

VERIFIED VERSION

PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

Inquiry into budget estimates 2014–15

Melbourne — 23 May 2014

Members

Mr N. Angus

Ms J. Garrett

Mr D. Morris

Mr D. R. J. O'Brien

Mr C. Ondarchie

Mr M. Pakula

Mr R. Scott

Chair: Mr D. Morris

Deputy Chair: Mr M. Pakula

Staff

Executive Officer: Ms V. Cheong

Witnesses

Mr G. Rich-Phillips, Minister for Technology,

Mr H. Ronaldson, Secretary,

Mr G. Mailes, Deputy Secretary, Innovation, Services, Small Business and Technology, and

Mr J. Strilakos, Chief Finance Officer, Department of State Development, Business and Innovation.

**Necessary corrections to be notified to
executive officer of committee**

The CHAIR — We resume the estimates hearings with the technology portfolio. I welcome back the Honourable Gordon Rich-Phillips, and from the Department of State Development, Business and Innovation: Mr Howard Ronaldson, Secretary; Mr Grantly Mailes, Deputy Secretary, Innovation, Services, Small Business and Technology; and Mr Jim Strilakos, Chief Finance Officer. The minister now has the opportunity for a brief presentation of no more than 5 minutes for the technology portfolio.

Overheads shown.

Mr RICH-PHILLIPS — Thank you, Chair. The technology portfolio really encompasses two key areas. The first is the traditional area of industry development, as it relates to ICT, biotechnology, small tech. This is an area that the portfolio has encompassed since it was formed in 2010, as an extension of the former ICT portfolio under the previous government. It has had a focus on industry development in the sense of investment attraction, export development, jobs creation et cetera, and also in the area of technology-enhanced innovation using technology to drive productivity elsewhere in the economy. The other area which has come into the portfolio with the machinery-of-government changes last year related to responsibility for whole-of-government ICT functions. That was transferred into this department, the Department of State Development, Business and Innovation, just prior to the budget last year, following the change in Premier.

The first slide highlights the \$55 million which was allocated in this year's budget for three key projects: the CenITex transformation, which I am happy to talk about; the regional connectivity program, which is the government's commitment around regional mobile black spots and wi-fi connectivity on V/Locity trains; and also the VicConnect transformation project, which relates to internal government connectivity and telecommunications platforms.

The next slide highlights some of the achievements in the procurement area. We have responsibility in the portfolio for a range of whole-of-government ICT contracts, and obviously one of the objectives is to deliver savings across the use of those contracts.

The next slide goes to a matter I spoke about before, which is the release of datasets under the DataVic Access policy, and this is a representation of the same data in a slightly different way, so I will skip beyond that.

The next slide actually shows, going to Mr Angus's question, demand for that data and where there have been some peaks in that demand related to the release of particular datasets. The last peak, which occurred in April, relates to the release of public transport data. It really highlights and reinforces the fact that this is valuable data for the private sector to use in a way that government has not been using it, and I am happy to talk further about that if the committee wishes.

The next slide highlights one of the reforms which was undertaken on 1 July last year around the eServices register and this shifted what had previously been a closed panel for companies to engage with the Victorian government in the provision of ICT services, a model which had previously existed in the Department of Treasury and Finance, to an open register that we launched on 1 July, which allows any appropriately qualified company to join that register and be available to provide ICT services to government. That was done in recognition of the fact that ICT is an incredibly dynamic industry.

To have the previous process where a procurement took place on a set date, and if you were not successful on that date you were locked out of dealing with government for four years, simply did not reflect or recognise the nature of the ICT industry, where companies are created, grow and decline within that four-year window and never have the opportunity to deal with government and, importantly, government never has the opportunity to access that innovation. What we have created with the register is a far more flexible mechanism for ICT services providers to engage with the Victorian government. It is good for them to have access to government work and it is good for government to have access to the innovation and to have access to the competition.

The next slide relates to the ICT strategy. As I spoke about before, we released the first iteration last year. We have just released the update of the ICT strategy, which is focused on driving better outcomes in ICT within government and also increasingly focused on meeting the expectations of the Victorian population. We all know, just looking around this table, that the use of smart devices and the use of tablets has changed completely citizens' expectations around service delivery from the private sector but also from the government. This is an area we need to address and that is what the ICT strategy is focused on.

The next slide highlights some of the investment activities in the technology area. I was delighted to be with the Premier two weeks ago for the opening of CSL's new biotechnology manufacturing facility at Broadmeadows, which is a \$250 million investment with around 240 jobs. It highlights the type of investment this government is seeking. Fresenius Kabi out in Derrimut, for which we broke the ground for that new manufacturing facility a couple of months ago, will be biotechnology high value-added manufacturing facility here in Victoria with around 120 jobs being created. They are the types of investment projects that we are working to attract. That is a quick summary of the portfolio. I will leave it there and am happy to take the committee's questions.

The CHAIR — Thank you, Minister. Again, I will ask the first question. Could you outline to the committee the budget initiatives in this portfolio which will contribute to growth in jobs in the coming year and over the forward estimates period?

Mr RICH-PHILLIPS — It very much goes to the last slide I highlighted in the presentation, which is the focus we have on job creation and investment attraction. We have seen over the life of this government around 4400 new jobs created across the technology sector. These are jobs which have been facilitated by government through our suite of programs. Some of those, such as the Fresenius Kabi project which was kicked off a couple of months ago with the ground breaking by the Premier, are focused on direct investment facilitation, which is something this department does very well across a range of areas, including the technology sector. Part of that growth occurs as a consequence of the industry support programs that we have put in place within the technology plan.

In 2011, I launched the Victorian technology plan for the future, a \$150 million platform covering ICT, biotechnology and small technology, which is designed for regular investment attraction activities but which is also designed to create and encourage opportunities for the non-technology sector in Victoria, including the public sector, to engage with our technology companies to use technology to deliver solutions. An example of that is the health market validation program, which is a program that allows the identification of public sector health challenges where technology can be the solution. It then provides grant support for a public sector health agency to partner with a technology company for the development of a technology solution. There have been a number of programs under that which stimulate investment and jobs growth in the technology sector. We have seen 4400 jobs created over the life of this government, we have seen around \$1 billion worth of capital investment facilitated over the life of this government and we expect that to continue over the forward estimates period.

Mr SCOTT — Minister, recently the government has been making announcements in relation to public wi-fi programs, and I note that on 20 May Telstra announced a \$100 million-plus strategy relating to the creation of up to 2 million wi-fi spots across the nation that could be accessed by Telstra and other mobile device users. Could I just ask what impact is anticipated on the government's plans, if any, by the investment announcements that have been made by Telstra?

Mr RICH-PHILLIPS — I thank Mr Scott for his question, which is an interesting one because it was in February or March that the Victorian government announced that we would run a pilot across Melbourne CBD, across Ballarat and Bendigo — —

Mr O'BRIEN — Terrific announcement.

Mr RICH-PHILLIPS — Thank you, Mr O'Brien. The announcement was in respect of the provision of free public wi-fi; it was a trial of free public wi-fi with a view to rolling it out on an ongoing basis. The key word there is 'free'. The key distinction between the Telstra project announced a couple of days ago is that we are looking to provide, as many cities around the world now provide, free wi-fi in hot spots across the CBD. What we have done is go to an expression of interest process seeking expressions of interest for the provision of free public wi-fi on a trial basis across those centres as outlined. We have indicated that as part of the Victorian government's proposition we have government assets.

There are also, in the case of the CBD, city of Melbourne assets which can be brought to the table as part of that. This can be things as simple as light poles for the provision of wi-fi infrastructure. But what we are seeking to provide is a series of free hot spots and a commercial model that makes that sustainable in the long term without ongoing government subsidies. So we do not see the Telstra announcement of two or three days ago as being a replacement for what we are looking to do, because we are looking clearly at free public hot spot access

rather than the Telstra model, which is for Telstra subscribers. Can I just add that part of the interest there is in relation to visitors to Melbourne. International visitation, interstate visitation — stimulating that is something that is very significant with tourism in other cities — and we believe it will be a part of tourism attraction in Melbourne.

Mr ANGUS — Following on from that question, Minister, I refer you to budget paper 3, page 48, and to the regional connectivity program. Can you explain to the committee how this project will address mobile phone coverage gaps and also internet conductivity on regional rail services?

Mr RICH-PHILLIPS — I thank Mr Angus for his question. This project is a great opportunity to improve mobile telephone conductivity and wi-fi provision on regional commuter routes across Victoria. One of the issues that has been raised repeatedly with the Victorian government is concerns around mobile telephony black spots. The provision of telecommunication services is a commonwealth responsibility, and the Victorian government has advocated with the commonwealth around this issue — around the provision of NBN services or high-speed internet services in a range of areas — but we also become very aware of, and the Premier has a particular interest in, mobile telephony black spots, particularly in areas which are subject to natural disaster such as fire prone areas and flood prone areas. Recognising that mobile telephony is now one of the key ways in which emergency response messages are communicated to the community, the need to address those mobile black spots is very important.

When it came to office — or before it came to office — the federal government announced that it would put in place a \$100 million mobile black spot program to plug some of those black spots across Australia. The Victorian government through my department, through contact directly from my office and me meeting with the responsible minister, has been advocating to the commonwealth around the way in which it rolls out that mobile black spot program to ensure that Victoria can get the best leverage off it. By providing these funds from the budget this year as part of that, we expect to be able to work with the commonwealth to leverage its investment and to ensure that we can address many of those critical black spots as possible.

One of the things we need to avoid in doing that is simply substituting investment that would have occurred by the telecommunications companies. We do not want to be funding or supporting investment or replacing investment that the telcos would have done themselves. That is where the design of the program — the design of the commonwealth's program — is going to be particularly important. Those discussions are ongoing, and the engagement between my department and the commonwealth is ongoing as to the best way to maximise that mobile telephone coverage without simply substituting government investment for what would have been private sector investment.

The other element of that project is addressing wi-fi on regional train services. This is in recognition that you have got an increasing number of people commuting from our key regional centres to Melbourne. There is a huge productivity opportunity if those commuters can undertake work using wi-fi on the train services. So what part of these funds will be committed to is working to provide wi-fi services on trains, but an important part of that is actually providing mobile telephone conductivity along rail corridors. Short of connecting trains with telephone lines back to Spencer Street station, the mobile conductivity along those corridors is incredibly important to the provision of wi-fi on the trains. We see this program as a great opportunity to leverage off the commonwealth's mobile capacity program and ensure that we can have an influence on how it rolls out and ensure that Victoria gets its fair share of that program and addresses this problem.

Ms GARRETT — I would also like to talk about the regional connectivity program. In particular there has been some concern about the method employed as to where the investment would take place. Why did the government think it should not extend the program to Shepparton?

Mr RICH-PHILLIPS — I thank Ms Garrett for her question. One of the things the government has said with respect to the ICT strategy is that where we roll out new ICT projects we will do them on a pilot basis. The reason that is being done is because we saw a plethora of previous ICT-related projects which had been rolled out — broadscale, whole-of-government — and had been problematic. Large-scale rollouts have been very problematic, and there is a litany of those reported on by the Auditor-General and reported on by the Ombudsman in their combined audit of 2011 around ICT. One of the key tenets of our ICT strategy is that projects will be done as pilots, which can then be scaled up as appropriate.

We have elected with this project to do the pilots on the lines as highlighted. As I said, the wi-fi on trains is only an element of this project, as opposed to the mobile connectivity, but we will do it as a pilot and then look at other opportunities for its expansion.

Ms GARRETT — Is there any provision made in the budget for this to be rolled out to Shepparton, and when can that community expect that to happen?

Mr RICH-PHILLIPS — Again, Ms Garrett, the funding provided here is to roll this out as a pilot to address the mobile connectivity as well as the pilot of the wi-fi on trains. Obviously once that pilot is completed we will be looking at other opportunities for that. I cannot emphasise too much that this is one of the key tenets of the ICT strategy — that funding is provided on a pilot basis for things to be developed and then subsequently scaled up if appropriate. The funding is provided for the project we are delivering, not for other projects which may be delivered in the future.

Mr O'BRIEN — Thank you, Minister. Given that Mr Scott has kindly raised the important and terrific announcements in relation to the wi-fi pilots for Ballarat, Bendigo and Melbourne's CBD, I would like to ask you a more searching question in relation to budget paper 3, page 234. You will see there that there is a new measure for the renewal of whole-of-government ICT contracts. Importantly, the expected outcome for 2013–14 is nine, but the target for 2014–15 is seven. I ask you, Minister, what are the Victorian government's achievements over the past year in this area?

Mr RICH-PHILLIPS — I thank Mr O'Brien for the question. This is something I touched on in passing with the slide presentation earlier this morning. One of the things we are seeking to do in renegotiating ICT contracts — as part of the machinery-of-government changes last year, responsibility for those procurements was transferred from the Department of Treasury and Finance to the Department of State Development, Business and Innovation — is to drive savings in those contracts and drive innovation in those contracts. That is reflecting the fact that the ICT marketplace is changing dramatically, the rate of change is increasing and the type of ICT environment we had a decade ago is unrecognisable in terms of what we have now.

Structures that were put in place are no longer necessarily appropriate, so what we have been doing is, rather than taking the approach of continuing business as usual, perhaps cost plus CPI, on a new iteration of a contract, actually taking a fresh look at what the contract is delivering. Is it best value for money? Do we need it in this form? Are there new alternatives, which were not available at the time the contracts were put in place, to drive savings in government?

This is something that has been very effective and something that will continue because it recognises that the current environment in which we are operating is now very different. There is probably no better example of that than CenITex, which is something that sits in this portfolio that was set up in 2008 or thereabouts as a whole-of-government ICT service provider to provide desktop services and hosting services to government. It is now simply a redundant model to create that within government, because the environment has changed so much.

What we are doing as we look at these contracts, as they expire and are due for replacement, is looking at better models, better pricing and better innovation in terms of service delivery in government, recognising we are in a very different environment than even three or four years ago, when many of these contracts were put in place.

Mr O'BRIEN — Thank you, Minister. Eleven years of PAEC have indeed taught you well.

The CHAIR — Order! We are out of time for the technology portfolio. I do not think there are any questions on notice. I thank Mr Mailes for his attendance this morning. That concludes the hearing.

Witnesses withdrew.