

# CORRECTED TRANSCRIPT

## PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

### Inquiry into 2004–05 budget estimates

Melbourne – 15 June 2004

#### Members

Mr W. R. Baxter	Ms D. L. Green
Ms C. M. Campbell	Mr J. Merlino
Mr R. W. Clark	Mr G. K. Rich-Phillips
Mr L. A. Donnellan	Ms G. D. Romanes
Mr B. Forwood	

Chair: Ms C. M. Campbell  
Deputy Chair: Mr B. Forwood

#### Staff

Executive Officer: Ms M. Cornwell

#### Witnesses

Ms M. Thomson, Minister for Information and Communication Technology;  
Mr H. Ronaldson, secretary;  
Mr B. McDonald, executive director, corporate resources; and  
Mr R. Straw, executive director, Multimedia Victoria, Department of Infrastructure; and  
Mr P. Hannan, chief information officer, Department of Premier and Cabinet.

**The CHAIR** — I declare open the Public Accounts and Estimates Committee hearing on the 2004–05 budget estimates for the portfolios of information and communications technology and small business. I welcome the Honourable Marsha Thomson, Minister for Information and Communication Technology and Minister for Small Business, Mr Howard Ronaldson, secretary, Department of Infrastructure, Mr Bob McDonald, executive director, corporate resources, Department of Infrastructure, Mr Randall Straw, executive director, Multimedia Victoria, Department of Infrastructure and Mr Patrick Hannan, Chief Information Officer, Department of Premier and Cabinet, departmental officers, members of the public and media.

In accordance with the guidelines for public hearings, I remind members of the public that they cannot participate in committee hearings. Only officers of the PAEC secretariat are to approach PAEC members. Departmental officers, as requested by the minister or her 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. 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. Minister, I invite you to give a brief presentation.

### **Overheads shown**

**Ms THOMSON** — This slide shows the areas of responsibility and where they lie, so people will now be aware that Multimedia Victoria now comes under the Department of Infrastructure, and also the establishment of the chief information officer, which is in the Department of Premier and Cabinet.

The next slide shows the budget as outlined in the budget papers. While \$12.2 million was initially allocated for this output in 2003–04, \$6.3 million was transferred for strategic initiatives during the year and those initiatives are listed on the slide. In relation to the targets for 2003–4 and 2004–5, \$3.5 million was for the ICT centre of excellence which has come in from the Department of Innovation, Industry and Regional Development. I do not know if people remember but \$10 million was set aside for that centre. There has been some internal reallocation within the Department of Infrastructure in relation to e-government and broadband allocations for our Broadband Innovation Fund to bring that forward and the implementation of that for the Hume project, which I will talk about later, and minor adjustments which account for the difference in the budget lines.

The next slide shows the output performance measures within the ICT industry and community development output areas. The measures covered include the export development projects which are there to help companies seeking to become significant exporters of ICT products or services. An example of that is the Etech Group, which is a Melbourne e-learning company which has established business with United Kingdom schools and Lyon University in France arising out of the trade fairs and missions program, and they have been quite successful in gaining business in Europe. It also covers the ICT Skills project for work force development and New Realities, one of the campaigns we ran for years 9 and 10 students in schools to make them aware of ICT careers and the importance of preparing themselves for opportunities for the future. The output also measures our programs within investment attraction projects as well as ICT community projects like My Connected Community, which now has over 2300 community groups on line. We have either met or exceeded our 2003–04 targets in these performance measures.

On the investment attraction side, there has been over \$141.7 million in capital expenditure and 1010 jobs created for 2003–04. On the ICT industry development side, this slide shows some of the programs that we now have in place to assist our Victorian companies. The trade fairs and missions program has seen 60 companies assisted to date and that is likely to rise to 100 before the end of the financial year with \$50 million in projected orders to date. Funding for the CMMI software quality accreditation is \$1 million over three years, and over 80 companies are today attending an awareness session. Under our eLearning strategy, which was released in April, there are now more than 150 companies and around 1500 employees within that sector.

Game plan: we have seen a lot of success come from the work we are doing with our computer games industry. The Australian Game Developers Conference will be held in Melbourne in December 2004. The Xbox developers kit program is out there for our game developers. The Academy of Interactive Entertainment opened in August of 2003, and Melbourne was named by *Wired* magazine as one of the top four locations in the world for game development.

Cluster development: nine clusters have been established to date, four this year — Dot Net, Open Source, Spatial Systems and eLearning. Spotlight on Victoria was relaunched in March in London, focusing on what our companies are capable of doing in IT. It is a very important project to attract partnership and opportunities for investment overseas and export opportunities. The eServices panel was refreshed this month. There are 146 companies on the panel, and 26 of those are new as a result of this refresh program. Over half the orders received to date are with Victorian companies. The Digital Media Fund has created 180 full-time jobs, and total activity has generated 306 full-time jobs to date. As part of the eCommerce Roadshows, over 60 events have been held and 1400 businesses have participated.

Public internet access points: under our e-gaps program there are now 192 additional public Internet access terminals at 86 sites, and under the i@ database program launched in November 2003 there are now over 1000 public Internet access terminal sites. As I said before, My Connected Community, which has 2300 community groups overall, had 600 groups added in this financial year. There has been a strong focus on ICT industry development this year, and this will continue into 2004–05. Specific output measures for this will be developed for the 2005–06 budget.

I will move along. I will spend some time on the budget, because I think it helps clear things. The eGovernment infrastructure and ICT policy output funds the major chief technology officer projects like Victoria Online, Project Rosetta, the telecommunications purchasing and management strategy — TPAMS, to keep it easy — and the eServices panel under whole-of-government contracts. Regional telecommunication and broadband projects are also included in this output.

I will move straight on to the next slide at this point. This slide shows the output performance measures within the eGovernment infrastructure and ICT policy output. Again, as for other budget outputs, you can see from the table that for 2003–04 we are on track to meet — and in the case of regional access projects, to exceed — our 2003–04 targets. The major new development since last year has been the appointment of the chief technology officer, who will now take responsibility for a number of the eGovernment infrastructure projects. The projects that will move into operational mode during 2004–05 include Victorian office telephony service — VOTS — and the voice and mobile services from the initial TPAMS contracts for telecommunications carriage services. Subject to the TPAMS negotiations currently under way, the majority of tranche 1 data migration should also be completed.

Regional telecommunications and broadband: we will also be increasing the number of regional telecommunications access projects under way or completed during 2004–05 via the customer access network demonstration program and the broadband innovation fund and the community networks program.

I will skip the next slide and spend a little bit of time on this one. The major asset initiatives — TPAMS and Project Rosetta — are on track to be delivered within the total end cost of \$47.7 million as originally announced in the 2002–03 budget. The component directly reflected against the Department of Infrastructure budget is now \$43.3 million, as \$4.4 million has been transferred to other departments for their local area networks, and so is it not counted against the DOI budget any longer. Asset funding for both projects has been rephased due to the changes in the program itself and the project timings. The TPAMS program was ratified by an independent governance committee in December of last year.

Industry and departmental consultations and the design of the request for tender specifications were extremely complex and far more complex than first envisaged. I am advised — I cannot go into any detail on this because of probity reasons and because I do not know, to be quite honest, and it is appropriate I do not know — that the responses are very complex, which has meant that evaluation and negotiation tasks will also take longer to ensure that we get the best deals.

**Mr FORWOOD** — If possible.

**Ms THOMSON** — As I said, we are running to budget, so we are doing fine. With a project of this scale the important thing is to get it right. It is a mammoth task to get this right in the first instance, and it is important to get it right now rather than having consequences later on, so we would rather see the detail going into this end than later on.

The \$8.4 million has been provided for the office of the chief information officer for 2004–05. Under the new ICT strategies and services output of the Department of Premier and Cabinet, this is the second instalment of the \$33 million over four years for the office of the CIO. In 2003–04 this was accounted for under DPC's CIO

eGovernment output initiative and totalled \$6.3 million. The funding in 2003–04 is less than that provided in 2004–05, as it reflects the fact that the office did not really get established until towards the end of the calendar year last year — and really it was probably January this year.

Summing up, let us go to the second-last slide, and then we will move to questions. The key IT objectives for the 2004–05 year include growing the information industry sector. It is a good time for us to be working with our industries. Other objectives are to improve the operations of business with strategic adoption of ICT, which is really our eGovernment strategy, and to increase the use of ICT by all Victorians. It is critically important not only that all Victorians are the beneficiaries of technology and what it offers — no matter where they are or what their background is — but also that we have an understanding of how we can work to make their lives more rewarding and enriched. Another objective is to reduce the inequity in the use of ICT across Victoria, and again the specific programs with Skillsnet really do get to the most disadvantaged of Victorians. The final objective is to improve the operations of government by a more strategic approach to ICT, and this is making sure that we use our ICT to the best and fullest extent.

**The CHAIR** — Thank you, Minister. We now have 1 hour and 10 minutes allocated for questions on this portfolio. Going to the first one, you highlighted in your presentation money for the ICT centres of excellence. Could you explain to us the key performance measures in that regard?

**Ms THOMSON** — We are very pleased with that question, thank you very much. This is a great announcement for Victoria because only at the end of last week we announced the establishment of the National ICT Australia node here in Victoria. This is the ultimate in research and development for the ICT sector, established by the federal government with a consortium that was based out of Canberra. This will see communications research and development that will occur here in Victoria, together with Melbourne University and NICTA. It is a great coup for Victoria and for Australia, and will help establish Australia as an ICT centre of excellence now, with the key component areas of research and development in ICT being established.

It is a great opportunity for us. We will see about 80 researchers and postgraduate positions established at the node by 2006. The government has provided a grant of \$8 million to assist in the establishment and secure the investment here in Victoria; and we are looking forward to the outcomes. It will deliver investments of \$25 million over five years from NICTA, and a further \$20 million from the University of Melbourne, so it is a big research and development node. We also saw the development of the NEC broadband research and development facility at Mulgrave, creating 63 new, highly skilled research positions, and the government provided \$1 million to support the investment of that R and D centre. This is the only one outside of Tokyo worldwide, so there is no other facility that NEC has established to do that broadband or 3G phone development, so it is a great development for Victoria. It certainly establishes Victoria as the centre of research and development for ICT in Australia. We now have 47 per cent of private sector R and D, so we are certainly kicking above our weight, and this will add a very serious component to the R and D that will be provided in the communications area.

**Mr CLARK** — My question relates to telecommunications purchasing and management strategies. Last year you told the committee that the project was on schedule. You have now explained that the time lines have blown out due to the factors that you indicated. You also told the committee that the capital works budget is expected to be the same in aggregate as it was previously. Can you tell the committee, either now or on notice, what the revised current time lines are for the various stages of the TPAMS project, and can you also tell the committee what changes there have been to the recurrent budget for TPAMS, given what transpired since last year?

**Ms THOMSON** — In relation to the capital budget, we answered in the PAEC questionnaire — do you want just TPAMS or Rosetta as well?

**Mr CLARK** — They seem to have been combined.

**Ms THOMSON** — That is how I would prefer to give it, just so we are speaking about the same figures. The PAEC questionnaire gave a figure of \$4.9 million for 2002–03, \$16.7 million for 2003–04, \$13.8 million for 2004–05, and \$8 million for 2005–06. The PAEC questionnaire was revised to \$12.3 million on 2003–04 output. There was a revision made by the department.

**Mr FORWOOD** — What page are you on?

**Ms THOMSON** — The is the PAEC questionnaire, in relation to question 6.1. A revision was made to the PAEC questionnaire because of an administrative error, so that \$16.7 million should actually read \$12.3 million in year 2003-04, and the \$13.8 million in 2004-05 should read \$18.1 million. We believe they are the accurate capital expenditure figures. On the operating side the figure for 2002-03 is \$500 000; 2003-04, \$7.8 million; 2004-05, \$7.3 million; and 2005-06, \$7.3 million.

**Mr CLARK** — Is there any figure now for 2006-07, and also can you tell us about the time lines for the project?

**Ms THOMSON** — No, there is no figure for 2006-07.

**Mr CLARK** — Can you tell us about the current time lines for the project?

**Ms THOMSON** — The project has been put into tranches. The Victorian Office of Telephony Services has been announced, and is in transition now, so the project for our telephones with the five-digit number that we all dial up — which was the old StateNet FM in Parliament and in our government departments — has been awarded to NEC business solutions, and that is in transition now. So that is moving from the existing supplier, which is Telstra, across to NEC. In relation to tranche 1 of our mobile voice and data we would hope to have concluded the negotiations around September of this year.

**Mr FORWOOD** — In terms of the \$4.4 million for the local area network upgrade, has that been physically transferred to other departments, and if so, could you advise the committee which amounts went to which department?

**Ms THOMSON** — It went to the Department of Treasury and Finance, so the actual amounts of that \$4.4 million was distributed from there, not by us. You would need to raise that with Department of Treasury and Finance.

**Mr FORWOOD** — But did you write them out a cheque?

**Ms THOMSON** — No, we did not, it is a paper transfer and will be allocated to departments as their local area networks are upgraded.

**Mr FORWOOD** — Who has responsibility for its expenditure? Does Randall Straw or Patrick Hannan, or do the internal department people have it?

**Ms THOMSON** — I would assume the departments have responsibility for its expenditure, but it will be monitored via TPAMS.

**Mr FORWOOD** — So next year you will report on that?

**Ms THOMSON** — I would assume the various departments would be able to report on that next year.

**Mr STRAW** — In terms of local area network upgrades to departments we have a set standard operating environment across government as part of the TPAMS process. We have provided funding to the departments to upgrade their local area networks to that level. The \$4.4 million is part of that local area network upgrade.

**Mr FORWOOD** — So more money than the \$4.4 million has gone out of TPAMS?

**Mr STRAW** — There has been \$10 million allocated for local area network upgrades. In the TPAMS budget, \$5.6 million was transferred directly from the Department of Infrastructure this financial year to departments. Next financial year Treasury will provide \$4.4 million from our budget but via Treasury and Finance to those departments, so \$10 million in total for local area network upgrades by two mechanisms.

**Mr FORWOOD** — Who has responsibility for seeing that that \$10 million which has come out of the TPAMS project is properly spent by each of the other agencies?

**Ms THOMSON** — It will be reported as part of this project overall, but the actual individual responsibilities will remain; we will report that it has been done, but the actual responsibility for getting it done will remain with the departments.

**Ms ROMANES** — You have talked about a number of broadband initiatives being undertaken by the government. My understanding is that telecommunications is a federal government responsibility, so why is the Victorian government undertaking these programs?

**Ms THOMSON** — That is a very good question. Broadband is a federal responsibility, as you have mentioned, in both a regulatory sense and an infrastructure delivery sense, and the fact is that the largest Australian telco is 51 per cent federal government owned, but there is a need to deal with what is a broadband infrastructure shortfall out there. The government felt that we could not sit back and wait for action at the federal level, that we needed to be doing things ourselves. It is crucially important for industry, it is important for communities to have access to what broadband will deliver them by way of access to information and knowledge and to ensure that we are managing to give Victorians an opportunity to access some broadband, but, more importantly, to encourage competition among our telecommunication companies.

We are not the providers of broadband services; what we can do is help to create an environment that encourages telecommunication companies to see the business case and to go into various areas. We have done that through a number of measures. The customer access network demonstration project, or the CAN trials as members of the upper house will have heard me talk about, was an opportunity to help subsidise telecommunication companies that had an innovative way of either providing the technology or the business method in which they would provide broadband access to communities which otherwise would not have had access. We have seen a number of trials run out now in Castlemaine and in Gippsland — a whole range of projects that are running out now that are giving broadband to communities that otherwise would not have access to the broadband.

Dealing with the regional telecommunications spend and demand report, we were hearing from a number of the telecommunications companies that they did not have access to the kind of information they needed to make business cases to go into regions. This provides them with an opportunity to look at the spend and demand report, get an idea of where there might be markets on that borderline, possible markets to enter into, and to make decisions based on some real information that is provided to them. The broadband innovation fund is about applications and innovative ways of using broadband which will bring to the communities, because of the demand and use of the new applications by government, a business case for provision of broadband into communities. So we see a number of opportunities that have enabled us to move ahead.

I have to say, though, that I am concerned that we are falling back in the application of broadband across Australia. Technology research firm IDC recently indicated that Australia may ‘continue as a broadband backwater’ — that is its quote — over the next five years if uptake is not accelerated. We know there are two things that affect uptake: cost and availability. We do need to get the costs down, and we have seen a bit of a war going on now with ISP providers. We also need to ensure that there is proper content on board so that as we see more and more worthwhile material go on to the Internet there will be a greater demand for it. Having said that, there are communities that will be struggling on a business case to get access to broadband and we would hope the federal government would be looking at initiatives to fill the space. We as a government view telecommunications infrastructure as being as important as any major highway, and we believe that needs to be addressed. Approximately 23 per cent of Victorian households and 20 per cent of businesses are unable to obtain ADSL or cable broadband, and these customers live predominantly in rural and regional Victoria. So there are very strong reasons why things need to happen in this place.

I talked about the CAN trials. I will spend a bit of time outlining what the CAN trials are that we have funded. Castlemaine SDSL services were installed by Bendigo Community Telco. I have had reports back that the uptake has been very good amongst the businesses in Castlemaine. Gippsland wideband mobile services — it is called 1XRTT technology — was installed by Telstra Country Wide for the Wellington Shire Council to towns including Leongatha, Sale and Yarram. The great development with this is that Telstra Country Wide is now rolling this technology out into Victoria. It has said it has been able to do that because of the CAN trial that occurred in Gippsland and it has made it a technology that everyone now knows works and they can roll that out to other communities.

Broadband wireless to multichannel, multipoint distribution services has been installed by Goulburn Murray Telecommunications, or GMTel, for the Shepparton area; the Northern Grampians and Pyrenees shires where Omnicomm Telecommunications are installing spread spectrum, DSL and direct microwave services to remote towns which include Stawell, Ararat and Avoca; and in Albury-Wodonga the Murray River Regional Telecommunications company is installing a combination of wireless data communications and 1XRTT CDMA

mobile services so there is quite a diverse technology out there at play, which means that telecommunication companies really do get a chance to test the new technology and where it may be applicable in other places in Victoria.

**Mr FORWOOD** — I return to the issue of the NEC business solutions project. In your press release of 1 April you said that the government was going to save \$1 million a year for the next five years. How was the calculation done?

**Ms THOMSON** — It simply worked out this is a set cost to run the service and it will cost us \$1 million less each year to run.

**Mr FORWOOD** — On an escalating basis?

**Ms THOMSON** — It is a fixed price, because it is an internal telephone service — Victorian Office of Telephony Services.

**Mr FORWOOD** — What is the cost?

**Ms THOMSON** — The cost is provided in running the service, and we will see a financial saving and a refresh of the old technology platform. A recurrent cost saving of 10 to 15 per cent is expected, which will equate to around \$1 million per annum, which has been achieved on behalf of all departments and agencies, and we will see those savings.

**Mr FORWOOD** — My maths are not all that good. Does that mean the current cost is \$7 million a year?

**Ms THOMSON** — No, what we are saying is that the agreed costs are around \$9 million to 10 million per annum for VOTS.

**Mr FORWOOD** — A flat rate for five years — no escalations?

**Ms THOMSON** — But it is based on the number of handsets that are in the system.

**Mr FORWOOD** — If you increase the number of handsets you will increase the cost?

**Ms THOMSON** — If you increase the number of handsets the price will go up.

**Mr FORWOOD** — So we will not save any money.

**Ms THOMSON** — You are saving \$1 million because you save it on the basis of the number of handsets that you have contracted to do, so you have saved.

**Mr STRAW** — The old contract cost departments about \$7.5 million a year for the cost of state net FM, plus there was about \$1.5 million for operator costs as well the Treasurer used to pay. The new contract is estimated to be about \$6.5 million for departments to pay plus also the operator costs. The saving of \$1 million is calculated on the \$7.5 million minus the \$6.5 million.

**Mr FORWOOD** — So the operating cost will stay about the same?

**Mr STRAW** — The same, yes — and that was the transfer of the operator costs from the Department of Treasury and Finance to us of about \$1.5 million, which was up on the slides.

**Mr MERLINO** — On page 116 of budget paper 3 you have an output for export development projects. Can you please provide more detail regarding this output and inform the committee of any other programs that you deliver to assist ICT firms in to develop export opportunities?

**Ms THOMSON** — At the outset can I say how important the export program, or the encouragement of export, is for our ICT industries. In a global economy — ICT is the most globalised of any industry — it is vitally important that we taking advantage of the unique situation we are in. The unique situation is we offer the ability for a 24-hour clock. We have an incredibly well recognised ICT skill base. Our companies are recognised as being very innovative and very creative, so it creates some opportunities for us. However, on the downside not very many people know about the capabilities that we have. Those who do sing our praises, but unfortunately there are too

many people who do not know too much about what we have got to offer, and that does require us to get out and tell the world what is a very good story about the Victorian ICT industry.

We do need to tell an Australian story. It is vitally important that the capabilities of the Australian ICT sector are being sold globally. It makes it much easier for us to go in and talk about what Victoria has to offer with our companies, so we tend to go out there and do a bit of both. We have a number of programs in place to assist. Our trade fairs and mission program has to date provided 60 grants to assist Victorian ICT companies to attend international trade fairs. Recipients have reported \$50.6 million in projected export sales over the coming 24 months due to their attendance at the trade fairs. These figures are expected to increase as companies report on outcomes, so they are hugely successful.

I was fortunate enough to be able to go across to CeBIT with a number of our companies. CeBIT is the largest ICT trade fair in the world. It is huge; it is the exhibition centre multiplied by about 28. It is very big. This year was very buoyant with the return to confidence in the sector. It was important for us to be based there. In truth we took 14 companies across, and if we had not gone with our 14 companies there would be no Australian presence at CeBIT, so it was a worthwhile exercise for our companies. It was very important for us. We took the opportunity to talk to some of the major ICT companies and some manufacturing companies over there about opportunities here in Victoria, some already here and who are looking at opportunities to partner with some of our own companies. We certainly did take that opportunity.

We also send across companies to E3, the largest computer game trade fair, or the most effective for our companies. There are now 35 Australian companies going to E3, and Victoria started the trend to create that environment — 21 Victorian companies went across to E3. In relation to examples of what companies have been able to achieve out of this, I will give you one in relation to the Photonics conference — that is, the optical fibre communications conference in Los Angeles this year. It has proven to be quite a good one. We sent across companies last year. CEOS, a Victorian optical communication company, went across last year and signed up a deal with Hitachi. The partnership has a potential to create \$100 million worth of growth in sales of technology for CEOS over the next five years, so it is a great opportunity. It demonstrates the importance of that technology.

The other one is the issue of accreditation. If we are looking for companies who want to join in partnerships with internationals and multinational companies, the issue of standards is now crucially important — and CMMI standards are the ones that are being now seen as the global standards that have to be met. Not very many Australian companies have taken on CMMI standards. They are quite expensive to go through the process, but they are becoming more and more important. So with the software engineers association we have provided \$1 million to obtain a CMMI-accredited program to level 2 to assist our companies get to that level. I cannot underrate the importance of recognised accreditation if we are going to have future partnerships available to us.

The other one is clusters and networks. This is a sector that relies on working together very strongly. As I have mentioned before, computer games now have a networking cluster. The microelectronics network has been established, as has the photonics network. We are worldwide leaders in R and D in photonics. There is the .Net cluster and the J2EE cluster. Certainly the .Net cluster is a world first. There is the Open Source cluster, the eLearning cluster and the Spatial Information cluster and the Bioinformatics cluster.

**The CHAIR** — Thank you very much. In the interests of time you may wish to take this on notice, but I think it would be helpful to the committee if we had what was the Victorian government's financial contribution to E3. That would be extremely helpful. What benefits are expected to be generated, and has there been any work on financial benefits to the state. That would be helpful. How are those benefits going to be measured over time. It would be helpful if you could provide that to the committee.

**Mr RICH-PHILLIPS** — Now that the government is taking a whole-of-government approach to ICT with the appointment of the chief information officer it would be helpful to the committee if you could put some quantum around the government's expenditure on telecoms and ICT so we can have an idea of the size of that area for the government, and also the rate of growth in telecommunications and ICT. Do you have those sorts of figures?

**Mr THOMPSON** — I do not have the rate of growth, but the rough figure for ICT spend would be around the \$750 million per annum. That would be about right.

**Mr RICH-PHILLIPS** — Does that include telecommunications?



**Ms THOMSON** — Yes.

**Mr RICH-PHILLIPS** — Would you be able to come back to us with an idea of how rapidly that is growing?

**Ms THOMSON** — It might not be as simple as that, but we will attempt to give you some figures back on expected growth.

**Ms GREEN** — Minister, I refer you to the output measure listed for projects under development on page 116 of budget paper 3. Could you elaborate for the committee on the types of actions that were taken to develop or facilitate the investment opportunity?

**Ms THOMSON** — There are two kinds of investment opportunities — the one that is there for those from overseas companies investing in Victoria. There are companies based in Australia who may wish to either grow their investment opportunities here where they may have a base, but not a very large base. We do a lot of work with some of our home-grown companies who may wish to increase their presence in Victoria. A lot of that facilitation can be quite simple. It can be about helping to find a location which is suitable for the kind of business they are. It might be a planning process, assistance with working out and understanding a system that is foreign to them — what they have to do to establish and set up — right through to opportunities to link to universities or TAFEs with training programs and access to graduate recruitment. We spend a lot of time on overseas investment attraction. It is important we do so if we are going to be an ICT hub — we need to have a critical mass of companies here which are employing here and providing jobs for Victorian ICT graduates.

One of the great things is the opportunities we get to travel and meet with some of the companies which either have a presence here or which we believe are suitable to have a presence here — that fit the kind of things we have expertise in. One company we visited with was Business Objects in the United States — it is also based in France. It is a French company with headquarters in the US and France. It had a very small outfit here in Victoria and had no intention of growing at all until we went across and visited the company. During that visit we talked about the capability of the sector and our skill sets and what was on offer here by way of business opportunities. That helped Business Objects make the decision that Victoria and Melbourne would be the place to set up its Australia–New Zealand headquarters — something that would not have happened if we had not met with them. It would not have happened. The fact we did go and do that indicates how important it is to make contact with those companies and to keep making contact on a regular basis.

These are important things for us to do to ensure that people understand what the capabilities of the sector are. It does not help when we travel overseas and their image of Australia is kangaroos jumping across the red earth — that does not indicate that we are a highly sophisticated and capable community. Once they get the message, they are very interested. We encourage a number of them to come to Victoria and to Melbourne to look at what is possible and what they may get out of coming here. We take the opportunity to assist them in developing their programs when they come to visit — to see the things they need to see. In some cases it might be meeting with universities or a whole host of various things which do not necessarily run to financial assistance at all.

**Mr BAXTER** — Page 183 of budget paper 3 says among other things that the department is responsible for the development and implementation of ICT by ensuring that all departments have access to better, more integrated, standardised ICT systems. Was the department consulted by the Parliament prior to the so-called upgrade that we had of our system? If so, what advice did you give the Parliament?

**Ms THOMSON** — I can say that the Parliament did not consult with the department in relation to upgrades of the IT here at Parliament. I am not making any comment other than that.

**Mr BAXTER** — Does the Parliament not consider itself to be — —

**Ms THOMSON** — I cannot answer on behalf of the Parliament.

**Mr BAXTER** — It leads to the issue of what is whole of government. I know the Parliament is, in a sense, over and above government but surely in terms of the mechanics of running the show and integrating with the rest of government systems there ought to be some direct connections.

**Ms THOMSON** — With the development of the offices of the chief information officer and the chief technology officer you would hope that that would be the case, Mr Baxter.

**Mr FORWOOD** — I have a specific and a general supplementary. The general supplementary is: if you did not do it for the Parliament, how can we be assured that it is happening for each of the other departments? The second is it is my understanding you stopped the Parliament doing the Blackberry trial. If you have decided you can stop the Parliament — —

**The CHAIR** — Hang on. The first part was how does the department make sure the whole of government does get involved with your advice. Secondly, there was a specific.

**Ms THOMSON** — At the moment we have 10 departments and 4 agencies involved in scoping that whole of government. As I understand it, the Parliament is involved in the telecommunications purchasing and management strategy. The Parliament is involved in the telecommunications aggregation but, as I understand it, it has proceeded with an IT strategy separate and ahead of the establishment of the CIO's office.

**The CHAIR** — And the specific was?

**Mr FORWOOD** — Let us just finish that. Is your role in future to sign off on the ICT upgrades of each of the departments in a general sense? How involved will you be?

**Mr HANNAN** — If I could answer firstly in relation to the Parliament, we have had a number of discussions with the IT managers within the Parliament. They are not mandated within scope of the activities but we are working with them in order that they will pick up, wherever it is appropriate to them, the opportunities which are created around the various projects we are initiating. The Parliament is not one of the organisations which has been mandated. However, we are working closely with them and are obviously giving them advice and allowing them to leverage — to the extent they can — off anything we are doing on a whole-of-government basis.

**Mr FORWOOD** — Blackberry?

**Ms THOMSON** — I do not know the circumstances of the Blackberry trial. If Randall knows, he can answer.

**Mr STRAW** — In regard to the Blackberry project the Parliament was considering, at that time Blackberry was linked exclusively to one telco provider. Given Parliament wanted to be part of TPAMS, we made the IT department aware that it was linked exclusively to one provider and that that may impact some of the negotiations between government and those telcos. In other words, it might put one telco in a preferred position.

**Mr FORWOOD** — So you vetoed the trial.

**Mr STRAW** — No, we advised the IT department that it would potentially cause some complications for them.

**Mr FORWOOD** — Is Blackberry still exclusively tied to that one provider?

**Ms THOMSON** — There have been some announcements made that Blackberry will go beyond one provider.

**Mr FORWOOD** — Does that mean the Parliament can now do its trial?

**Ms THOMSON** — You would need to talk to the Parliament about what it may or may not want to do.

**Mr DONNELLAN** — In your presentation you referred to the fact that you announced a shortlist of TPAMS in April. Can you please inform the committee as to whether you will need to undergo such a complex process when you next tender for TPAMS?

**Ms THOMSON** — For those who may not be aware, the shortlist of Telstra, Optus, AAPT, Macquarie Corporate Telecommunications and Soul Pattinson Telecommunications was announced in April. Negotiations are currently under way for tranche 1. This is an ongoing management system. It is important that we get it right. It is about ensuring that we are able to get the best technology at the best price. A lot of time and effort went into

ensuring that we got the right model — that is why through a number of investigations we settled on the tranche approach and the staged release of voice and data demand to the marketplace. We wanted to create some competitive tension, and I think that has occurred. The model has been designed by procurement, contract managers and telecommunications specialists. The model has also been assessed by Gartner Australasia, which is important for us to ensure we got the model right and that it did get some assessment from a third party.

As I said before, we hope to get out of this an ability to get the contractual arrangements right and ensure the technology is right to meet our needs. Running government is very complex and we want to make sure that in the contractual arrangements entered into that any of these companies would in fact be able to deal with the technology requirements and the contractual requirements of government at any time. We believe the short listing and the negotiations that will occur will enable us to be confident of that and that those who have now agreed to standard contractual terms and conditions will be placed on the government-approved telecommunications suppliers panel. This will mean we do not have to go through that process again. We will be able to use the GATS as the means by which we drive a price bargain rather than trying to get the technologies right and the contractual arrangements ticked off. We believe we will have a far simpler system once when we get through this process, and it will all then be just about price. The important thing we had to ensure was interoperability to make sure the systems could work.

**Mr CLARK** — I take you to slide 6 of your presentation and ask you about a couple of the cost figures there. The main one relates to the item for TPAMS Rosetta depreciation/CAC, which I presume is capital asset charge. The question is in two parts: first, why was there the sudden charging of \$12.8 million in 2003–04 given, as I understand it, that most of TPAMS or Rosetta is currently not in place? I notice there is a reduction of \$4.2 million for 2004–05, which I presume is a reduction in the TPAMS Rosetta depreciation/CAC. That is one component. The other is a lot smaller. When I asked about TPAMS Rosetta operating costs previously I think your answer was that in 2003–04 the cost was \$7.8 million, whereas that slide is showing \$6.7 million. Is there an explanation for that?

**Ms THOMSON** — Of the \$12.8 million, my understanding is \$5.4 million— I will check that figure — is actually depreciation. The \$12.8 million is 2003–04. It is an additional \$12.8 million from 2002–03, so it is a plus figure for 2003–04, and it was a new item for that year, which is why it is additional. From my recollection about \$5.4 million of that is depreciation; is that right, Randall?

**Mr STRAW** — I have not got depreciation or capital asset charge separated.

**Ms THOMSON** — We will have to come back to you on the break-up of those two.

**Mr CLARK** — My main point is: why is any charged given TPAMS Rosetta is not in place, or at least most of it, at this stage?

**Ms THOMSON** — The figure was an estimate for 2003–04 and the figure will be lower for the outcomes for 2003–04.

**Mr CLARK** — I look forward to the answer on that. Do you want to take on notice the recurrent cost issue that I asked you about, the \$7.8 million TPAMS recurrent cost for 2003–04, in what I think was your previous answer, versus the \$6.5 million there, given the \$6.5 million was an increase — it was 0.05 in 2002–03?

**Ms THOMSON** — I will take that on notice.

**Ms ROMANES** — In budget paper 2 of 2003–04 at page 238 it is indicated that the office of the chief information officer is allocated a budget of over \$33 million for the next four years. Can you tell the committee what type of outcomes the government is seeking from the establishment of the office of the chief information officer and what benefits this will bring to government?

**Ms THOMSON** — The establishment of the chief information officer is very important for government, probably indicated by the question in relation to the Parliament. It is about looking towards effective use of IT and looking for where savings can be achieved by sharing services, by looking at standardisation across government to enable the better use of technology, and to really give effect to the fact that if we are going to proceed, as the government has indicated, on a whole-of-government policy framework, then you have to have that interoperability across government. So we need to be looking at what we are doing with our ICT across government. We need to be looking at whether or not that is the most effective way of utilising the amount we do invest into ICT, and looking

at ways in which we can achieve greater integration of the delivery of government services, so there are some opportunities for us.

As technology develops, what we can do with that technology, what we can provide by way of services to our communities, how we operate as a government, are all very crucial, but we need to have a body at which all that is reviewed and looked at, and a strategic plan in place to make sure we are taking all the advantages we can. We want to see some scrutiny of how we are spending our ICT dollar and ensure it is the most efficient and best possible spend that government can do, and while we are doing that also ensuring that we have the management systems in place because, as I think I may have said last year when we talked about e-government, e-government is not just about providing things online. It is about the way you work as a government. It is about changing our attitude about providing services. We are no longer community services providing something to someone, but are looking at a whole person and the capability of the departments to meet the real needs of the individual. Technology now enables us to be able to do that quite seamlessly and we need to be ensuring we are putting in place an opportunity to take advantage of what technology will enable us to do.

**Mr FORWOOD** — I am going to have another crack at TPAMS. If you look at the slide headed 'Multimedia asset initiatives', slide 9, you can see that the approved part of the TPAMS project in 2002–03 is \$3.9 million and \$10.7 million the following year, and Rosetta is \$1 million and \$1.6 million. Right, Minister?

**Ms THOMSON** — Yes.

**Mr FORWOOD** — If you do a quick add you get up to \$18-odd million. Yet you advised the committee when we looked at the slide we just looked at, slide 6, that you are depreciating TPAMS at \$12.8 million last year and I presume, given the deduction in the next year, \$8 million the following year. Does that mean that you are writing off TPAMS as fast as you develop it? How can you be depreciating it and having a capital assets charge which if you add the two years together is virtually equivalent to the total amount of asset expenditure? Go back to slide 6, Randall, please. The \$12.8 million is the depreciation on capital for the year 2003–04. You are depreciating or having an assets charge of \$12.8 million against — if you look at your total asset initiatives — around \$18 million. How can that be?

**Mr STRAW** — The estimated out turn for depreciation and capital asset charge on TPAMS for 2003–04 is \$13.1 million. The \$12.8 million is the relative difference between 2002–03 and 2003–04.

**Mr FORWOOD** — How do you calculate the \$13.1 million? What are you depreciating at what rate? What is the amount of the capital assets charge, and on what are you levying it to get to \$13.1 million?

**Mr McDONALD** — The amount identified on the screen as against the target was done last budget time, so we are reflecting the 2003–04 target — —

**Mr FORWOOD** — Of \$25 million?

**Mr McDONALD** — I am referring to the table there that shows Rosetta depreciation and capital assets charge of plus \$12.8 million. That gave a total allocation, that Randall referred to, of \$13.1 million in the 2003–04 budget, so it is year rolled. That was the figure created for the 2003–04 budget for — —

**Mr FORWOOD** — Calculated on what basis, Bob?

**Mr McDONALD** — It would have been calculated on the assumed timeframe associated with the capital expenditure component of the budget. So in relation to TPAMS the previous slide showed an expenditure across the two years. On that slide TPAMS and Rosetta showed expenditure across two years of \$47.7 million and the minister referred to that earlier. So the timing of depreciation and capital assets charge was aligned with the timing of that project at last budget time. Since that time the minister has advised the committee of the revised timeframe associated with capital and that is identified in the table on the slide. We expect the depreciation and capital assets charge to be less, which is what the minister also said.

**Mr FORWOOD** — We are getting closer. So when you come to look at the final outcome for the 2003–04 year on the recurrent side, what will the answer be? How can the answer be \$31.5 million when you have just told us that the \$21.8 million is calculated on a full cost of TPAMS of \$47 million of which you have only spent half?

**Mr McDONALD** — TPAMS is not the complete item that is funded from that output. It is a significant component, but it is not the complete item. It is specifically in relation to TPAMS, which I thought the question related to, and we will spend less on capital assets charge and depreciation on that component, whereas what is on the slide reflects the total output cost, which includes TPAMS and Rosetta operating and capital assets charges.

**Mr CLARK** — Could I have a supplementary attempt at this? Your total change in 2003–04 between targeted and expected is \$200 000, so you have said that the depreciation has dropped dramatically compared with when you put the budget together, but your total has only changed by \$200 000. Does that imply that other items of expenditure have increased which has offset the fall in depreciation compared with budget?

**Mr McDONALD** — That is correct.

**Mr CLARK** — Can you explain what those other items are? In other words, you have purported to give us a reconciliation of target to expected outcome — —

**The CHAIR** — He is trying to get to an understanding of the figures on that slide. That is all right; we will get to an understanding. Do not get your blood pressure up!

**Mr FORWOOD** — My blood pressure is going up!

**Mr CLARK** — All I am saying is that that is not truly a net change of \$200 000. There have been big pluses and big minuses combining to give us that \$200 000.

**Mr McDONALD** — Again can I just say that the figures that are shown on the table — expected outcome — relate to what was provided in budget papers. Budget papers are usually closed off towards the end of March in each year, and that would have been the estimated out turn that we expected at that time. We expect it to be lower in terms of actual, and that information is usually published later, usually in the annual report. So we are reporting here what was anticipated at budget time, but in response to whether depreciation and capital assets charge will be less on TPAMS, we have indicated to the committee that it will be less for depreciation and capital assets charge as it is aligned with the timing of the capital.

**Mr FORWOOD** — Okay. Can I — —

**The CHAIR** — If we want further information on this we can explore it further now or we can put it on notice.

**Mr FORWOOD** — I would like to make a comment!

**The CHAIR** — We can finish this, and then we will move to Mr Merlino.

**Mr FORWOOD** — I would like to have the calculations as I have asked for them — that is, how much money and what the rate of depreciation is and what it was charged on. As a comment, I frankly think it is a bit rich to bring a slide here today which says — if you follow the arrows up — that \$12.8 million of the expected outcome and the target is coming from depreciation and CAC when it is not.

**Mr McDONALD** — What we are reporting here reflects what is reflected in budget papers and we are using the budget papers conventions which are the same year on year. What we have identified in this slide is what is published in budget papers and the construction of the figures that related to the budget papers that were done a year ago.

**Ms THOMSON** — However, we are happy to provide you with the information you seek.

**The CHAIR** — Which will be very helpful to us. Thank you.

**Mr MERLINO** — Minister, it is a general criticism of Australian IT companies that they have trouble accessing government. What programs do you have to assist with this, and how effective are they?

**Ms THOMSON** — Given the importance that government has to ICT companies because we are big users of ICT by anybody's standards, it is important to look at how we support our IT sector in understanding how the government works and opportunities that may be there for them in relation to ICT possibilities. Together with

the AIIA, we have put in place a number of programs that run out opportunities for companies to find out what government is about to do. Sessions are run where departmental secretaries will come before the ICT companies and talk about the intentions for the year ahead with ICT programs, giving businesses a bit of an idea about what to look for, what opportunities might exist for them and how to deal with those opportunities. As I said before in answer to another question, about \$750 million is spent annually on ICT and that is considerable.

We have also put in place the services e-panel which provides mainly small businesses with the opportunity to compete for those projects for up to \$1 million. It means that they only have to enter into the contractual arrangement once. For small companies it is very expensive to continually have to try to meet certain contractual standards and to continually have to resubmit for tenders. Having a panel in place effectively enables that to occur with one application. Some 106 companies were initially appointed to the panel, of which almost 60 are locally based IT companies. Some 45 per cent of the new contracts went to Victorian SMEs and 25 per cent to Australian SMEs, with 30 per cent going to IT multinationals. As you can see when you add it together, a considerable number of contracts are being awarded to Australian SMEs. This is a good outcome for those companies, and we believe it gives them an opportunity to have a look at and get involved in some of the business that government actually generates.

We have also run in the transport and logistics sector a similar arrangement to that which we have with the AIIA in relation to government. The transport logistics sector is now highly reliant on information technology to move things around, and again with the AIIA we worked with IT companies to get the symposium going. There were representatives from Linfox and public transport areas — tram and road — and over 90 people attended representing 50 companies. We are trying to create those links and those opportunities for people to do business with government and with those who have great IT requirements. We also have in place the Victorian industry participation policy, of which you will be aware from Minister Brumby who talked about the opportunities that are there for local content and about ensuring that we give our Victorian companies an opportunity to be the winning tenderers where there is a case of equal value.

**Mr RICH-PHILLIPS** — I take you back to the new NEC contract for VOTS that Mr Straw mentioned before. He said that the new base-line cost was around \$6.5 million versus a previous cost of \$7.5 million — that is the \$1 million saving you have spoken about in your press comments — but I ask: what have been the transition costs of moving to the new NEC contract in terms of costs for legal advice, contractors, consultants, tender preparation, departmental time et cetera. What have actually been the set-up costs that have been expended to transfer from one contract to the other?

**Ms THOMSON** — The project costs are included as part of the TPAMS project costs, so in that sense they are part of the project in relation to TPAMS. We can talk about the cost of transitional arrangements, but I do not believe we will have separated out what is the ongoing cost for the project of TPAMS. They are ongoing costs currently as part of the work that is continuing to be done.

**Mr RICH-PHILLIPS** — That \$1 million saving does not take into account your actual transition costs, so it is going to be less than the \$1 million saving?

**Ms THOMSON** — It is \$1 million per annum on the actual recurrent cost as opposed to project costs for the establishment of TPAMS, so we are talking about \$1 million recurrent. We have to be consistent about what we are talking about.

**Mr RICH-PHILLIPS** — But you cannot separate out the project costs that have led to getting that \$1 million recurrent?

**The CHAIR** — She has already answered that.

**Ms THOMSON** — This is a project that will deliver long-term ongoing savings as opposed to the project itself, which is what occurs with any changed project that you put in place. There are costs associated with effecting the change to produce better outcomes long term. That is the way it works.

**Mr RICH-PHILLIPS** — I understand it is a fixed three-year contract with a two-year option.

**Ms THOMSON** — Three plus one plus one.

**Mr RICH-PHILLIPS** — So you do not know if that \$1 million saving over the three years — —

**Ms THOMSON** — I have answered that.

**The CHAIR** — Ms Green.

**Mr RICH-PHILLIPS** — No, you have not, because you have said you cannot separate it out.

**The CHAIR** — That is what she said.

**Ms GREEN** — I have the call. In your presentation, Minister, you briefly referred to the finalisation of the VOTS component of TPAMS. can you provide greater detail regarding the benefits to government achieved from this contract?

**Ms THOMSON** — I am happy to talk about VOTS because I think it is a great outcome for the government. What we had in place before was through StateNet FM. Telstra bought the Vistel system from government and set up StateNet FM in 1996, and when it went into that contractual arrangement what it did not allow for was a technology refresh. There are great opportunities with technology now, as I have said before, and we have moved a long way. Some of the technology that is in place is 15 years old — we are talking about some very old pieces of equipment and handsets and things around the place — and that means we are not taking or were not taking advantage of where technology might have been improved. So when we set up with Vistel, it was state of the art at that time, but we really have not taken advantage of our opportunities with the technology. One of the great benefits of VOTS for us is the opportunity to migrate to voice-over Internet protocols. This will mean we will have a more modern and effective capacity to provide telecommunications to our 10 departments, and it will give us an opportunity to utilise the best that technology has to offer. What we will see ongoing is the opportunity to take advantage of technology as it moves and changes, and there will be the flexibility to do that, as well as producing a contract price that is less than the contract price that was in place beforehand. I might say that that was coming up for renewal; it had to be done. The contractual arrangements we have ended up with, with government paying less for the contract, is a great outcome.

**Mr BAXTER** — Minister, in your opening presentation you talked about roadshows and you mentioned a figure of 60 and said how many businesses had attended. Can you tell the committee how many of the 60 were held beyond the Port Phillip district and if the concentration is now entirely on businesses and if the roadshows are still doing what they were doing in the beginning — alerting people generally to the opportunities and benefits?

**Ms THOMSON** — These are totally business e-roadshows. Over half of them go outside of Melbourne. The vast majority are in fact for regional and country Victoria. I went to one in Port Fairy, going back a bit. They are held all over Victoria, and they are held for precisely the reason you would allude to as a country member — that access to that kind of information in country areas is difficult, and to get some impartial indications of what e-commerce would enable you to do in your business situation is vitally important. That is why we run those roadshows out through Victoria. As I said before, more than 1000 have attended the e-roadshows. Some 77 per cent of attendees said they had received sufficient information to implement e-commerce; 46 per cent of roadshow participants had implemented an e-commerce strategy at the time of being surveyed; and 92 per cent of those who had not implemented an e-commerce strategy at the time of being surveyed were planning to do so in the future. So you can see there is a great deal of benefit in getting the roadshows out.

Some of the areas that they have been held in — just to guarantee that they are being held well and truly outside of Melbourne — are Orbost, Yarram, Lakes Entrance, Mildura, Swan Hill and Ouyen. It really is an effort to ensure that our businesses are getting opportunities to get that kind of advice. One of the benefits of the e-commerce roadshows is also to leave them with the information they need to ask the kind of questions they need to ask when they are seeking providers to provide them with the technology. One of the hardest things is the technology-speak that the experts use to confuse — and in some cases overcharge — businesses for their services. I am not suggesting that that occurs, but we would hope that we are arming those businesses with the kind of information they need to make truly appropriate decisions, and from the information we have, that is certainly the case.

**The CHAIR** — Thank you very much for that. We will take a short break. I thank departmental officials who will be leaving us at this point. Thank you for your attendance.

**Witnesses withdrew.**