

CORRECTED TRANSCRIPT

PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

Inquiry into 2004–05 budget estimates

Melbourne – 22 June 2004

Members

Mr W. R. Baxter

Ms C. M. Campbell

Mr R. W. Clark

Mr L. A. Donnellan

Mr B. Forwood

Ms D. L. Green

Mr J. Merlino

Mr G. K. Rich-Phillips

Ms G. D. Romanes

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Witnesses

Mr T. Holding, Minister for Financial Services Industry;

Mr P. Harmsworth, secretary;

Ms J. Niall, deputy secretary, business development;

Mr B. Mapperson, director, Office of Service Industries; and

Mr P. Rea, acting executive director, Office of Manufacturing, Department of Innovation, Industry and Regional Development.

The CHAIR — I declare open the Public Accounts and Estimates Committee hearings on the 2004–05 estimates for the financial services industry and the manufacturing exports portfolios. Welcome to the Honourable Tim Holding, Minister for Financial Services Industry and Minister for Manufacturing and Export; Mr Peter Harmsworth, secretary of the Department of Innovation, Industry and Regional Development; Ms Jane Niall, deputy secretary, business development; and Mr Bruce Mapperson, director, Office of Service Industries, in the Department of Innovation, Industry and Regional 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 is protected from judicial review. However, any comments made outside the precincts of the hearing are not protected by parliamentary privilege. All evidence given today is being reported and witnesses will be provided with proofs of their transcripts early next week.

Minister, you or your chief of staff have the opportunity to call departmental officers to your side of the table, should you wish. Only members of the paid secretariat are to approach the committee's side of the table.

Before we begin I asked that mobile telephones be turned off and pagers put on silent mode.

Minister, I invite you to make your presentation.

Overheads shown.

Mr HOLDING — Thank you very much for the opportunity to present on both the financial services industry portfolio and also shortly the manufacturing and export side of my responsibilities. I do not propose to go through the first slide in any detail. It shows the departmental output groups for the Department of Innovation, Industry and Regional Development. I am sure Minister Brumby has already touched on those.

Why do we have a Minister for Financial Services Industry? It is a very important industry to the Victorian economy. There is some statistical information there about the size of the industry, with a work force of 92 000 people, which is a significant percentage of the Victorian work force; it is also an industry that makes a very significant contribution to the Victorian economy. After manufacturing and after property and business services the financial services industry is a very significant player in our state economy. You can see there is also particularly the focus on the City of Melbourne. A lot of the financial services investment is inner-city based, employing a lot of people in the Melbourne CBD, and many organisations are represented.

What have we been doing in 2003–04? We have released the financial services industry action plan. I will say a bit more about that in a moment, but suffice it to say that that plan arose from the audit. I reported to the last Public Accounts and Estimates Committee meeting that we would be releasing that plan in the financial year 2003–04, and I would be happy to take questions on elements of the plan from committee members.

We have facilitated a significant amount of new investment in financial services. It has generated many new jobs and will generate more jobs in the period going forward. We have staged the financial services symposium, as well as establishing five new financial services industry working groups as part of our Finance Industry Consultative Committee. In relation to the plan, the plan was part of *Victoria — Leading the Way*. What are the key initiatives? What does the plan seek to do? It seeks to build on our strengths in financial services in Victoria. It seeks particularly to focus on our research capabilities and our existing strengths in education, training and skills. There is a strong focus on positioning Victoria in the international marketplace as a key centre for financial services investment. As well, we want to seek new growth opportunities in emerging sectors for the financial services industry. A key initiative is the Melbourne Centre for Financial Studies. It is a research initiative and it is one that would be supported by the Australian Investment Research Foundation. I am happy to say more about those initiatives later on.

Other key initiatives focus on international promotion. The Regional Business Investment Ready program is an important part of the services we are providing to strengthen the industry in regional Victoria. I reported to the last Public Accounts and Estimates Committee hearing that we would be establishing the Your Town, Your Bank program. I am now happy to inform the committee that we have extended that program from regional and interface councils to all councils in Victoria, so now the 22 metropolitan council areas are also eligible to apply for support under that program.

What are we doing in the next financial year? We will be implementing initiatives in the industry action plan, focusing more on that promotion of Melbourne and Victoria as a centre for financial services investment and making sure that we continue to roll out programs which support financial services in regional Victoria. I am happy to take any questions that committee members may have.

Mr RICH-PHILLIPS — Can I get some clarification of responsibilities before we start? Do you have full responsibility for service industries?

Mr HOLDING — Most of the service industries report to me. Maybe I can talk to the slide showing the organisational chart. As you can see, these are all the groups within the Department of Innovation, Industry and Regional Development. Mr Rich-Phillips is really asking for information about what are the sectors within the department for which there is a financial services element, if you like. Firstly and most immediately, Mr Bruce Mapperson is responsible for the service industries. They deal overwhelmingly with the financial services industry, but also provide some support for other areas, both within my portfolio responsibilities in the manufacturing and export area, which I will not touch on now, but areas such as retail, transport distribution and logistics, as well as professional and technical services, for which I am responsible. Also, you can see Invest Victoria mentioned there to the left-hand side of the screen. There is shared responsibility for Invest Victoria.

I will have some information distributed to the committee shortly which emphasises the financial services industry as one of the key targets for new investment that we are seeking to attract to Victoria. A significant part of my interface with Invest Victoria is in the financial services sector.

In regional development I touched on the Your Town, Your Bank program, which is a program which I administer but which falls within the competence of Regional Development Victoria. It is administered within that part of the department. As well, if you go across to the business support program, which is the program for which Lynne Williams is the deputy secretary, you can see there are two headings there: one for investment facilitation and one for international business and exports. Both of those areas also have an interface with financial services.

The colour coding on the slide might not necessarily reveal that because it would have just got too complicated — we would have had three sets of colours covering those blocks — but obviously, as I mentioned, over \$100 million in financial services investment was facilitated in this financial year that is just concluding. That investment is driven and facilitated by the investment facilitation group. It did a lot of work, for example, on GE Consumer Finance's Burnley investment that we were able to announce this financial year; and international business and exports has a financial services focus as well. We targeted within our Opening Doors to Export plan the financial services as a growth area for export possibilities, and James Hodges in that area does a lot of work on promoting our export capability in financial services.

The CHAIR — Thank you for that clarity. I refer you to page 142 of budget paper 3, where there is reference to an objective to attract and facilitate new investment into the state. Could you provide the committee with evidence or material that shows that the Victorian government is a competitive destination for new investment in the financial services industry; and how do you propose to utilise that evidence?

Mr HOLDING — I might just have some information distributed to the committee, which is the *Benchmarking Victoria* research document and the financial services information that has been prepared for us by Invest Victoria. This is some research that has been prepared for the Victorian government by the IBM plant locator index. The committee would be aware that in previous years ministers have also drawn on this research to demonstrate Victoria's capabilities across a range of industry sectors. This is the April 2004 iteration of this research. If you go through it you will realise there is a significant focus on the financial services industry, and you can see there that financial service centres in particular and funds management in Victoria are two centres. It is the other periodical, Mr Forwood, that I am talking to.

The CHAIR — He is jumping ahead. He has already read the first one.

Mr HOLDING — This research really shows that if you look at the cost and quality matrix and across all of the different industry sectors that we are targeting, we have targeted Victoria and Melbourne as an investment destination both in terms of the cost of doing business in Victoria, but also the quality of Victoria and Melbourne as a centre for investment in that particular area.

What this research shows is that if we look at financial shared services we are a lower cost destination than Sydney, Dublin, Chicago; we outrank Hong Kong, Brisbane and Auckland on a quality basis; and we outrank destinations like San Francisco and Manchester on both the cost and quality matrix. What that basically says is, 'Here are centres which are competitor centres for investment in that area with Victoria and Melbourne, and that Victoria and Melbourne stack up very well against our key competitors as a value and a quality location'. From the funds management perspective it is an even better story. That is not surprising given our historic strength in this area. We outrank Frankfurt, Tokyo, Zurich, Singapore, San Francisco, south-east England and Hong Kong on both a cost and quality basis, so this material collectively will be used to target and promote Victoria as a centre for future investment in the financial services area.

There is also the financial services document — the second document — which is material also prepared by Invest Victoria to provide further background from a financial services perspective on Victoria as a competitive location. It looks at things like our infrastructure and the skill mix that we have in Victoria. We are a very multicultural state, so for a lot of financial services that makes us a very attractive destination.

The CHAIR — A supplementary.

Mr MERLINO — Minister, does New South Wales, for example, produce a similar benchmarking document and does it differ? Does it use a different methodology?

Mr HOLDING — Other states also promote the industries that they see they there are being very competitive in. I would say that having reviewed some of the literature interstate from this perspective, Victoria's literature stacks up extremely well — for example, having IBM do it means there is some significant level of independence in relation to the quality of the material that is produced. I think it is also important to stress that from an investment attraction perspective Victoria is far more active than New South Wales in terms of promoting the industries that we see ourselves as having an advantage in. We will touch on that as well in manufacturing, but you would not want to try and cover the field, or even cover the field in all of financial services areas. It is about picking the areas where you have the best strength and where you are most competitive, and that is very much what this research tries to drill down to.

The CHAIR — Another supplementary from Mr Forwood.

Mr FORWOOD — Just in relation to this, how much will you spend on IBM, out of which output group is it, and from which output group does the production of these documents come from?

Mr HOLDING — The benchmarking research is done by Invest Victoria. Obviously you can imagine that falls within their complete competence. In the past the international investment attraction activities were spread across a lot of different output groups and even a lot of different areas of government, with other departments doing things as well. We have tried to cover the field by consolidating all of those activities within Invest Victoria.

Mr FORWOOD — How is Invest Victoria funded?

Mr HOLDING — It is out of the output group investment facilitation and attraction, so that is on page 142.

Mr FORWOOD — But if you look at page 142, it has a total amount for investment facilitation of \$37.4 million. Is that all for Invest Victoria, or is that made up of other programs as well?

Mr HOLDING — It is mostly Invest Victoria, but it does cover some other programs as well.

Mr FORWOOD — Can you give us a break-up of the — —

Mr HOLDING — We can give you a breakdown.

Mr FORWOOD — I have a really simple question. On the first page of the slide you talk about contributing 8.8 per cent of the total factor income, or \$14.6 billion, and if you go to the first slide in manufacturing you talk about contributing \$24 billion, or 14.5 per cent of gross state product. If you do the maths, you work out that 1 per cent is \$1.69 billion. Why do you refer to total factor income in one group of slides and gross state product in the other?

Mr HOLDING — It is different ways of measuring it.

Mr FORWOOD — It is the same thing.

Mr HOLDING — The bottom line is are you asking whether it is the third largest contributor to Victoria?

Mr FORWOOD — No, I am after a matter of terminology; seriously. In this one you are talking about —

The CHAIR — These are the overheads — —

Mr FORWOOD — Total factor income. If you look at your manufacturing slide — —

The CHAIR — Which we have not done yet.

Mr FORWOOD — I will wait till we get to that. You talk about gross state product. If you do the maths on it, you will find that 1 per cent is identical in both cases, so why when you are dealing with financial services do you refer to total factor income, but when you are dealing with manufacturing you refer to gross state product?

Mr HOLDING — It is just because of the sources we draw the information from.

Ms ROMANES — Minister, in your presentation you have drawn our attention to the action plan that you have launched — action plan for financial services industry. Could you explain to the committee in more detail what the action plan is all about, what it intends to do and how it came about?

Mr HOLDING — Sure. I might distribute a copy of the action plan if that is all right.

The CHAIR — Thank you.

Mr HOLDING — I will talk briefly to that.

The CHAIR — Can you talk to it while it is being distributed?

Mr HOLDING — There is so much happening, Mr Forwood, it is very exciting. I was very pleased to launch the action plan in May this year. This is *Investing in Victoria's Future*. It arose out of an audit we completed of the financial services industry which I released in I think June 2003. Essentially the initiatives within the action plan, which were touched on during the state government's economic statement *Leading the Way*, have as their centrepiece the creation in Victoria of a Melbourne centre for financial studies. We see this as building on our competitive strengths in the areas of research and also education and training, so I am happy to say a little bit more about the Melbourne centre for financial studies.

Also as part of the plan we want to build on our strengths in the funds management area. You would be aware from the earlier benchmarking research I distributed that Victoria and Melbourne are very competitive locations for funds management research. We want to build on that strength and we propose to do that by state government support for an initiative which has been supported by industry in the past, but which has never really been able to get up and running. That will be the Australian investment research forum; and the AIRF will seek to commercialise some of our capabilities that exist in the superannuation and funds management research areas. We will be seeking to build some global links there in a way that makes Victoria an ongoing competitive location from a funds management perspective. We will be building some links with international organisations that have capabilities in that area also. As well we are providing some support for Monash University — about \$150 000 — to better market their capabilities from a financial services, education and training perspective. One of the things they are doing that we think is very exciting is working in partnership with the APEC forum in the Asia-Pacific area to market our capabilities as a provider of skills and training in the financial services area for developing economies. So, in other words, we can play a role in training central bankers or funds managers, financial brokers and financial service employees from a whole range of different areas for emerging economies. We want to work hard to promote that capability and we want to work in partnership with Monash to see them showcasing that capability also.

More generally we want to make sure that our investment attraction efforts are well targeted. Part of the industry action plan sees us working in partnership with the commonwealth and with New South Wales, being the two

states that have the strongest focus on financial services, to market our capabilities internationally, and that is an important part of the plan.

The CHAIR — Do you have key performance indicators or performance measures on this action plan?

Mr HOLDING — We do. There are a couple that relate specifically to the action plan itself. They are the measures which will see the Melbourne centre for financial studies up and running. There is some information on page 143 of budget paper 3 which calls for expressions of interest, which we anticipate being able to release in July and then make a decision later in this calendar year with a view to seeing the centre operational in the first quarter of calendar year 2005. So there is a KPI or performance measure which relates to the plan in that regard. More generally we have, of course, the performance measures which relate to investment attraction for industry. I am happy to provide further information to the committee, if members are interested, on the way in which those investment attraction targets relate specifically to the financial services sector.

The CHAIR — That would be helpful. As you know, the more information the better the report we present to Parliament.

Mr HOLDING — I might answer that now, if you would like some more information on the investment attraction side of it. I recall we had a discussion about this during the last committee hearing and some questions were asked about the sorts of things we could do to provide the committee with more information about investment attraction and what sectors, if you like, we are targeting specifically. While we obviously are reluctant to say what our investment attraction targets are for specific industry sectors — for example, funds management or the automotive sector specifically, or whatever — for obvious reasons you could imagine how it would drive up the cost of investment attraction if people were to know just exactly what investments Victoria was targeting in any given year. I am happy to inform the committee that in relation to financial services investment we will be seeking in the next financial year to attract \$25 million in capital expenditure and 850 full-time equivalent net new jobs for the financial services sector. If you like, during the manufacturing and export side of the portfolio I can discuss the performance measures as they relate to industry.

Mr FORWOOD — At the bottom of page 5 of this document under ‘Key initiatives’ there are six particular items. Is it possible to put dollar figures — only one mentions the \$150 000 to Monash — against each of those?

Mr HOLDING — It is. I can provide some initial information, for example, in relation to the Melbourne centre for financial studies. We will be providing about \$1 million over two years to support the establishment of that. I would be reluctant to give the exact profile of that funding at this stage. As I informed the committee, we are only at expression-of-interest phase at this stage and to provide further information on that would probably prejudice some of the discussions we are having with the market. I can come back to the committee in relation to the costs of some of the other initiatives. The global cost of the plan over two years is \$1.8 million.

Mr RICH-PHILLIPS — Minister, I would like to ask you about the \$100 million in new financial services facilitated for the current financial year. Can you provide the committee with some detail of what that consists of and in particular the definition of what you are talking about with the \$100 million; are you referring to bricks and mortar or capital expenditure investment here in Victoria as opposed to funds under management, and also what employment results will be achieved with that \$100 million investment?

Mr HOLDING — Firstly, I can say it does not refer to funds under management. It refers to capital expenditure of initiatives or investment announced during that financial year. All that investment, all that capital expenditure may not have taken place in that financial year. It may in fact be spread over several years. But the figure of in excess of \$100 million in new financial services investment attracted relates to the announcements made that financial year.

I will get the figure in relation to jobs that support that initiative. In relation to financial services it is 1570 jobs, and I stress the significant key new investment that we have been able to attract in Victoria in the last 12 months — in fact one of the most significant investments in Victorian history — was the GE Consumer Finance or the GE capital announcement, which is the significant redevelopment that is occurring at its site in Burnley where it will be establishing, among other things, an Asia-Pacific training and development centre for its global operation. It is a significant new investment. If members have additional questions I would be happy to provide some further information about that investment.

Mr RICH-PHILLIPS — Are you able to provide details of any other investments towards that \$100 million figure — specific projects?

Mr HOLDING — One was the Royal Bank of Scotland which has expanded its Australian head office in Melbourne and moved to a full banking operation. The US-based DST International has established Melbourne as a development and support centre for the region for financial services technology. We have seen an increased Victorian presence by HSBC, the Hong Kong Shanghai Banking Corporation, in the retail banking area, as well as by Citigroup in the custodial and asset management area.

St George Bank, as you would be aware, is the fifth largest bank in Australia and it has opened five new branches here in Victoria, one of which in Collins Street I had the opportunity to participate in the opening with Lord Mayor John So, and as well Rainmaker, which publishes the weekly *Financial Standard*, which is one of the key journals promoting industry research and the latest information particularly from an investment management perspective, has set up its operation in Melbourne as well, so we are very pleased to see that.

Mr RICH-PHILLIPS — These are all facilitated investments.

Mr HOLDING — These are all investments where there was some involvement of some sort by the Victorian government. I want to stress that a facilitated investment is not necessarily an investment where the Victorian government makes some sort of payment or enters into some sort of legal agreement with the company. It may be a facilitated investment in terms of identifying appropriate industrial land in the case of a manufacturing enterprise; it may be in terms of supporting a desktop analysis of available retail or commercial premises; it may be support for infrastructure; it could be a whole range of different forms of support. But our investment facilitation unit, as well as our investment attraction activities within Invest Victoria, provides a range of support to new investors.

Mr MERLINO — My question is with regard to community banking. I will give a plug for the Shire of Yarra Ranges; I think it is the community banking capital of the state. On page 146 of budget paper 3 there is a reference to community banking projects. Could you inform the committee of the progress of this initiative and any further developments in the area of community banking?

Mr HOLDING — A small initiative but a very important initiative by the state government was the announcement last year that we would be supporting local communities through local councils which were going through the process of making decisions about the sorts of financial services they wanted to see in their local areas. These sorts of decisions often come about as a result of bank closures in local areas, particularly in regional areas, but in metropolitan areas as well. That is why last year we supported the Your Town Your Bank initiative.

Since then we have been pleased to be able to identify six community bank feasibility study grants: one in Willaura Lake Bolac, where I was pleased to make the announcement of the program itself; one in Merbein in partnership with Mildura Rural City Council; one in Dimboola with the Hindmarsh shire; one in Clunes with the Hepburn shire; one in Romsey with the Macedon Ranges shire; and the most recent one in Buninyong with the City of Ballarat.

Only a couple of weeks ago I was able to announce with the member for Burwood at the Surrey Hills community bank that we would be extending this program to the metropolitan area because we believe the benefits that have flowed to local communities in regional Victoria from being able to have a partnership with the state government for the conduct of the feasibility study should be extended to metropolitan communities as well.

Mr FORWOOD — On the matter of performance benchmarks again, last year you put out eight press releases as Minister for Financial Services, but only two before 30 June, and this year you have put out —

Mr HOLDING — Are you talking about calendar year?

Mr FORWOOD — Yes, calendar year. This year you have put out four to date. Does that mean you are on track to get eight again this year or will you get more?

Mr HOLDING — I feel I should treat Mr Forwood's question with the seriousness it deserves!

The CHAIR — Therefore, you want to move to coffee?

Mr HOLDING — We like to overachieve in all our performance measures.

Witnesses withdrew.