

PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

2021-22 Budget Estimates

Melbourne—Thursday, 27 May 2021

MEMBERS

Ms Lizzie Blandthorn—Chair

Mr Richard Riordan—Deputy Chair

Mr Sam Hibbins

Mr David Limbrick

Mr Gary Maas

Mr James Newbury

Mr Danny O'Brien

Ms Pauline Richards

Mr Tim Richardson

Ms Nina Taylor

WITNESSES

Mr Tim Pallas, MP, Minister for Economic Development,

Mr David Martine, Secretary, and

Ms Danni Jarrett, Acting Chief Executive Officer, Invest Victoria, Department of Treasury and Finance.

The CHAIR: Apologies for the delayed start. I pride myself on keeping these things on time. We welcome you back this time for consideration of the economic development portfolio.

Obviously, as we have already discussed this morning, on behalf of the Parliament, the committee is conducting this Inquiry into the 2021–22 Budget Estimates. Its aim is to scrutinise public administration and finance to improve outcomes for the Victorian community.

We note that witnesses and members may remove their masks when speaking to the committee but must replace them afterwards.

Mobile telephones and computers should be turned to silent.

All evidence taken by this committee is protected by parliamentary privilege. Comments repeated outside this hearing may not be protected by this privilege.

Witnesses will be provided with a proof version of the transcript to check. Verified transcripts, presentations and handouts will be placed on the committee's website as soon as possible.

We welcome you, as Minister for Economic Development, and the Secretary and officials. We invite you to make a presentation of no more than 5 minutes, and that will be followed by questions from the committee. Thank you, Treasurer.

Mr PALLAS: Thanks, Chair and committee members. Following on from the budget discussion, I know that there will be the opportunity to talk about the economic development portfolio and what role it will play in Victoria's economic recovery. It is a very exciting area and an area that I think will demonstrate that the state is making every post a winner and looking at those areas of great opportunity going forward.

In this short presentation I will provide an overview of key budget initiatives for the economic development portfolio, which are a central component of the government's jobs plan, and also provide a short update on our investment attraction performance targeted during this year, which of course is a year like no other.

Visual presentation.

Mr PALLAS: Last year I released the Victorian *International Investment Strategy*, which sets out our strategic approach to facilitating the highest quality international investment to create jobs. The strategy identifies the types of companies that we should focus our efforts on to bring the most value to Victoria, including those with a track record of research and development and those that will help plug key supply chain gaps in the local market. The strategy also identifies particular sectors that we should devote the most attention to—those that play to Victoria's existing and considerable strengths. These five priority sectors include technology, agrifood, health, clean energy and advanced manufacturing.

The analysis of priority sectors, as you might know, was a critical input into the development of the jobs plan. Just a few months ago the 2020–21 budget included \$80 million over the next three years for targeted financial incentives to secure international investment, create jobs, foster innovation and make our state more productive. This will be delivered through the international investment attraction fund. Through Invest Victoria the Victorian government is investing \$25 million in a new venture debt fund called the Venture Growth Fund. The focus of the fund is to provide debt financing to startups or scale-ups without diluting equity ownership. Invest Victoria has recently gone to market to appoint an independent fund manager, and we look forward to opening the fund in coming months. The R and D cash flow loans initiative will support up to \$50 million in low-interest loans to Victoria SMEs that are claimants of the commonwealth government's R and D tax incentive, and I am pleased to say that the scheme is open today for applicants. Building on the investment in the 'Jobs

Plan', the 2021–22 budget also invested a further \$4.2 million to support the ongoing network of Victorian trade and investment, which is of considerable value and critical to supporting inbound international investment.

Invest Victoria has secured investments that will contribute to building the state's future, including, in partnership with Japan and the commonwealth, the Hydrogen Energy Supply Chain project. It is the world's largest hydrogen expert demonstration project, and it positions Victoria to be the first jurisdiction globally to demonstrate the export of liquefied hydrogen in early 2021. A partnership between the Victorian government, Illumina and the University of Melbourne will establish the Illumina-University of Melbourne Genomics Hub. The first of the Asia-Pacific region, the genomics hub will create an extra 140 jobs and over 100 intern and research student positions and attract collaborative partners and further funding from sources such as the commonwealth. And the world's leading cloud computing provider, Amazon Web Services, will establish its Asia-Pacific Melbourne region, which will consist of three availability zones, each of them containing one or more discrete data centres, when it launches. The global science and technology firm Leidos has expanded its footprint into Victoria with a cutting-edge software factory, its first outside the United States, which will support the company's growth in Australia and extend its global reach and attract new industry-leading capability for software development.

Invest Victoria met its 2019–20 targets with 5241 FTE direct jobs, \$2.3 billion in capital investment and 24 headquarters or R and D centres. Invest Victoria is on track to achieve its target for the financial year 2020–21 for jobs, cap ex and new measures of wage and innovation. Thank you, and I am open to questions.

The CHAIR: Thank you very much, Minister. I will pass the call to Mr Richardson.

Mr RICHARDSON: Thank you, Treasurer, and thank you for that opening presentation. I want to take you, Treasurer, to budget paper 2, chapter 1, page 14, if I can, and that provides an update on the range of 'Jobs Plan' initiatives that were announced in the November 2020–21 budget. One focus area of the 'Jobs Plan' was to support private sector growth and investment in the state, including a range of access-to-finance initiatives. As the minister responsible for a number of these initiatives, are you able to give the committee an update on the state of Victoria's venture capital market and the sector's reaction to the market signals in the 'Jobs Plan'?

Mr PALLAS: Thanks very much. This is a new and quite nascent policy, one that I think will serve Victorian innovation and entrepreneurship very well. A key part of my role as Minister for Economic Development is to facilitate private sector investment in Victoria, to support job creation, to foster innovation and to increase economic productivity. So as both Treasurer and Minister for Economic Development I have been told time and time again that emerging businesses right across the country find it incredibly difficult to access the financial backing that they need to get off the ground and grow. We have seen this and heard this from no lesser an authority than the Reserve Bank, where effectively that startup and tool-up funding from the banking sector is quite difficult to acquire.

So the funding situation of course has been exacerbated by the COVID-19 pandemic. Lenders have responded to the pandemic defensively; they have got a reduced risk appetite. And venture capital firms have changed their risk appetite; they prefer to retain capital and they are curtailing new investments. So we want to make sure that the pandemic does not stop Victoria's high-potential businesses from backing themselves and investing in growth. We are simply not prepared to lose Victoria's leadership position as the innovation capital of the nation. That is why in the 2020–21 budget we funded a suite of initiatives to support Victorian businesses to get the backing that they need, despite some difficult external economic conditions. In the economic development portfolio these included a \$25 million Venture Growth Fund to provide debt finance to high-growth startups and also a \$50 million research and development loan scheme program. These are not big, big multibillion-dollar initiatives, but what they are is very much precise and targeted interventions. The initiatives complement further investments across government, including a \$60 million Victorian Startup Capital Fund, the \$10 million Alice Anderson Fund for women-led startups and of course the \$2 billion Breakthrough Victoria Fund, which will use a range of investment levers to back some the brightest minds to transform ideas into commercial products and services.

So we have been really encouraged by the response to the suite of activities from the entire sector, from VC firms to small tech and startup companies. There is clearly some serious interest in these interventions, and perhaps more importantly what it has shown is that there is a general recognition that the government is looking

for those interventions that can make us increasingly attractive to the sorts of skills, capacity and innovation that these funds attract. For instance, James Cameron, who is a partner of AirTree investors, described our program as setting a new bar for the level of government commitment to innovation and one that other states and territories and indeed the federal government will hopefully follow. Will Richardson, the managing partner of Giant Leap, was quoted in *SmartCompany*, saying:

This is one of the most direct policy responses we've seen towards plugging the funding gap for early-stage startups in our startup ecosystem.

So being able to make these investments counts and it counts most importantly where it matters, and that is with those leaders in this sector who are aware of it and conscious of the opportunities it presents, and presumably it will translate into a considerable amount of interest and take-up. So as we continue to engage with the sector in the rollout of these programs to not only support our economic activity, our economic recovery, we will also be focused on creating high-value jobs for Victorians for years to come.

Mr RICHARDSON: I want to take you a bit further into the programs of the economic development portfolio, Treasurer, and particularly the R and D loan scheme program and the Victorian startup capital program. I am wondering if you could outline for the committee's benefit their work and how the rollout is tracking.

Mr PALLAS: Yes, for many SMEs there is no doubt that the pandemic has disrupted innovation activities. They have had to wind back that which they do not see as critical. But I can tell you the state sees that continuing level of investment in research and development in innovation as a vital part of what constitutes the mosaic of economic activity in the state, and in many ways it is a great enabler. They have had their problems associated with the pandemic that have been frictions from both debt and equity markets, particularly for small to medium businesses. So as part of the jobs plan we want to do everything we can really to support those businesses to go for it, as it were, and to make their ideas translate through research and development, and support the creation of new and enhanced products, services and technologies to support the vital upswing in the Victorian economy. So \$50 million has been committed in low-interest loans for innovative Victorian SMEs, and that is really aimed at ensuring that they can continue their R and D endeavours as the economy recovers from the pandemic.

Victorian SMEs that currently qualify for the commonwealth's R and D tax incentive will be eligible to apply for these loans. So there is a lot of symmetry in what we are doing here. We are basically looking at those who have a history of qualifying and do in fact qualify for R and D tax incentives from the commonwealth, and we are essentially putting in a loan scheme to assist them with cash flow issues associated with having to wait for the end of the tax year before they get the necessary funds. This ensures that SMEs can continue to invest in research and development to keep their businesses competitive, employing more researchers and innovators, conducting trials and experiments and purchasing assets and equipment that are critical to the R and D work programs that they all respectively are putting in place.

Loan values will range from \$4000 up to \$4 million, and we expect the average loan to be about \$1 million. Basically these loans will act as a bridge to tax time when businesses can access the commonwealth tax incentives. The loans are expected to bring forward additional expenditure in Victoria's innovation ecosystem, leading to some greater economic activity as well. So I am pleased to share with the committee that applications for the R and D loans have opened today, right on schedule. That will mean that companies can access the critical cash flow that they need right now rather than essentially wait until June 2022 for the rebate. Not to demean the rebate—it is a good initiative by the commonwealth—but we are now complementing that action by making sure there is cash flow to support the expectation of the rebate and enabling the necessary investments to happen as soon as possible.

Providing those cash flows to Victorian businesses is new territory for us, and so I will be following market demand very closely. We certainly hope that Victoria's R and D companies see the opportunity to apply for these cash flow assistances so that they can continue to grow their activities faster than perhaps they otherwise would if they were waiting in anticipation of a tax rebate from the commonwealth. Since November, I am pleased report, significant progress has been made on the Victorian growth fund. Getting the settings right for the Victorian growth fund up front, I think, will determine the success of the policy, and my department, through Invest Victoria, have really done a great job in being able to bring this to the state that it is. The fund will see Victorian government co-invest with institutional investors to give some high-growth startups access to

the capital that they need to expand their businesses and also to create new jobs. Earlier this month we opened a tender process to bring in an independent fund manager, and that process is underway.

Mr RICHARDSON: Thanks, Treasurer.

The CHAIR: Thank you, Minister, and I will pass the call to Mr O'Brien.

Mr D O'BRIEN: Thank you, Chair. Treasurer, I understand that a jointly commissioned piece of work by PwC between the City of Melbourne and the state government has shown that there will be a 20 per cent contraction in economic activity in the CBD for each of the next five years. What are you doing to actually help the CBD, particularly in light of now another seven-day lockdown that is going to have an even more dramatic effect on the CBD?

Mr PALLAS: Well, I am unaware—you would appreciate that is not a document that has been produced by my department.

Mr D O'BRIEN: It was a joint document.

Mr PALLAS: It might have been, with the government, but I suspect it will be the Department of Jobs, Precincts and Regions that were—

Mr D O'BRIEN: Sorry, can you confirm that it is a DJPR thing, just so I can ask them?

Mr PALLAS: I cannot. But I can out of session, if you would like.

Mr D O'BRIEN: It is not yours. It isn't.

Mr PALLAS: No.

Mr D O'BRIEN: Right.

Mr PALLAS: That is right, isn't it? Just making sure I was correct.

Mr D O'BRIEN: Okay. So the question stands, though. What are you doing to actually help revitalise the CBD?

Mr PALLAS: Well, on top of all the material and all the actions we took in the November budget—and appreciate that there has been considerable investment in hospitality, accommodation, the provision of vouchers so that people can access part of the hospitality industry and recognising also that there have been grants and assistance to the hospitality industry, not exclusively in the CBD but of course we have a more substantial offering in that industry, we have put and graduated a greater level of grants and support to that industry largely because of their physical location. Additionally, in this budget we have been able to put in place a continuing effort around a direct economic package for the CBD. So if you look at page 78 of budget paper 3, the 'Service Delivery' budget paper, it takes you through exactly what the government is doing. Funding is provided to stimulate economic activity, rejuvenate the city and for programs to incentivise the return of the public to the city.

Mr D O'BRIEN: Thanks, Treasurer. I will have a look at that, given the limited amount of time I have. Secretary, can I just ask a quick follow-up question? Has Treasury modelled the economic impact of establishing a second medically supervised injecting room in the CBD?

Mr MARTINE: Thanks for your question. I might just need a bit of clarity from the Chair in terms of the question. I am happy to answer, but it is just a question of: is it within the scope of the Minister for Economic Development?

The CHAIR: Could you please repeat the question, Mr O'Brien?

Mr D O'BRIEN: Has Treasury modelled the economic impact of a second medically supervised injecting room in the CBD? It is fine to say no if Treasury has not. I am just wanting to know.

The CHAIR: I would suggest—

Mr PALLAS: Well, it is not a question that would go to the economic development minister; let us be frank. It is not within my portfolio responsibility. It may well have been a question that you could have asked the Treasurer. I do not know whether or not Treasury have or have not done that modelling, but I can assure you it has got nothing to do with the economic development portfolio.

The CHAIR: Thank you.

Mr D O'BRIEN: On the regional aspects, you mentioned in your presentation 24 new headquarters or R and D centres that have been established, just one of them in regional Victoria. Does your portfolio have any interest in regional Victoria or is it solely metro focused?

Mr PALLAS: Well, look, I think I would make the very clear point that the principal focus of economic development is to attract foreign direct investment. So it is not like regional development, if I could put it that way, which clearly has a job to do on the ground in regional Victoria. This is about outward looking around what is going on internationally and what is the foreign investment, FDI, that can be attracted to the state of Victoria. That is what economic development is about.

Mr D O'BRIEN: That is the question I am asking—the state of Victoria, not the city of Melbourne.

Mr PALLAS: Absolutely. And the point I make—

Mr D O'BRIEN: Why is there just one out of 24 that has actually been attracted to regional Victoria?

Mr PALLAS: One out of—

Mr D O'BRIEN: Twenty-four. It was in your presentation, Minister.

Mr PALLAS: I think the point needs to be made that we attract business from wherever business is keen to invest in Victoria, particularly if it sits comfortably with the government's broader FDI strategy. At the end of the day it is investors and it is the companies that make the choice. We try our hardest, and we do a lot of that work through the regional development portfolio, not through necessarily Invest Victoria. But we will try to facilitate investment in regional Victoria. We do not get to make the choice, though, Mr O'Brien. The choice is made by the investor.

Mr D O'BRIEN: Sure. Can I ask on that point about FDI, Secretary: has the department done any modelling on the impacts of the \$5.8 billion increased or new taxes on business investment in Victoria?

Mr PALLAS: Once again, I will make the point—

Mr D O'BRIEN: The question was to the Secretary, Minister.

Mr PALLAS: Well, I get the opportunity to raise an exception—

Mr D O'BRIEN: Well, the question is a technical question about modelling, and I am just asking.

Mr PALLAS: It is a question that goes to what could well properly have sat with a Treasury request. It is not a question that sits effectively around foreign direct investment, which is economic development.

Mr D O'BRIEN: Sorry. A question on modelling of whether increased taxes has any impact on foreign direct investment you are telling me is not a question for your economic development portfolio, Minister? Are you serious?

Mr PALLAS: Because, Mr O'Brien, it is not just—

Mr D O'BRIEN: I mean, you are one and the same person—the Treasurer and the economic development minister.

The CHAIR: Mr O'Brien.

Mr PALLAS: Would you like an answer? You just asked me a question. I will give you an answer. The reason being that if you are going to have a look at this, you will need to have a look at it in a holistic economic

sense. You will not simply look at it in the context of foreign direct investment, you will look at it in the functioning of the entire economy, which is therefore a proper question to ask of Treasury. It is not a proper question to get a simple and singular focus on economic development.

Mr D O'BRIEN: So I should not ask you, I should ask the Treasurer, who is also you.

The CHAIR: Mr O'Brien, the point the Treasurer—

Mr PALLAS: You had 2½ hours.

Mr D O'BRIEN: No, no, Minister, I did not have 2½ hours.

The CHAIR: Mr O'Brien, the point the minister is making is that you have just had ample opportunity to question the minister in relation to his treasury portfolios—

Mr D O'BRIEN: It was specifically about this portfolio, Chair.

The CHAIR: This is in relation to economic development. If you could keep your questions in that regard, please.

Mr D O'BRIEN: Can the Treasurer or the department provide the number of national and international businesses in Victoria that will be affected by the new taxes introduced in this budget? Please do not say that is a Treasurer matter, because that is specifically your portfolio. I am happy to take it on notice, given my time is—

Mr PALLAS: How do you say that is specifically my portfolio? This is about taxation and its impact on jobs. That is a treasury responsibility.

Mr D O'BRIEN: The impact on the business community—

The CHAIR: Mr O'Brien, your time has expired and I will pass the call to Mr Limbrick.

Mr LIMBRICK: Thank you, Chair, and thank you, Treasurer and team, again. I have got a couple of questions about the attraction fund. The objective here is to get people to invest in Victoria, presumably from international places as well, but how does that work in conjunction with the significant investor visa? That is one of the few things that the state government can affect with regard to visas, but I am a bit concerned about how that is going to work with people not being able to get into the country at the moment. How is that accounted for in the budget? Because I cannot imagine many people would be applying for that when they cannot actually get here.

Mr PALLAS: I will throw to Ms Jarrett in a moment, but yes, this is an issue. We know that there are investors who want to invest in Victoria, and being able to be with their businesses is a vital part of that. I know that the commonwealth—and I have had conversations with relevant ministers in the commonwealth—are focusing on what they can do to facilitate the continued provision of visas so that people can enter and can support and assist. It is not necessarily the case, Mr Limbrick, that simply because they cannot get the visas they do not invest, but it is a relevant consideration.

Mr LIMBRICK: Could I just follow up quickly on that. Has any consideration been given to lowering that significant investor visa threshold? It was put to me by some constituents that there may be a number of foreign students, for example, who are already here on a student visa who may have family overseas that may want to send them money to start up a business. Has any consideration been given to that and making the significant investor visa more accessible?

Mr PALLAS: Well, accessibility—yes, we have mentioned our concerns to the commonwealth about accessibility issues. Whether specifically a proposal has been put to the commonwealth around what thresholds might appropriately apply, I cannot answer that—I cannot recall. But Ms Jarrett might be able to complement anything I have said to you.

Ms JARRETT: Thanks, Treasurer. I would say that the significant investor program is a commonwealth program. And just in relation to international investors who are looking to establish their business in Victoria,

absolutely visas are important but a key part of that investment decision is also around providing jobs and the investment for existing people in Victoria as well. So the visa is an important lever, but it is not the only lever for attracting FDI into the state.

Mr LIMBRICK: Thank you. Another question for the Treasurer about the Venture Growth Fund: why does the government need to provide this debt funding? Aren't we competing with the private sector here? I mean, what sorts of businesses would not get debt funding from venture capital or a private sector already that require the government to step in and do this? Aren't we competing with these funding groups?

Mr PALLAS: I will throw to Ms Jarrett, but look, there is no doubt that there has been limited capital available, limited loan facilities available. The RBA has noticed it as being a problem, particularly for SMEs, and certainly from our perspective there is a model in New South Wales where a similar type of arrangement was put in place, albeit with greater restrictions, and we have tried to open it up and to form a qualitative assessment of the nature of the investment and the need that they have. It is just one offering in this market, but of course the state needs to satisfy itself that they are appropriate investments.

Ms JARRETT: Thanks, Treasurer. In developing the Venture Growth Fund, we did quite a lot of consultation with the sector to understand the need and confirm that the venture capital market is quite underdeveloped in Australia and there is an opportunity to really target the high growth potential of sort of scale-up companies and that they present a high opportunity for future growth for investment in the state. The feedback in developing the growth fund and in consulting with the sector has confirmed that it is a popular and well-received fund for target organisations.

Mr LIMBRICK: Thank you. I believe I am out of time.

Ms JARRETT: Thank you.

The CHAIR: Thank you, Mr Limbrick. That concludes the time we have available for consideration of the economic development portfolio. We thank you, Minister, for appearing before us in that capacity today and your officials. The committee will follow up on any questions taken on notice in writing and responses will be required within 10 working days of the committee's request. The committee will briefly adjourn to allow a change of witnesses at the table and we will then move to consideration of the industrial relations portfolio with you. Thank you.

Witnesses withdrew.