

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.

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.