

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 — iTeam, 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.