

VERIFIED TRANSCRIPT

PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

Inquiry into budget estimates 2010–11

Melbourne — 11 May 2010

Members

Mr R. Dalla-Riva

Ms J. Graley

Ms J. Huppert

Mr W. Noonan

Ms S. Pennicuik

Mr G. Rich-Phillips

Mr R. Scott

Mr B. Stensholt

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Chair: Mr B. Stensholt

Deputy Chair: Mr K. Wells

Staff

Executive Officer: Ms V. Cheong

Witnesses

Mr J. Lenders, Minister for Financial Services,

Mr X. Csar, Executive Director, Economic Projects, International Coordination, and

Mr H. Moor, Director, Financial Services Industry, Department of Innovation, Industry and Regional Development.

The CHAIR — I now welcome Mr Xavier Csar, executive director, economic projects, international coordination, Department of Innovation, Industry and Regional Development; and Mr Hugh Moor, director, financial services industry, 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 financial services portfolio.

Mr LENDERS — I have a presentation, Chair. It will probably take about a minute or two to get the presentation up and running.

The CHAIR — I might, for the purposes of Hansard, just remind members and also the minister that this is meant to be a question and answer session. It is not a conversation around a table and therefore comments being made continuously by people make it very hard for Hansard to record. We need to conduct these sessions to proper parliamentary standards and I would urge all members, whoever they might be, not to make a continuous commentary and interjection throughout the answers. Thank you.

Mr LENDERS — Chair, while the IT presentation is being prepared, I will circulate a copy of the financial services strategy.

The CHAIR — Okay.

Mr LENDERS — It was tabled last year and was asked about at the committee. I am sure all members will have seen it already, but it will highlight some of the work we are doing to grow what is now the largest section of the Victorian economy.

Overheads shown.

Mr LENDERS — This slide is an industry snapshot. As I said, the largest part of the Victorian economy is financial services. It is 11 per cent; it is \$33 billion of our GSP. A lot of key players call Melbourne home. We have two of Australia's four largest banks, two of the great innovative banks — Bendigo Bank and Members Equity Bank, and we also have the largest health insurer in Medibank Private. It is a strongly growing financial services sector and a centre of innovation going forward.

The next slide is about the global financial crisis. Obviously it provided some real challenges for our financial services sector. Given the brevity of the presentation, Chair, I will not go through it, but I could show you some amazing statistics for the major financial centres, whether it be London, New York, Singapore, Sydney or others, and how we have performed relative to them.

The CHAIR — I am sure we are doing better than Athens.

Mr LENDERS — Certainly better than Athens, Chair! A lot of large corporations were clearly contracting, laying off a lot of staff. There were some extraordinary challenges: we had runs on banks; we had all sorts of things happening during that particular time and we had the commonwealth underpinning by guarantee of the banks themselves and the issue I touched on in the Treasury portfolio before on borrowings here — so a flight to safety, and we were one of the havens for safety going forward.

People have before them now the achievements, challenges and directions, which our statement launched last year. There were five key directions in that statement. It is really positioning Melbourne as a global centre, particularly in our niche of pensions and funds management and risk mitigation; establishing our carbon market hub for the Asia Pacific going forward; training in the workforce, which is an underpinning — I said in the Treasury portfolio session before that it is one of the key underpinnings for a growing economy; and building on the strengths we have and moving forward to take advantage of opportunities out of the global financial crisis.

The next slide is about pensions and funds management. It is an area that clearly has great strength. The Hawke-Keating Labor governments in the 1980s brought in compulsory superannuation going forward and we are seeing one of the benefits now above and beyond retirement income for workers, we are actually seeing an extraordinarily large pensions fund; that is clearly centred in Melbourne with the majority of the large industry funds being based here.

We also have the Melbourne Centre for Financial Studies which does important work in assisting us. But the pensions index, which I will touch on shortly, the Mercer index, gives us great financial exposure internationally to move forward.

I guess the question on the screen is: why the Melbourne index? I hand over here for the committee to view a video on Mercer.

Video played.

Mr LENDERS — Chair, the Mercer index puts Melbourne well and truly on the world map, and the importance of that is we get more investment, we get more services being based here. We are an extraordinarily powerful springboard for the Asia Pacific region, particularly with the amount of funds we have under management here.

The Mercer index attracted more than 100 media articles. But what is important for us is if you have someone, whether it be a hedge fund, whether it be a funds manager, whether it be someone seeking capital, and they come to us, it grows our financial sector; it grows jobs in Victoria going forward.

Skills are always an important area for us and I am absolutely delighted that what we have today is the skills pledge to train more workers here. There is a great partnership with the finance sectors union but also NAB, ANZ and Bendigo Bank are all part and parcel of this. It is one of the great inoculators we have for losing jobs overseas. It is a great creator of jobs here. We are in discussion with other banks going forward to join the skills pledge, including important niche financial institutions like Members Equity Bank.

We will keep moving forward: the strengths we have here are that we are getting new entrants in the schemes at all times. For Docklands we do not have an official KPI anywhere in the budget papers, but we have set ourselves a target of \$1 billion of new investment, which we will reach shortly. ANZ has its international headquarters there now with 6500 jobs. NAB is clearly growing, plus there are new entrants almost on a monthly basis coming into Melbourne, because it is a good place to do financial services business.

Coming out of the global financial crisis we have some challenges coming out of the Henry review, which we will work through, but there will be opportunities, too. The super guarantee going to 12 per cent is a great investment in the sector in Melbourne, where most of these super funds are managed from. The entire issue of federal and state reviews into efficiencies in the system will help to generate jobs in Victoria. I am pleased, as Treasurer, to have commissioned a VCEC inquiry into impediments to growth in the financial services sector. You have the knowledge, you have the data, can act.

I guess moving forward, though, the best thing from my perspective that I have to report today is the ultimate measure for growth in the sector. I mentioned in my Treasurer's presentation that we had 99 300 net new jobs created in Victoria in the last year and a quarter of those were in the financial services sector. I was in Sydney the other day talking to a number of businesses about this. We know that some of this comes from the growth in funds management and the niche Victoria has; we know some of this comes from the investment banking that comes out of niche, exciting projects like the desalination plant and other projects going forward; we know some of this comes from the fact that the Victorian economy is growing strongly and the banking sector follows the growth.

Some comes through the niche areas in risk mitigation, whether it be Medibank Private, the WorkCover authority or the Transport Accident Commission; we know some of it comes from those niche institutions like the VFMC that generate jobs. But we all know some of it comes because it is a good place to do business.

I was asking a number of Sydney companies about how you would explain this 25 per cent growth in financial services. It was interesting to hear a number of large companies say, 'I don't really know what it is about. We have put an extra 100 people on in Melbourne' or, 'We haven't done much. We have doubled our workforce from 6 to 12', or, 'We haven't done much. We have put on another 100 people'. And all of these add up.

So each large company that said Melbourne is a better place to do business than Sydney or Brisbane or Auckland or Singapore for their particular needs, means there are more jobs in Melbourne.

Chair, that probably is where I will conclude the presentation. We have a financial services strategy. It is one that sets out those five key strengths of where we are going forward. We have a very efficient and lean team in the department that then works with the other parts of DIIRD to deliver outcomes. What we are seeing is the strongest growth of any sector in the Victorian economy as we come out of the global financial crisis, which has been our positioning as a growth centre in financial services and it is that service economy of the future which has great opportunities for us going forward.

The CHAIR — Thank you, Treasurer. I should just declare for the record that I am a director of a community bank.

Ms GRALEY — Treasurer, I would like to ask you a question pertaining to budget paper 3 at pages 120 and 124 where it shows output measures for the financial services sector, and I ask: what are the medium and long-term planning strategies on which the budget for your portfolio is based? Has this changed from last year?

Mr LENDERS — Chair, I thank Ms Graley for her question. The medium and long-term strategies have changed in nuance rather than essential direction as we have developed the financial services strategy. The work that went towards the financial services strategy was clearly in place for a period, but we have crystallised it and nuanced it. Strategies are how we grow the sector. As I said in my introductory comments, a large part of the growth in financial services simply follows the growth in the economy. In the last little while we have had Bendigo Bank and we have certainly had St George Bank and the Bank of Cyprus, for example — a number of smaller players who have been establishing new branches in Victoria.

Part of that is a reflection of the rebalancing that comes from the contraction during the global financial crisis to the big four. Part of that is new banks that go forward. There are also some new entries into the market from a number of places. One part of it is simply the four majors and those banks and credit unions and others that simply boost their existing presence because the economy is growing.

It is interesting about the major banks, if my recollection is correct, with both CBA and Westpac most of small and medium enterprise new lending in the last year was in Victoria. That is a reflection of the growth in the service. There are also those niches. The VFMC can be controversial at times but it is a centre in Victoria that is actually generating jobs, bringing them into Victoria. Otherwise some of that money would have been managed out of Sydney, Singapore or New York; more of that is coming back into Victoria.

I mentioned some of the niche insurers. Risk mitigation might not be a glamorous concept for many, but if you have come out of a global financial crisis and you have had one economy that has actually withstood the worst of it because you have good planning and good risk mitigation and those things going forward, it actually attracts other people to your sector to come and say, ‘What has actually worked in the state of Victoria?’. Whether it be in some of our bodies — this is in the finance minister’s portfolio, not mine — like the Victorian Managed Insurance Authority or others, we have a lot of good work in these spaces.

On pension management, our firms, industry funds and others are now seeing more businesses locate in Melbourne to be where the funds are being managed. Historically there were a lot of one-way flights to Sydney or other places to get advice, whereas a lot more of the advice is now being provided out of Melbourne than it once was. The strategy going forward is to continue to maximise those, but probably with the nuance that we have. As minister, I have had the privilege of doing a roadshow through a series of east Asian and south Asian cities to try and again get greater synergies with some of these international finance houses. Melbourne is 6 hours-plus from Singapore. That is a disadvantage in traditional travelling terms. Also traditionally our wages have been higher than in other places, which in one sense has been a disadvantage. There are also very strong advantages. We have probably one of the most skilled workforces around, and the tyranny of distance we can address by direct flights and a range of other things plus better ICT.

The strategy going forward is to position. We have the fourth largest amount of pension funds under management on the planet. Australia is the 14th to 16th largest economy. What we have is the fourth largest base centred here in Melbourne plus the general skilled workforce, strong infrastructure, livability, a stable political environment — they are all highly attractive. The livability we should not even dismiss. You have investment bankers who are reluctant to live in cities with high pollution like some of our competitors, whether it be a Hong Kong, a Shanghai or others. There is a whole range of issues that give us an advantage in Melbourne and Victoria. So the strategy seeks to bring all those together, because every job we can generate

here is a job for the future, and it builds on us as a financial services hub and that helps generate even more jobs into the future. So the strategy has been nuanced but it is still the basic strategy that was in place last year.

Mr DALLA-RIVA — Treasurer, on 12 May last year, in the public accounts inquiry held here, you gave an assurance that there would be a CPRS. You said, and I quote:

‘We welcome and embrace this —

being the CPRS —

going forward as an opportunity’. We do not say, ‘It is all too hard’. We actually say, ‘How can we move forward ...?’.

Treasurer, it has got too hard for your federal Labor mates in Canberra. They have junked the CPRS and put it in the too-hard basket, not that you make any mention of that in your budget. For the public record, what impact will this junking of the CPRS have on the new financial services jobs that you promised would come here to Victoria as part of the carbon trading scheme?

Mr LENDERS — Chair, I think Mr Dalla-Riva for his question. It is a good question because it actually lets me highlight the strengths of this government as a government that plans for the future and is flexible. If Mr Dalla-Riva thinks that a CPRS is junked for all time, he should go talk to his colleague Mr Turnbull and a number of others and he should probably actually go talk to John Key, the National Party Prime Minister of New Zealand, who has just brought in an CPRS in New Zealand by and in the name of an emissions trading scheme.

Ms PENNICUIK — Not a very good one, though.

Mr LENDERS — Ms Pennicuik may say not a very good one, but I think Mr Dalla-Riva would surely be aware that a carbon cap and trade is the way of the future. The commonwealth has postponed for three years its particular proposal going forward, it is correct, but the opportunity for Victoria in that, if there is a silver lining there for Victoria, is that it means that the rest of the world will stand by and say, ‘That is three years away’. It gives us even more of an opportunity to get our carbon markets hub coming out of Melbourne. While everyone else sits back and says it is three years away, it gives us a better opportunity.

Roughly 40 per cent of the emitters have their headquarters in Victoria. Victoria is a logical place to build a carbon market hub. I see this as simply our competitors will not pay a lot of attention at the moment and Victoria can continue to go on and do the necessary work to bring jobs to Melbourne as a financial services centre that will come out of an emissions trading scheme.

The carbon debate is about more than just an ETS. There is a large amount of voluntary emissions trading that goes on already in Melbourne. It goes on already in many jurisdictions around the world; it was strong as an industry in the United States before the election of the Obama administration. These are opportunities for financial services growth in Melbourne that continue regardless of where the federal CPRS is going. In fact I would be so bold as to predict that a lot of our financial services hub rivals will ease off now because they think they have three years to make the hard decisions, but we in Victoria will continue to grow the jobs that come from either a voluntary market or a compulsory market when the scheme is finally introduced, as it will be.

Mr NOONAN — Treasurer, I wanted to ask about the investment in skilled workforce development. I notice that in the document that you have handed out, *A Great Place to Do Business*, there is some summary about investments made from about page 19 onwards, under ‘Leadership in skills, education and research’ and the strong government support that has been provided thus far, and it provides some details about the Melbourne Centre for Financial Studies. In going to the budget papers, on page 120 of budget paper 3 there are output measures for the financial services sector. I am interested in the support that the government is providing for skills development in the sector and as it specifically relates to this particular budget.

Mr LENDERS — I thank Mr Noonan for his question and particularly his interest in skills development. As part of the financial services portfolio we do a limited amount of items through the budget itself. The biggest single contribution we make is what we can facilitate with the sector as partners using the very skilled team that we have built up in the department and their contacts and networks and what we can do in those areas.

I think in skills it is a classic example where we will now see through the collaborative relationships between those three banks that I mentioned before, the finance sector union — and more banks and financial institutions, I am confident, will come in shortly — and TAFE providers. We will be seeing probably more than 20 000 extra people able to be trained in this sector every year, enhancing and developing their skills.

I know the committee is busy, but if individual members wish to see this in action, if they ever have an opportunity, I urge them to go down to — without promoting a particular bank; I will use NAB as an example — Docklands just to see the academy that it has created internally. All the banks are doing this, but I only refer to this one, because I had the privilege of actually being shown around by a number of the practitioners there — the people who are going through the system. It is just advancing basic competencies as part of their routine work program which then, from the company's point of view, gives them a far more skilled workforce into the future and boosts productivity. From the individuals worker's point of view it obviously gives them opportunities for advancement in wages and other career opportunities in the sector.

The skills pledge that the three banks have done is one in which there is a great collaborative approach. It builds so well on the Victorian government's plan in vocational education and training that started on 1 July last year and will be rolled out. It will put 172 000 more people through vocational education and training. All of these just make a stronger workforce, which makes it again more attractive for new businesses to come to Melbourne. It makes it more attractive for existing companies to keep their Victorian operations in place, because the skill set is there. It makes us more competitive into the future.

Skills is one of our three key planks for economic development in Victoria. This is a classic example where we see businesses and unions working with government to achieve better skills outcomes. It is no coincidence that we have strong skills growth and we see the employment figures go up. There is a direct correlation, in my view, between a skilled workforce and more jobs.

Mr DALLA-RIVA — Treasurer, again I refer you to your comments at the PAEC inquiry of 12 May last year, where you gave the assurance that there would be a CPRS. You said:

We have certainly been looking into feasibility into a cooperative carbon market institute coming into Melbourne. We have ... formed a network. We have also released ... a carbon market services guide.

I also note page 24 of your handout provided to us, entitled *A Great Place to Do Business*, dated August 2009, is about establishing Melbourne as a carbon market hub. I am somewhat therefore confused, if this is such a big, significant issue, that may have actually dropped the ball like your federal counterparts because — —

Ms HUPPERT — I think it is your federal counterparts who have dropped the ball on the CPRS. They are the ones who voted against it in the Senate.

Mr DALLA-RIVA — You can defend Rudd all you like. In the forward estimates I am trying to find where there has been an allocation of funds to provide for this supposed growth in this emerging industry that is not going to happen under the Rudd federal government.

Mr LENDERS — Mr Dalla-Riva is obsessed with the Prime Minister. This is a state estimates issue. I have already said from our perspective a CPRS will happen. Clearly the commonwealth has said it is delaying it for three years. As I said, the Victorian government is continuing to work on those things, either in a voluntary market or preparing ourselves for the involuntary market or compulsory market coming forward to deal with it. In the carbon network he talks about, there are more than 100 companies now participating. That is going ahead. I think Mr Dalla-Riva is a little bit old-fashioned, though, if the only way he looks for measures of success in government is the input, of how much money you put into it. I would have thought — —

Mr DALLA-RIVA — You do! Constantly your government says your success is how much money you put in.

The CHAIR — Without assistance.

Mr LENDERS — I would say to Mr Dalla-Riva, as a member of PAEC, that the outputs we are talking of here are the deliverables, which is a carbon market is operating. We are bringing companies and research authorities collaboratively together with government to go a way forward. We are looking ahead to opportunities for creating jobs in Victoria out of the carbon market, which is happening. It is happening in a

voluntary sense already. Again, we just have to look across the Tasman to what a National Party government did in putting an emission trading scheme in place. There is a market in New Zealand.

Ms PENNICUIK — A second-rate one.

The CHAIR — Without assistance. Ignore that, Treasurer.

Mr LENDERS — The National Party government in New Zealand has done that. If you are talking about the things that the carbon market task force has done, we are proceeding; we are delivering. I would have thought from the fact that those measures I have already mentioned — what is happening in the real world out there — this government will be flexible. We will work to deliver the jobs in Victoria in the environment we live in. He may actually be a Malcolm Turnbull loyalist who is upset by the way the Prime Minister has gone. But from our perspective we work in the federal environment we have, and we will work on delivering financial services jobs in Victoria under whatever federal operation is in place. We know we need an ETS the future. We will continue to advocate for that, but we also know there is a voluntary market at the moment, and an ETS will come. They are two measures for Victoria that generate jobs, which is what this portfolio is all about.

Mr DALLA-RIVA — You have allocated no money in the forward estimates for this very important issue that you said every other state is not dealing with. You are not dealing with it either, because you have not allocated money. That is what I was getting at.

Mr LENDERS — I suggest you look at page 317 of budget paper 3. That might answer your question, Mr Dalla-Riva.

The CHAIR — I think that concludes our discussion on financial services, and I thank Mr Csar and Mr Moor for their attendance.

Witnesses withdrew.