and financial services portfolio to call it the Industry and State Development portfolio, of which I am the minister, and it also has separate areas for skills and ICT. Of course there are continuing functions, which include innovation, regional and rural development, tourism, and industrial relations as well.

What does it mean? DIIRD I think clearly has responsibility for the entire broad economic portfolio, which includes skills, investment attraction and facilitation, export facilitation and support, regional development, small business, innovation, manufacturing services industries, ICT, international promotion, and industrial relations. So you can see it is a very broad group of responsibilities.

This will facilitate more effective integration of the various arms of the economic development agenda — for example, skills, with manufacturing and investment attraction. It is important to understand that creation of the Industry and State Development portfolio reflects the growing integration of the economy and the focus that the government is bringing to this. Manufacturing services, financial services and infrastructure, included through my other portfolio of Major Projects, are increasingly interlinked as pillars of the economy and in driving our economy forward. The Premier was I think very deliberate in deciding on the portfolios that he gave to me.

Moving on to the next overhead dealing with the priorities in the Industry and State Development portfolio, we want to continue the strong performance in investment attraction and facilitation. We need to grow our exports, we

need to deliver the Victorian manufacturing statement — which I am hoping to do later in the year — implement the defence industry road map, and, of course, build on our international connections. I will speak more broadly, perhaps in answer to questions, Chair, about some of these priorities and why there are these new challenges for this portfolio in working in an increasingly globalised economy and also where there are some significant new challenges, such as global warming, that we have to deal with as well.

In the small business portfolio, a very large part of our businesses are in fact small businesses — 96 per cent are small businesses. We want to be able to provide world-class service, we need to reduce the regulatory burden, and, of course, skills is emerging as a major issue for small business and we have taken some initiatives in that regard.

In terms of achievements, we have achieved strong business investment. Business in Victoria continues to be strong, reflecting the strength of the economy. Business investment remained at near-record levels in 2006 and in 2006–07 business investment will be almost double the level in 2000–01, as the graph shows.

The next overhead shows strong export outcomes. As you can see, total exports in 2006–07 reached 29.1 billion, and annual growth for 2006–07 is in double figures as well.

In relation to this one, ‘Achievements 2006–07’, under ‘strong employment growth’ and 68 900 people over the past year, that is a lot of new jobs. We have historically very low unemployment levels of 4.9 per cent and solid population growth, up 1.4 per cent above Australia as a whole, so we are attracting a very large number of people coming here but we are also providing jobs for them.

‘Investment attraction and facilitation’, as you can see there, is another strongly performing area. Two billion of investment is expected to be facilitated in 06–07, which exceeds the target which we set of 1.6 billion, so we are ahead of that target. And 5000 jobs are estimated to be associated with these investments.

Under ‘New initiatives’, for industry and state development there is 9.9 million for *Opening Doors to Export*. You can see they are listed there, and I am happy to answer questions on them. In the small business area we will be investing 9.3 million, as the budget papers show, in order for the small business commissioner to continue his work. I will be happy to talk about the small business commissioner later.

As you can see from ‘New initiatives’, new initiatives are important to the DIIRD portfolio, but they are not the whole story. As I think I have indicated with the previous slides, DIIRD has a very broad set of objectives, and it achieves them on an ongoing basis. I have to say, Chair, even though we sometimes say the no 1 priority is in education for this government, and it certainly is, we also know that in order to achieve that no. 1 priority we need to have a strong, robust economy, and that is what I see as my job and the job of DIIRD to achieve. I think they have been very successful in that over the last few years. I think that is it.

**The CHAIR** — Thank you very much, Minister. I think we have about an hour and 20 minutes for questions. I would like to follow on from where you left off and ask you to tell us a bit more about this \$9.3 million for the small business commissioner. As a strong supporter of small business, I want to know how is that going in terms of business approaching the small business commissioner and what is this \$9.3 million for?

**Mr THEOPHANOUS** — Thank you for the question, Chair. As I said in my introduction, small business is an important driver of the economy. Ninety six per cent of our businesses are in fact small businesses. I think there are in excess of 300 000 businesses in total, so we are talking about a lot of people and a lot of employment in the small business sector, but one of the things that happens in small businesses, of course, is that there are disputes, and sometimes those disputes are retail tenancy disputes, sometimes they are disputes on other issues.

In May 2003 the Bracks government established the Office of the Victorian Small Business Commissioner, which was at that time the first of its kind in Australia. The key functions of the office are therefore: dispute resolution, investigations, monitoring government practices, and information and education. Under the Retail Leases Act 2003 and the Small Business Commissioner Act, the VSBC (Victorian Small Business Commissioner) also has the power to mediate small business complaints. Since December 2006 it has had the power under the Owner Drivers and Forestry Contractors Act to mediate disputes between hirers and contractors as well. So it has a significant ambit of responsibility. Since its inception it has dealt with 3100 matters which have been referred to it.

It has resolved disputes valued at approximately \$130 million, and it does so at relatively low cost. Bear in mind that for each party the cost is \$95 to have a dispute mediated. The VSBC has maintained a success rate of

approximately 80 per cent as part of its record. There was no ongoing funding in the budget for the commissioner, so one of my first tasks was to identify how important it was. I had in fact received the KPMG report and examined that report. I looked at what the role of the commissioner was and so forth, and the outcome is that we are continuing to fund the commissioner in the future. It is a very important part of providing a service to small business.

**Mr WELLS** — Minister, I would like to talk to you about water restrictions and their impact on industry. As you are aware, the water storages have fallen below 30 per cent. Can the minister explain to the committee what industry-specific water savings and management plans he has in place to minimise the impact of the drought on individual industry groups, and will he provide the committee with a list of industry-specific plans to be put in place and copies of those plans?

**Mr THEOPHANOUS** — Thank you, Mr Wells. Of course water is an important issue and it is an important issue for all of us, and certainly in my portfolio the issues are important because of the effect on industry — and really on all industry because we have some very substantial users of water in the industry sector — sitting alongside the residential demand. However, it should be put into some perspective. Melbourne's demand for water accounts for only 10 per cent of Victoria's total demand for water, and Melbourne's non-residential demand makes up only 2.8 per cent of the state's total water demand. So it needs to be put into that kind of context.

We have put in place a number of programs to help industry to reduce water use. These include the Water for Industry program, a \$10 million program; the Industrial, Commercial and Institutional Fund, a \$1 million program; the Stormwater and Urban Water Conservation Fund, which is \$10 million; Enhancing Sustainability in New Investment, \$1 million; the Smart Water Fund, \$5 million. All of these have been put in place.

The Water (Governance) Bill of 2006 requires water authorities to note their top 200 water users in their annual reports from 2006–07 so the community will know which particular users within industry are using water the most. At least they will know the top 200. But bear in mind, again, the top 200 are significant users, but they account for 0.8 per cent of statewide demand, so it needs to be put into that perspective.

I think that we have also gone to work with these top 200 to develop industry plans. In fact 180 of the top 200 water users have completed water management plans, with the remainder due for completion by 30 June this year, as part of the Pathways to Sustainability program. Pathways to Sustainability will be extended beyond the top 200 to include an additional 1300 water users, saving another 13 gigalitres by 2015.

So as you can see, Mr Wells, we have been very active in this area in seeking to reduce the amount of water, identifying who the top 200 are and ensuring that they all have water plans. Now we are moving to extending those water plans to a further 1300 water users in order to ensure that industry does its bit to reduce the amount of water that is being consumed.

**Mr WELLS** — Can I just clarify a point? You have identified the 200; then they have to provide a water plan to you?

**Mr THEOPHANOUS** — Sorry?

**Mr WELLS** — Is that my understanding of it? You have identified the 200 largest water users. Then is it their role to provide a water plan to you, as minister, as an industry plan? I am just getting clarification on that point.

**Mr THEOPHANOUS** — I think they provide that plan to the actual water suppliers, as I am informed.

**Mr HANNA** — It is certainly not to the minister here. If it is to a minister, it will be to the minister for water. I will have to check that.

**The CHAIR** — You will find on page 332 in budget paper 3 an explanation of that particular program, the Top 1500 Industry Program.

**Mr THEOPHANOUS** — What I can tell the committee is that they are not reported to me as minister or to him.

**Mr WELLS** — So the industry plan is from the minister for water?

**Mr THEOPHANOUS** — The minister for water has responsibility for that plan. My department works with the top 200 to ensure that they meet their obligations under the plan, as we work with all industries to ensure that they meet a whole range of obligations, including ones that are related to trying to reduce electricity consumption and all sorts of other obligations that we try to encourage industry to meet.

**Mr PAKULA** — Minister, in budget paper 3 on page 139 there is a whole range of small business supports. The government spends a significant amount on programs and services for small business. I am wondering how we know that the needs of small business are actually being met and that the services represent value for money.

**Mr THEOPHANOUS** — Thank you, Mr Pakula. Of course, this is an important aspect of what we do, because there is not much point in having a series of programs and spending a significant amount of money on these programs if you then have no idea about how successful the programs are. So it is important for us to identify, as far as we can, the extent to which they represent value for money for the government.

The way in which we do this is through a number of sources, but a very important way is through client satisfaction surveys. These surveys have indicated that the Victorian government small business programs are very well regarded. Of the 3973 participants at 317 workshops and seminars on Under New Management, which was one of the programs, 90 per cent rated the workshops and seminars as either excellent or good. Another program, Women's Access to Finance, held 63 seminars involving more than 739 participants — again, more than 90 per cent rated the seminars as either excellent or good. In relation to the small business mentoring and counselling program the satisfaction rating was 74 per cent, and overall with Grow Your Business, which was another program, 91 per cent rated that saying they were very or quite satisfied.

There are a number of others. I might just mention the Energise Enterprise 06, which was very good — 95 per cent reported that the event they attended was good or very good. As you can see, we not only try to help people with these programs, we also, in doing that, survey their satisfaction levels so that we can assure ourselves that what we are actually doing is thought by our customers to be value for money and useful to them.

**Dr SYKES** — I am interested for you to perhaps expand on opportunities you see in relation to reducing the regulatory burden on small business. I put it in the context that as I sit in the Parliament many, if not most, pieces of legislation that pass through the house have an impact on small business in country Victoria. For example, the working-with-children legislation had an impact on newsagents that historically employed young children to be paperboys and papergirls. In essence, following the letter of the law with newsagencies, it was very difficult for young boys and girls to continue to be paperboys and papergirls and therefore they lost that opportunity to earn pocket money and to learn a work ethic.

Similarly, the penalty rates that have been introduced for working on Sundays have resulted in businesses initially upping the price of their product on a Sunday — for example, Bouwmeester's Bakery at Benalla upped the price of their cappuccino by a dollar. They found there was market resistance, so their solution was to put off the salaried employees and work harder themselves in an attempt to keep going.

Another one is the issue of the working-with-children legislation whereby a volunteer is required to have a police check, and that is undertaken at the cost of the taxpayer, not the individual. But if that same volunteer with a police check clearance wants to work with children in an employed situation, they have to go and have another police check for which they have to pay — I think it is \$70. So those are three examples where I have seen a negative impact. Can you flesh out where you can see opportunities to reduce the impact of regulatory burden, perhaps looking at those three in particular?

**Mr THEOPHANOUS** — Thank you, Dr Sykes. Perhaps in answering your question I should say that a big part of your question related to industrial relations, and I am not the Minister for Industrial Relations, so I am not sure that I am the right person to ask that particular question of. But there is a system of awards. There are community standards in relation to when and how old children need to be in relation to protecting children at work, and those community standards you are aware of. But I am not the responsible minister in relation to those in any case.

What I can tell you in relation to the broader question you put to me, which was about reducing the regulatory burden on small business, is I think the important thing to say here is that we actually have a target for this; the government has a target. It is a three-pronged approach to reducing the burden through a commitment to cut the existing administrative burden of regulation by 15 per cent over three years and 25 per cent over the next five years. We also have a self-imposed initiative for all ministers such that where there is a new regulation to be enacted a compensating one must be removed. So in that sense we have capped the number that can go forward, and then put a target on ourselves in relation to reducing the amount of regulation that small business might face. We are also continuing to promote non-legislative initiatives to reduce the regulatory burden by trying to make it easier for businesses to navigate their way through information on a range of regulations that are administered by the agencies.

Some initiatives include services such as the Victorian Business Line, Victorian business centres, the Business Victoria website and the world-class service initiative, which provide a kind of integrated service to businesses seeking advice and information on regulatory requirements across all levels of government. So businesses can access those services and can find out what they need to do in terms of regulatory requirements right across government. There is a new small business regulatory impact assessment manual, which is a new manual to assist regulators in calculating the cost to business of new regulatory proposals — that is a recent initiative that we brought out — and a new business consultation database as well, which is due to commence in May 2007. Both of these initiatives I launched.

They will allow businesses to have direct input into the regulatory process as we develop new regulations. There will be a database which must be consulted called the business consultation database. There is an interstate business transfer service currently under development which will also reduce the regulatory burden on business seeking to relocate to Victoria or open a Victorian branch. This is something for which we are also undertaking a program of reviews to identify the necessary actions to reduce compliance burdens combined with incentive payments similar to those under national competition policy.

Reducing red tape is one of our major priorities for small business. I suppose with small business, and to some extent with business generally, when you speak to business they talk to you about regulatory burden, they talk to you about inputs. These are the things that they want governments to address. I am sure I will be asked questions later about inputs, but we are certainly in the business of reducing the costs to business, and I think they have been significantly reduced over time.

I will not respond to that in answer to your question, but the second part of that is reducing this regulatory burden. It is something we need to be vigilant on, and I believe the government has gone a long way and has a very significant program going forward to reduce that regulatory burden.

**Mr SCOTT** — Minister, in a table located on page 139 of budget paper 3 a reference is made to ‘World Class Service initiative’. Could you please advise the committee what progress has been made with this initiative?

**Mr THEOPHANOUS** — Thank you, Mr Scott. As I said just before, regulation and its associated compliance burden continue to be a concern for small businesses given that they often time poor and have limited resources to be able to address the regulatory burden.

The Victorian small business master key, the VBMK — it is not all that catchy, but it is a good initiative — was announced in Victoria *Leading the Way* in April 2004. We provided \$6 million over three years to that program. The second phase of the VBMK was announced in the new program announced for small business in *Time to Thrive*, the small business statement, in August 2006 under the title ‘World Class Service’. This committed an additional \$18 million through to 2010.

There is a significant amount of money being invested in this Victorian business master key program, and the services developed by that service make it easier for businesses to deal with government through integrated and customer-centric service delivery, both online and over the phone. It is a key element of the government’s commitment to reducing regulatory burden on business. The first release of services occurred in December 2005. These services allow businesses to find and manage government information and conduct their licensing and registration transactions.

Businesses can search all government websites in one go as a result, access step-by-step online learning guides, find the right contact, ask questions across a wide range of government matters, and use the first stage of an

integrated online account to manage their business licences, permits and registrations. For those who do not know it, it can be accessed through [www.business.vic.gov.au](http://www.business.vic.gov.au).

**The CHAIR** — It's good we are on the internet.

**Mr BARBER** — Tiger Airways — your very successful coup there — can you detail for us — —

**Mr THEOPHANOUS** — A coup?

**Mr BARBER** — I know you are proud of it so you will want to talk about it. Can you detail what incentives you offered to get them to locate here — just to give you some prompts — under the headings of tax expenditures, subsidies or other kinds of spendings or any other kind of regulatory breaks?

**Mr THEOPHANOUS** — Thank you for your question, Mr Barber. As I indicated in the house yesterday, this is a very important investment for the state. It will create a significant number of jobs — we estimate about 1000 jobs.

It will generate, according to what the company has said, something in the order of 2 million additional airline trips in the first year of operation. That is a lot of people being able to access cheap fares. It will make Melbourne the cheap fare capital of Australia. It will mean that more than 60 per cent of airfares out of Melbourne will be what you might call at the cheaper end of the scale or the low-cost end of the scale. Melburnians and Victorians will be able to benefit from this by very substantially reduced airfares. As we have seen already, even the fact that Tiger is being mentioned has generated quite a significant amount of activity already and people are benefiting from it from their competitor announcing \$3 airfares — if you buy one, you get another one for \$3. This will be great news for the state.

The other thing I will add is if you think that the 2 million extra trips are actually going to be taking trips from existing carriers, you will be sadly mistaken, because what has been the case in other markets where this has occurred is that it has created additional flights. We expect the majority of the 2 million extra trips will not be taking flights away from existing carriers but will be adding new people wanting to go to places because it is cheaper now to travel right throughout Australia.

It has been shown that the Tiger model, where it was used in Asia but also in other parts of the world, has led to a stimulation of travel in all the markets that it has been in rather than simply just taking market share. I know that you want me to answer your question in relation to financial assistance that may or may not have been given — —

**Mr BARBER** — And other sorts of breaks. If you do not want to tell us the amount, tell us the types of assistance that the package consisted of.

**Mr THEOPHANOUS** — I know that there has been a bit of criticism in the newspapers but I think it is important for members of this committee in particular to clearly understand this. There is a reason why the government does not reveal the level of assistance packages. It has been a longstanding practice. It has been tested on a number of occasions, but let me explain what I think are the reasons. Firstly, facilitation packages are commercially sensitive for the recipient, not just the government. They demand commercial-in-confidence type arrangements with us. These arrangements, for them, are sensitive in relation to their competitors knowing what level of assistance may or may not have been given. There is an issue about that.

**Mr WELLS** — Minister, your views have changed from when you were in opposition, because I remember quite clearly that when you were in opposition when it came to commercial in confidence you never accepted it. What has been the change?

**Dr SYKES** — The Tiger changes its stripes!

**Mr THEOPHANOUS** — Whenever you want to talk about my views in opposition I think you would need to actually quote somewhere where I said something rather than use more generalised things like that. I think when I was in opposition I was certainly mindful that there are some commercial-in-confidence arrangements, as I think you have been over the years, Mr Wells. You know very well that not everything can be simply put out publicly.

And there are some other reasons for this. From the government's point of view the last thing we would want in a kind of cutthroat situation, in the highly contestable situations that we face in this department, is for all of our competitors to know how we think, to know how we structure packages, to know how we might talk to businesses that want to come and invest in this state, because it would be just like giving away the one competitive advantage that we might have.

What I can tell you is this: in putting the package together it was very clear to me that we were not on the top of the list in relation to Tiger Airways at the beginning of this process. We were not up the top; other states were in fact ahead of us. Not only that, I can also tell you that other states in the end were prepared to facilitate to a larger extent than Victoria was.

What got us over the line was being able to sell what we have to offer here in Victoria — and that part of it is the most important part, because no matter what you give as a facilitation package, if the business case does not work, if the infrastructure is not available to the business, if they do not actually start making money after a period of time, if the industrial relations climate is not in place — if all of these things are not there, I can tell you what happens: they come in for a little while and then they disappear. So when we did this, we were talking to this company for a long period of time.

I found it absurd, in the *Age* today, David Davis quoting me and saying we had pulled something out of the bag, that I knew we had to pull something out of the bag, suggesting somehow that we then finished up paying a lot more money or something of that nature. In fact, do you know what I was referring to? If he had been there when I mentioned this to the press, what I said was 'Yes, Victoria ultimately pulled something out of the bag'. What I pulled out of the bag was a Richmond Tigers footy jumper, and I gave it to Tiger and said, 'Come down to Melbourne, because not only do we have all these other things for you, we have also got a football team that has your name' — —

**Dr SYKES** — And they are losers!

**Mr BARBER** — Minister, if we got it for the price of a footy jumper, I would be thrilled. Can you go back to my question?

**Ms GRALEY** — He is a Bulldogs supporter, too.

**Mr THEOPHANOUS** — To completely twist what I had said in relation to a football jumper into somehow suggesting that the government — —

**Mr BARBER** — Fill the vacuum, Minister, and just explain to me if tax expenditures were involved, if subsidies of other types or regulatory breaks were involved. If you do not want to tell us the amount, at least tell us the categories under which it fell.

**Mr THEOPHANOUS** — I think, as the Premier has said, we did provide assistance for training for the company. We were very keen to make sure that they are able to train up their staff — the on-ground staff and the staff that will be used on the aircraft itself — so we have provided a bit of assistance to help them in skilling up the new workforce that they have got.

We have also provided some assistance in relation to what we call cooperative marketing. When we say 'cooperative marketing', remember that that cooperative marketing does not just market the Tiger brand but it markets Melbourne. It has to market Victoria and Melbourne, and in that sense it is kind of a joint approach. It benefits Victoria because it is targeted towards bringing people into Victoria. It might be funds that we might use anyway ordinarily in trying to market our state from a tourism point of view.

They are two of the elements that were in the package. I think, though, as I said before, the decisions that were made by Tiger were made on very good grounds. I can tell you, having been involved in this process, that the other states do not hold back any punches. To give you one example, the other states were trying to find reasons around industrial relations as to why they should not come into this state — because of the poor industrial relations situation.

We had to counter that — and we did. Not only did we counter it by showing how some of the statistics that might have been given to Tiger were not really reflective of what the state's position is, we actually managed to get Tiger

in touch with the major union that they would be involved with, to get some assurances from them about how they would operate in this state.

I venture to say that the fact that we have been prepared to go to the point of doing that kind of contact with this company in order to get this deal over the line shows you the extent and the depth of effort that it took. That is why when we launched it I was very pleased to thank everyone at DIIRD for the enormous amount of effort that it took to get this company here. We should be proud of this. This is going to result in cheap airfares, it is going to result in greater tourism into the state and it is going to be a win in terms of a huge number of Victorians being employed as well.

**Ms GRALEY** — You recently visited my electorate, and I know you know how important business is to my constituents and, of course, to all Victorians. I was wondering if I can refer you to page 139 of BP3, entitled ‘Small business support’. Could you indicate what progress has been made towards implementing the initiatives referred to in the table there?

**Mr THEOPHANOUS** — Thank you for the question. I am aware of the page you are referring to. Small business support, of course, is of significance to us. We have done this under the title ‘Time to Thrive’, which is subtitled ‘Supporting the changing face of small business’. It is a practical and far-reaching action plan to ensure Victoria continues to lead the way in supporting small business growth.

Time to Thrive has a number of different programs underneath that major title, but the package is a package of \$98 million. So if you think about this, this is a significant amount of money that is going to be expended in order to help small businesses to thrive in this state. It is targeted at reducing red tape. It is targeted at providing a fairer deal for small business, and it is targeted at skilling small business for growth.

I will just mention some of the programs that are under this \$98 million program. There is My Business, My People business skills for the future. I launched this program not long ago. It is a \$10.7 million initiative to help small business address what they tell us is one of their major issues — it is skilling their people and then keeping the skilled people within their organisation. It is a double problem for them. They first of all have to find them, they have to skill them up and then they have to keep them if they are going to remain competitive. What is becoming increasingly clear to those small businesses is that the fundamental aspect of their business that makes their business work is not what they are selling, it is not what they producing, it is actually their people. Once they understand that and how important their people’s commitment to the business and the skills of their people are to them being successful, they are able to go from smaller businesses to larger businesses. This program is \$10.7 million. It is accessible to all small businesses that want to try and access it and improve the skills of their workers.

More than 300 Under New Management seminars have been done throughout 2007. We have free health and safety consultants for small business, delivered through the Victorian WorkCover Authority. More than 600 small businesses have benefited from this service. This is where you get the Victorian WorkCover Authority to come in with a health and safety consultant and tell you how you can construct your business so that you do not finish up having a WorkCover claim. There is a small business procurement hotline providing advice and assistance on how to win government business as well. So there is a range of such businesses, but I might finish in answering your question with a quote from Tim Piper, the Victorian director of AIG, the Australian Industry Group. He said:

The Australian Industry Group is pleased the state government recognises the need to assist to small businesses to develop and welcomes Time to Thrive. Planning for and access to skilled workers for small manufacturers is vital for the development of the Victorian economy and the \$11 million provided to address this is welcomed by industry and especially manufacturers.

That is a pretty good endorsement.

**Mr RICH-PHILLIPS** — Minister, I would like to go back to the small business commissioner you mentioned earlier and the KPMG report. Can you run through the recommendations of that report that presumably you have picked up in getting ongoing funding. Has that report being released and, if not, will you make it available to the committee?

**Mr THEOPHANOUS** — The answer to your question is that the report has not been released, but in further answer to your question I do intend to release the report. As I think it is appropriate, I examined the report myself. I use the report to make decisions about the future of the small business commissioner. We have made those decisions now. We have decided to continue to fund the small business commissioner and for the office to



continue its operations. That report was generally favourable in relation to the operation of the small business commissioner, but it did have some recommendations that the small business commissioner needed to take up and use. We were happy to pass them on.

In a general sense the report indicated that the small business commissioner is 'very effective and reasonably efficient' — that was the final conclusion — 'in achieving their policy objectives'. It found that the key stakeholders see substantial value in what that small business commissioner does, particularly its role as a low-cost, successful mediation service for business and business-to-government disputes. It found that the commissioner's dispute resolution and mediation activities had been effective in allowing greater numbers of businesses to access this low-cost dispute process and it made 17 recommendations to improve effectiveness and efficiency of this sector. They have been considered by management and are being used to inform strategic and operational planning for the 2006–08 and beyond. So we were reasonably happy with this. I am happy to make it available to the committee as well as launch it publicly.

**Mr RICH-PHILLIPS** — Is it likely to be soon — the public launch?

**Mr THEOPHANOUS** — We have not set a date, but I will try and ensure it is done relatively quickly.

**Mr DALLA-RIVA** — Minister, I refer you to budget paper 3, page 138, on export promotion. In particular I draw reference to last year's PAEC hearing where it was referred to the then minister that there needed to be a substantial increase in the number of exports grown to meet the government's Opening Doors to Export strategy in 2004. In particular I refer to the report on the 2006 budget estimates, page 286, where it speaks specifically about those issues and the fact — you will not have this minister, but I will quote:

The committee noted that to achieve the target number of exporters (24 500 companies by 2010), there would have to be an increase of over 130 per cent between 2004-05 and 2009-10.

I draw your attention to the current budget paper I referred to earlier in respect of quality and that is the client satisfaction with export assistance offered. I note the target had been set at 90 per cent and in fact the expected outcome for the current financial year is 73.

Would that be an indication that the Office of International Business and Export, in fact the area of export promotion, has in fact been anything but, and could you explain how you are intending to reverse this decline in client satisfaction so that we can actually see an increase in export outputs?

**Mr THEOPHANOUS** — Thank you. What I might do is answer in a general sense, but I might pass on to Ian Munro to give a bit more detailed responses as well. In a more general sense, exports is one of the things we are very interested in focusing on now. In fact the review that we are doing on the VGBOs is partly in order to refocus our emphasis more on exports than what you might call investment facilitation. If you think about the Australian funds market there is a lot of money in Australia at the moment — a lot of funds ready to be invested. In fact we now have the fourth-largest amount of money under funds management in the world, at more than \$1 trillion under funds management, so there are plenty of funds in Australia that are available for investment in Australian businesses.

What we need to do, and what I am keen to focus on — and that is one of the reasons why the Premier decided to look at the VGBOs — is to put a greater amount of emphasis on our export facilitation and increasing our export drive. The reason we did this — I must say to you that in fact we have done a lot of this already. Sometimes you have heard me speak about the automotive industry where we have increased the amount of exports in a way that has virtually saved the industry, because if it was reliant only on the domestic market the automotive industry probably would have collapsed by now. It now exports 45 per cent, or thereabouts, of the cars that are produced outside of Australia. It is that which is holding, but if you go back a few years that figure was significantly lower than that. Manufactured exports have been increasing out of Victoria. It has been a very important part of us being able to have a strong economy. Can you add something further, Ian?

**Mr MUNRO** — I could, I think, specifically about the point you raised in terms of that client satisfaction, the 73 per cent. I have to say that we have scratched our heads as to where that came from. My answer would be that it is an early indication, a measurement that was taken early on, and that we would have confidence that it would get up to the 90 per cent. As you will note in the target for the next years — 2007, 2008 — we have changed

the system, four out of five, so that is why it becomes 80 instead of 90. I am not sure where that figure came from. We have had a look to see the basis of that, but we are confident that it will get up to the 90 per cent.

**The CHAIR** — When you do find out perhaps you could tell us.

**Mr MUNRO** — Certainly.

**The CHAIR** — Minister, I want to refer you to investment facilitation and attraction at page 137. We have had some discussion on this before, but looking at the various units of measures and expected outcomes et cetera, I know have we discussed Tiger, but can you tell us a bit more what you are expecting to achieve or what has been achieved under the various headings in a little bit more detail rather than simply Tiger?

**Mr THEOPHANOUS** — Yes, I certainly can. I am sure people on this committee understand — I am not sure perhaps some others who may not be as involved in the economic side of government, but I am sure people on this committee understand just how significant and important investment facilitation is and in some respects how sensitive it is too.

We are involved in trying to facilitate investment in a range of areas, and we do so by a number of different processes. There is an amount of money which is identified in the budget papers which is put in as our investment facilitation budget, if you like. But as well as that budget you will almost invariably find that when we report on the output in later years the output is significantly higher than the amount that we had budgeted for, and that is because obviously we use a Treasurer's Advance, quite often in order to facilitate investment — I guess of the Tiger variety. That is why the output always comes in as a lot higher than what was budgeted for. In fact I was asked the question again by David Davis, who seems to mix these things up. He asked me another question in Parliament in which he tried to suggest that we had reduced the amount, because he compared the output with the budgeted figure rather than comparing the actual numbers.

But in respect of your question — investment attraction. The amount that was attracted and facilitated by DIIRD — let me just put this to you because there is a small amount, a relatively small amount in the budget, but let me just put to you what we actually achieved. We achieved a record \$2.48 billion of investment resulting in the creation of an associated 6091 jobs. That was the total estimated amount of money that got invested into this state as a result of investment facilitation by DIIRD. Just imagine what the state would be like if we did not get that \$2.5 billion of additional investment arising out of this facilitation-type activity.

Let me just point out for regional Victoria how important this is. In regional Victoria we were well above the figures for 2004-05, with a record \$1.125 billion of investment attracted and facilitated in 2005-06, with an expected result of 1598 jobs. That is 1600 extra jobs in regional Victoria; and in regional towns, you know, 20 jobs makes a huge difference, sometimes 10. So we are talking about 1600 jobs being facilitated just by this program alone.

The majority of investment attracted and facilitated was concentrated in the following areas: in forest products, \$593.4 million; in the automotive sector, \$551.8 million; in food, 351.4 million; in tourism, 253 million; and retail services, 221 million. So in the IT and T — information technology and telecommunications — sector, investments in that sector, we generated the greatest amount of employment, with 1078 jobs expected to result from investments attracted and facilitated. The food industry gave us 935 jobs, the retail sector, 827, the automotive sector, 709, and on it went.

So if you think about these investments, they are very significant investments. Just to cite one of the investments we have facilitated, the Ford Motor Company investment of \$1.8 billion over 10 years to implement its new Falcon project and create a global design centre for SUVs and light commercial vehicles in Victoria. I do not think people really understand just how important these industries are to us, but if you were to go and visit the Ford centre in Broadmeadows, not the part where they actually make the cars but across the road where they have all their engineers and designers — I mean I was astonished when I went down there. I thought there would be maybe a hundred or a couple of hundred people at most that would be working down there on designs and engineering of cars.

It turns out it has expanded this and it has 1000 people working on this. Designers and engineers are producing designs and engineering for cars that are not even being made in Australia. This is the sort of future that we have to try and promote in our industries if we are going to keep ahead of the game and keep our people employed. I am

very proud of what we do in this sector of facilitation. I think it is something that should be supported across parties.

**The CHAIR** — Thank you very much, Minister. I have seen the one at Toyota, for example. It is similarly very good.

**Mr THEOPHANOUS** — Yes, Toyota is the other one

**Mr WELLS** — Victoria's annual share of national exports has slumped to a historic low of 12.1 per cent from 20 per cent in 1999. Since 2001 the value of Victoria's goods exports has fallen a further \$3 billion, or 13 per cent, to \$20 billion annually. This is very similar to what Richard Dalla-Riva was saying. Under trade development export promotion in the budget, the value of exports facilitated and imports replacement has also declined over recent years. I note that on page 138 of budget paper 3, the budget target for exports facilitated and imports replacement for 2007–08 is \$689 million. That is the same target for the expected outcome as what you had last year. So this is down from a high point of \$2121 million in 1998.

I also note, Minister, on page 8 of the *2007–08 Victorian Budget Overview* that total Victorian goods exports grew by 5.1 per cent, but given this can you explain why the outlook exports facilitated and imports replacement is not greater than the \$689 million target especially, as I said before, as that figure of 1998–99 was up as high as \$2121 million?

**Mr THEOPHANOUS** — Again I might talk to you first of all about our long-term target on exports. The government has set itself a long-term target to increase goods and service export revenue to \$30 billion and to double the number of exporters by 2010. We set that target in 2002. To help achieve these goals, the government committed \$11 million over three years in the Opening Doors to Export plan to introduce five new programs, expand overseas offices and fund major participation in the Aichi World Expo.

In the 2006 election we reinforced that commitment to exports by announcing funding of \$4.8 million, to continue this Opening Doors to Export program, and funding of \$4.8 million to establish the Victorian Export Network. Total exports in Victoria grew by 4.6 per cent, \$1.3 billion in 2005–06, to reach a total of \$29 billion. Goods exports were valued at more than \$18.9 billion and services exports at \$10.1 billion. If the current growth rate continues, the export target of \$35 billion by 2015, which is our new target, will in fact be achieved. But we are not taking anything for granted in this very competitive environment.

These figures jump around a bit, but, for example, goods export figures for the February quarter increased by 5.9 per cent compared to February 2006. These increases were driven by a boost in the export of aluminium, meat and pharmaceutical products. So it is a market which kind of moves around a bit. It included increases of 55 per cent of non-ferrous metals to \$581 million, and there was a 19 per cent increase in meat to \$362 million. Whilst the government has exceeded investment targets in the past, there is no certainty that this situation will continue. To account for the long lead times associated with some projects and the volatility of the investment attraction and facilitation market, the government maintains a rolling target over a four-year period for the amount of new investments facilitated and the number of jobs delivered for new investments facilitated.

In 2005–06 this four-year rolling target was \$6.4 billion in new investments facilitated, and an associated 20 000 new jobs. This equates to the annual average target of \$1.6 billion in new investments facilitated and 5000 new jobs.

At the end of the day this is partly about job creation, and we are creating jobs at a rate of 1000 per week in the state. We are creating more jobs than virtually any of the other states, except for the resource-rich ones, in particular, Queensland. We are creating a lot of jobs and we are creating a lot of investment, and the economy is continuing to grow, as the budget papers show. Did you want to add anything to that?

**Mr MUNRO** — Perhaps only to indicate where the 689 came from — that would be helpful. It is the same figure; it is there from a previous year. This is something that the department, in looking at the contributions towards exports, looked at to obtain about \$100 million out of the trade fairs and missions program, around \$90 million out of the industry capability network, so that is ensuring we use local participation, and around \$500 million, adding up to the 689, coming out of the investments. These are exports relating to the investments that the department or the government is facilitating. That is where that figure comes from.

**Mr WELLS** — It is just that when you look at the figures it looks like you are going backwards. In 2005–06 the actual is 864; then you are sliding backwards to 689.

**Mr MUNRO** — What the figure is going to be in the end, we would be confident that in 06–07 it will be greater than 689, and obviously in 07–08 we will go further again to increase that. So I can assure you that exports within the department are a major, major priority in terms of investments. Everyone understands how important it is.

**Mr PAKULA** — Minister, on pages 34 and 35 of budget paper 3, I want to go to the issue of the reduction in stamp duty on new motor vehicles. In your capacity as industry minister, can you outline the benefits that the reduction will have for locally manufactured vehicles, which you were discussing recently.

**Mr THEOPHANOUS** — Thank you, Mr Pakula, and I am pleased to see that Mr Barber has come in for the answer to this question in relation to stamp duty on new cars.

**Mr BARBER** — I drank too much of that water. Thank you for asking, though, Minister.

**Mr THEOPHANOUS** — The first thing to understand is the size of the tax cut. It is a very significant tax cut. It is worth \$177 million over the five years, and it took effect from 1 May. We think this is about cutting taxes to families. It is targeted very squarely at your average working family and the sorts of cars they might buy. It will deliver \$600 worth of savings, which represents a 40 per cent cut to stamp duty on cars valued between 35 000 and 45 000. Some of those cars would be the Toyota Camry Grande, the Holden Commodore, the Ford Falcon and the Ford Territory. So there is a capacity for those cars to get a significant reduction in stamp duty. Of course it also means that some other cars can also get reductions even higher than that.

When this was thought about — I know that some people would have preferred that we just targeted this entirely on small cars, and I know that Mr Barber has made that point that we should be targeting this entirely on small cars or on cars like the Prius in order to reduce emissions.

However, can I just make this point: people are going to buy cars. What we have in this state is a very old — in fact, one of the oldest car fleets in the developed world. Many of our cars are more than 10 years old. If we can get people to buy new cars, there is actually an environmental benefit in that.

If they trade in their old six-cylinder Commodore and buy a new six-cylinder Commodore, the new six-cylinder Commodore is better for the environment. It has more environmental controls on it, it uses less petrol compared to the older one and it is, of course, most importantly, a much safer car as well. So from whatever side you want to look at it, it is a good thing.

When we did this we also had to balance one other thing: whether we like it or not, the majority of cars produced in this state and in this country are six-cylinder cars or bigger family cars. Even the four-cylinder Camry is still a relatively large car. We do not produce the very small-type cars that are on the market at around \$15 000 or thereabouts. We do not produce those cars here. We would never be able to produce them competitively, because they are produced on an absolutely huge, massive scale in countries abroad that we just cannot compete with. So one of the issues for us is always to bear in mind the question of jobs when we do these things as well. This is a boon for the average family, and most working families — —

**Mr BARBER** — A payroll tax cut — 177 million; the same thing?

**Mr THEOPHANOUS** — It is not the same thing because this will stimulate an important sector of our economy which happens to be centred here in Melbourne. The automotive industry is in Victoria. The vast majority of it is in Victoria, it is not in other states, and we wanted to stimulate that industry on the one hand and we wanted to get Victorians into newer cars. They have got options — if they want to go and get a smaller car, that is fine too, but the majority of them still do want to buy family cars. We were going to help those families to buy these new cars, get into a safer car and create Victorian jobs. It is a win-win-win situation for everyone, and I am surprised that people cannot bring themselves to support what is a really important program for our industry and for helping Victorians.

**Mr RICH-PHILLIPS** — Minister, I would like to ask you about the VGBOs. I have had concerns for some time about the effectiveness of some of the offices, and Shanghai is an example. I know it pre-dated you as

minister, but its set-up was a debacle. It took the best part of two years to get up and running with chains of executive directors. Questions on notice that you answered earlier this year suggested that in terms of its investment performance it was fairly mediocre.

You ordered the review by David Buckingham of all VGBOs. Can you outline for me what the process is in terms of time lines — when you expect to receive that information and the actual process in terms of whether there is a submission process that he is undertaking as part of that review and when we can expect to see the results of that?

**Mr THEOPHANOUS** — I should start by saying that in fact the review was ordered by the Premier. It is an important, government-wide review. We actually do not just have VGBOs; as you probably know we also have tourism offices and a number of other offices as well in various parts of the world, so David Buckingham was given the job, in a very short period of time, of reviewing the overall emphasis and effectiveness of those offices.

As I said in answer to an earlier question, we have been targeting those offices at attracting investment into Victoria. That was the major emphasis that we had asked them to do. We are now putting more emphasis on exports as a way of internationalising the Victorian economy. We want them to do a bit more in that area.

The other thing is that we needed to have a look at how effective the locations were and how they worked together and so on. It is actually quite an important job, this. It is a very important review. We had offices located in London, Frankfurt, San Francisco, Chicago, New York, Hong Kong, Shanghai, Nanjing, Dubai, Tokyo and Bangalore as VGBOs. That is a pretty good spread around the world, but it might not be the ideal spread. It might not be the best places to have them in. We have limited resources, but we want to use these as effectively as we can.

The operating costs, in fact, are in excess of \$7 million, so we are talking about a significant amount of money and — —

**Mr RICH-PHILLIPS** — Shame, they call it, Shanghai sat empty for so long.

**Mr THEOPHANOUS** — As you said, I was not the minister when Shanghai was commissioned, and I think there were some initial problems — I recognise that — in the Shanghai office.

I have not formally received the report as yet, so I am not in a position to say what the report says and I do not want to pre-empt it, but I think that one of the things the report would be looking at very closely is how to get better cooperation between those offices, how to get better cooperation between the offices and the tourism offices — perhaps how to use some other things that have not been done in the past — maybe some more people like out-people who might go out from the offices to some other city in a similar region, that kind of thing, or maybe even focus on particular industries. These are the sort of things that are up in the air in the mix, if you like, for consideration by David Buckingham. It is a complicated issue. I think it is nearing completion. I expect to see the report come to us soon.

I would simply say about this that what is important to me on this particular issue is that we get cross-party support for these offices. It is important, because we do come under criticism from time to time in the press about the overseas offices and about spending taxpayer money on those overseas offices and keeping a network overseas. But let me tell you, having gone through some of the export figures before in answer to a few other questions, you know they do facilitate an enormous amount of economic activity. That figure of \$2.5 billion of economic activity, well you might say, ‘Well, you know, is it worth spending \$7 million in order to facilitate or help to get \$2.5 billion of activity into Victoria?’. My answer to that is yes. But what happens is that if this became a political football in some way or other, then it just undermines the operation of those offices. I do not mind genuine criticism when it happens, and it is important that we get them working effectively. So that is why we are doing the review, and we want to overcome any problems that may have occurred in the past in relation to any specific office to allow us to make them as effective as we can.

**The CHAIR** — Minister, I think we have exhausted questions. I have one question which, on behalf of the committee, I would like you to take on notice: what resources in staffing and costs does your portfolio department anticipate applying to serving PAEC hearings and inquiries based on experience over the past few years? I want to thank you and thank the departmental officers.

**Witnesses withdrew.**

## **Transcript of Evidence**

### **6.16 Tourism portfolio**

*The transcript for the hearing on this portfolio will be included in a future report of the Committee.*