

VERIFIED TRANSCRIPT

PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

Inquiry into budget estimates 2010–11

Melbourne — 13 May 2010

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Witnesses

Mr G. Jennings, Minister for Innovation,

Mr H. Ronaldson, Secretary,

Mr R. Straw, Deputy Secretary, and

Mr J. Strilakos, Finance Manager, Victorian Skills Commission, Department of Innovation, Industry and Regional Development.

The CHAIR — I welcome Mr Howard Ronaldson, secretary, Department of Innovation, Industry and Regional Development, and Mr Randall Straw, deputy secretary, Department of Innovation, Industry and Regional Development. I call on the minister to give a brief presentation of no more than 5 minutes on the more complex financial and performance information relating to the budget estimates for the innovation portfolio.

Overheads shown.

Mr JENNINGS — Thanks for the ongoing opportunity to talk about the innovation budget. I will quickly run through these slides. For innovation and ICT and a creative group of people, we are a bit text heavy; I acknowledge that. One of the reasons why we are a bit text heavy in our presentations is that we are doing quite a lot of things. Certainly in the portfolio of innovation this government has acquitted something in the order of \$3.4 billion in investments in the innovation-related space, of which probably the most famous one over time has been the science, technology and innovation initiative, which has been very successful in terms of driving research and development and the commercialisation of activity in science across the Victorian economy. The estimation is that for every dollar that we have invested, \$3.56 has actually come back to the gross state product of Victoria. The Victorian science agenda continues that momentum.

We actually understand that not only is it good to have research and development and good ideas, but it is the commercialisation of them that is very important to the economy. We have a range of programs, of which the VicStart program has been very successful. Again we think 6½ times in terms of economic activity has been leveraged from our investment of \$25 million.

A measure of the way in which we can actually see that we have been successful in science is the proliferation of grants that come to our medical research sector in particular through a very competitive environment across the country in terms of the National Health and Medical Research Council funding 42 per cent of it in the last round in 2009, paying to Victoria more than \$272 million.

That expenditure in terms of project research is undertaken at a number of research facilities that we have supported in terms of their infrastructure and ongoing operations. Indeed we have seen great initiatives that are supported by the Australian Research Council. In recent times the bionic eye has been a very exciting project and proposal, and we have seen an increasing engagement by the commonwealth through various funding mechanisms such as the Education Investment Fund.

We think it is quite remarkable in terms of the frailties of the global economy in the last couple of years that we have continued to see sustained, ongoing growth in the biotech sector in Victoria. Indeed if you plot the combined capitalisation of major listed companies in this space in Victoria in the last decade, it has risen threefold from \$7.5 billion to more than \$23 billion.

In relation to Healthy Futures all the investments that we have committed to in relation to major health and life sciences developments and all those capital programs are going well. We have leveraged significant external funding. Somewhere of the order of \$474 million worth of private or other jurisdictional investment has followed our investments.

We have seen in the last year in terms of the screen industry \$172 million worth of activity, more than 5000 jobs. The design sector, which is something that some people might think is esoteric, is increasingly becoming part of a competitive edge of Victorian businesses. We see it is a very popular thing in its own right as a festival let alone as a capability within Victorian industry.

In terms of the Victorian science agenda we have commenced funding 24 projects, and \$36 million worth of investment is the next iteration of what was the STI program. We have seen significant private sector leverage from other institutions to leverage off our investment. We understand it is important to try to make sure that Victorian technology and solutions are applied to public policy outcomes, and as a way of trying to drive that we have had 20 feasibility studies carried out under the market validation program, which is a way of trying to say, ‘The Victorian community and the Victorian public sector need particular outcomes, so what can you innovators in Victoria contribute to our achieving those outcomes?’. That has been a very successful program. We have also seen a great alliance between Victoria and California in relation to stem cell research.

As part of our initiatives in this year’s budget, again in terms of the integrated connection between clinical care and research activities, one of the major stems of our cancer action plan is the research capability of the Olivia

Newton-John centre. Presumably the Premier and the Minister for Health have already extolled the virtues of this significant investment, but it is important to understand that research, its co-location and relation to clinical practices are essential parts of the building blocks of that facility.

Other initiatives we can talk about briefly: in screen initiatives there is more than \$7 million cumulatively working through children's television, the Docklands film studio capability, having a market for Victorian product through the international film festival and to drive greater outcomes in digital media, which is a growth area of the economy.

In terms of where we sit with our investments, we are part way through a significant investment stream that was announced two years ago, subsequent to the 2008 budget. The latest iteration of the Victorian innovation strategy is about \$155 million of programs that we will be acquitting during the course of 2010–11, beyond the scope of the initiatives that I have just described. We have similar tranches that will follow in 2011–12 and even some expenditure in 2012–13 from the commitments we have made through the most recent innovation strategy.

Mr SCOTT — Minister, according to budget paper 3, pages 320 and 321, the budget has provided some funding for initiatives to support the Victorian screen industry strategy and some infrastructure at the Docklands film and television studio. Can you explain in some more detail how this funding will support the sector development output covered in budget paper 3, page 120?

Mr JENNINGS — Thank you for that. Anybody who reads the Hansard transcript would perhaps not appreciate that I ran through my presentation at about a million miles an hour, so I will just take a little bit of a breath to answer this question, because the industry is very significant to Victoria, and \$172 million worth of activity came out of the film industry into the Victorian economy last year.

We believe more than 5000 full-time jobs have been engaged in this sector. When you think of the significance of Film Victoria in terms of driving that, there were 53 Film Victoria projects in their own right. The sector had \$172 million worth of activity, and \$89.9 million of that was facilitated through Film Victoria.

So we think more than half the jobs were generated by our facilitation of new product, which included 12 feature films, and even I have seen one or two of them although I work fairly well. *Charlie and Boots*, *Last Ride*, *Blessed* and *Bran Nue Dae* show the diversity of the types of stories. Some of them are a bit up-beat, some of them perhaps not, but nonetheless they are stories worth telling, and they are Victorian stories.

We want to continue that effort. Our investment this year is in children's television and support for digital media, which is an increasingly marketable commodity, and certainly in terms of keeping pace with new markets, particularly a younger market, keeping pace with digital media is important.

Obviously in relation to some of the challenges that have been confronted by the Docklands studio, we think it is important to try to help a reconfiguration of the business model and the infrastructure that is there to allow for greater depth of engagement in the TV sector, as distinct from the film industry. The original brief of the Docklands studio was pretty much to try to acquit international footloose film production and have a residual capability in relation to TV.

In terms of the high price of the Australian dollar — it unfortunately mitigates against footloose international productions coming here when the dollar is very high — it has seen us need to reconfigure that investment so that it can perhaps attract a more reliable, certain, TV-based production capability on an ongoing basis and allow us to have residual capability for international footloose productions. That is the reason why we are investing in a configuration of studio 5, which will mean hopefully there will be more stable and secure TV production coming through it.

The CHAIR — Thank you very much for that.

Mr DALLA-RIVA — Minister, I refer you to budget information paper 1, the top of page 52. This relates to the Australian Synchrotron. I note the TEI for that, provided through, I understand, the commonwealth-supported project, is \$36.78 million with some in the forward estimates. I ask: do you know what the recurrent costs of the synchrotron are and where they are allocated within the budget? How much do

you understand is provided and received by private users, either in this current financial year or in the forward estimates? What percentage of the recurrent costs will be funded by full fee private users in 2010–11?

Mr JENNINGS — The building blocks of this story are that the specific investment that you are talking about is an infrastructure proposal that the commonwealth has funded to establish a centre adjacent to the main synchrotron building that will become a repository of organisations and knowledge building to that centre. That is a specific funding proposal in the line item that you referred to.

The CHAIR — That is the National Centre for Synchrotron Science, which is just next door.

Mr JENNINGS — That is the national centre. Beyond that, the current operating expenditure for the synchrotron, in terms of its ongoing operating requirement, is in the order of \$21 million. That is shared between the state of Victoria and the commonwealth and administered through a trust fund that the state holds. That is part of an agreement between the state of Victoria and the commonwealth that runs until 2011–12.

Your question about the access — —

Mr DALLA-RIVA — Sorry. While we are on that particular issue, where would that money be within the budget?

The CHAIR — Where is it appropriated, against the department, or — —

Mr JENNINGS — That is going to be confirmed in a second. It is in the science and technology program, which is on page 122.

The CHAIR — While you are looking for more information, I should recognise Mr Strilakos, who is the director of finance, and whom I did not recognise before.

Mr DALLA-RIVA — Page 122.

The CHAIR — Of budget paper 3.

Mr JENNINGS — It is within that allocation of 164 — —

Mr DALLA-RIVA — Yes. So what percentage? There is \$21 million, you say?

Mr JENNINGS — Yes, \$21 million.

Mr DALLA-RIVA — Shared between the state and the commonwealth?

Mr JENNINGS — Yes.

Mr DALLA-RIVA — So does the commonwealth funding come in and then through as — —

The CHAIR — It is a commonwealth special purpose grant, is it?

Mr JENNINGS — It is subject to an agreement between the state of Victoria and the commonwealth.

Mr DALLA-RIVA — Yes, I understand that.

Mr JENNINGS — Of that \$164 million that is in that element of the budget paper for this year, approximately \$21 million will be for the synchrotron's operating expenditure.

Mr DALLA-RIVA — Up until 2011–12, and then I gather into the forward estimates you would need to renegotiate that?

Mr JENNINGS — We do. The last bit of your question is in relation to access for private users, and in fact what fees the synchrotron may call upon in terms of its operating expenses. One of the reasons why I have a bit of difficulty answering that question in full detail is because the independent board is responsible for maintaining the operating budget of the synchrotron and, in terms of its accounting, it would account through its public reporting rather than necessarily being in the budget.

Having said that, we have never gilded the lily in relation to this issue. People who have an expectation that it is going to have huge operating revenues that derive from the public sector have always been overly optimistic about how much revenue is going to come through the private sector for the operation.

Mr DALLA-RIVA — Just to clarify the recurrent \$21 million. If, for example, you raised \$1 million revenue from the private sector, it would then only draw down \$20 million?

Mr JENNINGS — No.

Mr DALLA-RIVA — Is there sort of a — —

Mr RONALDSON — There are two companies that run the synchrotron, without going into details. There is one that owns the assets and then there is an operating company. The operating company receives revenue from various sources — the commonwealth, state, private income — and that is where the total revenue and expenses of the synchrotron are consolidated. As the minister said, there is a payment from the state as part of those payments and we share with the commonwealth the broad operating costs 50-50, so our contribution to that, if you are seeking the exact number, is in the order of about \$10 million per annum.

Ms GRALEY — Minister, I would like to refer you to budget paper 3 on the same page, 122, under the science and technology heading, and especially the biotechnology projects and programs under way section, and the increase by one in 2010-11. Can you explain this increase and also how programs over the past year have contributed to, as you noted during the presentation, the resilience and growth of the sector over what has been a pretty difficult economic year for most?

Mr JENNINGS — As you prefaced in your question, what we have actually seen is that, notwithstanding some pressures that our economy has been under and some of our businesses, particularly in all sectors but which hi-tech sectors may be subjected to, we have been very pleasantly surprised with not only the quality of the submissions that we have received in relation to the Victorian science agenda — the quality is great — but the partnership which we have actually seen in a cross-section of institutions and private companies, which have been industry-led proposals, has been a remarkable turnaround. In the early iterations of the STI program, nearly all of the programs were generated by institutions themselves. They have not had a commercial element to them. Of recent times, of 24 projects that we have currently got on the books for this program, 16 of them are led by industry. We think that is very telling.

In terms of the types of areas that they straddle, of the 24, 9 are health, 8 are in productivity and 7 are in sustainability. Five of them have international partners, so in terms of the spirit of international collaboration of which our science and our skill base is extended by working in collaboration with international companies and institutions, it is a hallmark of this program and is something that we are very pleased about.

As to our investment of \$36 million that we have provided to support these projects, we have already seen it leverage significant investment from those other sources, and we think the total value of the projects at the moment is \$110 million, so in its own right it is almost threefold in terms of the value of the investments that we have made, and we think 233 jobs came through the program in the last year, and obviously our commitment to this iteration of the programs is consistent with our commitment to contributing to the overall job creation and job growth within the Victorian economy that our department is collectively measured by.

Mr RICH-PHILLIPS — Minister, can I take you to funding of the innovation output group on page 121 of budget paper 3, which shows a reduction of 33 per cent in output funding. Your department has put in its submission to the committee explaining that reduction, and that is shown on page 16 of the departmental submission, and it sets out the four elements of the reduction in funding, being the completion of the industry transition fund, which accounts for a reduction of \$3.9 million, the completion of funding for Service Victoria, which accounts for a \$300 000 reduction, the reallocation of overheads, which accounts for a \$1.3 million reduction, and then a reduction in recurrent funding of \$1.4 million. What I would like to ask you about is that last element, the \$1.4 million reduction in recurrent funding, and ask how is that going to manifest itself within the innovation output group?

Mr JENNINGS — That was very fine grained; in fact it was so fine grained that in fact all of us caught up with where you were heading us by the time you got to the end of your question. The general answer — and it may not be totally satisfactory to you — is that it is effectively an efficiency saving that applies on a pro rata

basis across programs across the department. Our department has actually played a role in cost containment and some productivity across the entire portfolio within the department, and basically what you have identified is something that our program is going to absorb.

Mr RICH-PHILLIPS — By reducing staff, absorbed by reducing service delivery? If you are making the saving, it has to show up something.

Mr JENNINGS — We try to run a pretty tight and lean ship as it is. Obviously we might be a little bit tighter — —

Mr RICH-PHILLIPS — It is not an insignificant amount of money, in terms of a small unit.

Mr JENNINGS — Mr Ronaldson actually suggests that in the scale of the size of the portfolio it is not extremely large. I mean it is tight, but we do not think it is going to seriously erode our capability of delivering on the programs. As you can tell — and it is quite okay for you to home in on this — our support for industry and leveraging and the focus of actually generating economic activity as an external driver, both through the science agenda and the market validation programs, will continue to have the priority of our programs focused out in terms of generating and leveraging outcomes. That is what we are going to continue to do. We might have to work collectively a little bit harder. I do not want to actually overwork people, but that is what we will basically be doing.

The CHAIR — Thank you. I think there are two programs of savings, from memory, from our discussion last time. That concludes the consideration of budget estimates for the portfolios of environment and climate change and innovation. I thank the minister and departmental officers for their attendance today. Where questions were taken on notice, the committee will follow up with you in writing at a later date. The committee requests a written response to those matters be provided within 30 days. Thank you, Minister; thank you, officers; and thank you, Hansard.

Committee adjourned.