

PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

Inquiry into budget estimates 2009–10

Melbourne — 8 May 2009

Members

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Witnesses

Mr G. Jennings, Minister for Innovation,

Mr H. Ronaldson, Secretary,

Mr R. Straw, Deputy Secretary; and

Mr J. Strilakos, Acting Chief Financial Officer, Department of Innovation, Industry and Regional Development.

The CHAIR — I now welcome Mr Jennings, Minister for Innovation, Mr Howard Ronaldson, Secretary of the Department of Innovation, Industry and Regional Development; Mr Randall Straw, deputy secretary; and Jim Strilakos, acting chief financial officer of the department.

I now call on the minister to give a brief presentation of no more than 5 minutes on the more complex financial performance information relating to the budget estimates for the innovation portfolio.

Overheads shown.

Mr JENNINGS — Thanks. The essential building blocks of this story is actually since last time I appeared before the Public Accounts and Estimates Committee — notwithstanding what I have just done — last year we foreshadowed the introduction of the innovation strategy, where there was a contingency in the 2008–09 budget for an innovation statement, but the innovation statement was not published at the time of the budget. It was published subsequently.

Just for the sake of formality I want to make sure that the Public Accounts and Estimates Committee is aware of the importance of that program, the major features of it and what we have been doing with the programs as they commenced. This is a snapshot of the \$300 million commitment in the forward estimates that built on the momentum of the outgoing STI program continuing the momentum of Victoria's interest in innovation and has led to new investments which we see here on the overheads, including Victoria's science agenda, a \$145 million allocation, of which we are currently going through the first tranche of investments through a program where we have sought applications of high scientific endeavour in the Victorian community.

We are currently assessing 216 of those to be funded shortly. We have seen the life sciences computation initiative colloquially known as the supercomputer being committed and established at Melbourne University to deal with life sciences opportunities in collaboration with other research institutions.

We have seen the Biotechnology Bridges program, which funds things which include our program to support the development of that sector. We have an interesting new program to support innovative SMEs through a combination of bringing public policy outcomes that we seek as a government to secure better outcomes for our community. We are currently assessing applications from across the public sector to seek tenders subsequently for our SME sector to demonstrate how they can meet those challenges, and then we subsequently support them if they are successful.

We have the VicFibreLINKS program to underpin our capability throughout the Victorian community in terms of broadband capability, and we have further work in collaboration in innovation generally in the internet sector and then of course VARRI, which I have already mentioned earlier today in terms of driving greater resource recovery outcomes.

We have seen some successes in the portfolio in terms of the creative industries. We continue to have a very successful engagement with the film industry. Film and television projects resulted in \$82 million worth of activity, and nearly 2500 jobs have been maintained in the sector through our engagement. It is very important to know that of the films that are secured in Victoria, about 83 per cent were leveraged through the direct involvement of Film Victoria.

We have seen continuing growth in the design sector; it is estimated that in Victoria 76 000 people are now employed in design-related fields. Under Healthy Futures we have seen a continuation of our investment strategy with major support to medical research institutions. Obviously the momentum was maintained yesterday with the joint announcement from the state and the commonwealth in relation to the comprehensive cancer centre, which demonstrates our ongoing commitment to that field of endeavour. We have seen very important successes through the VicStart program that again leads commercialisation in the SME sector and has been applied very successfully throughout the regional economy.

The synchrotron continues to be extremely successful in attracting leading scientists not only from around Australia but around the world. I am happy to talk about that later in terms of the success of the synchrotron and the proliferation of beamlines and activities that occur in those beamlines. It is very exciting work that underpins high science across a whole variety of fields in research and development. Research and development investment in biotechnology has been extremely successful. We have seen more than \$555 million in R and D

in that sector occur in the last reporting period. That is a significant increase, about a 95 per cent increase since 2003, and we continue to play a role in innovation across the nation.

This year we want to make sure that we secure the future of the Docklands studios. We have invested in this budget funding to try to provide for a business model and business certainty going forward. As recently as overnight we have had the good fortune to report that a major international *Footloose* production is arriving on our shores — —

The CHAIR — I saw that in the paper today.

Mr JENNINGS — That will lead to maybe somewhere in the order of 500 jobs in the local economy, and we want to try to make sure that we drive our investment at the Docklands further.

In terms of the ongoing nature of the program that is coming out of the innovation statement, this is a bit of a snapshot of the programs and the output expenditure in this year's budget that came from the intervening decisions and the commitments of the innovation statements, so you can see a significant effort and momentum and expenditure will be occurring through those programs during the course of 2009–10.

The CHAIR — Thank you, Minister.

Mr NOONAN — You moved through your presentation pretty quickly, Minister, so I want to come back to the issue of the Docklands Film and Television Studios and the allocation that has been made to investigate the potential for the additional capital investment in new sound stages and ask specifically whether you can explain that in more detail and how that funding may support further sector development?

Mr JENNINGS — Thank you for the opportunity. Yes, that is quite right; I was in high-speed mode going through the presentation, so I will breathe during this one.

What we have is a fine studio capability that has contributed significantly to major film and TV production. More than \$470 million worth of activity has been generated since 2004. We have seen a number of major productions, which include *Ghost Rider*, *Hating Alison Ashley*, *Nightmares and Dreamscapes — From the Stories of Stephen King*, *Where the Wild Things Are*, *The Pacific*, which is one of the largest television miniseries ever made, and *Knowing*, which has been one of the highest grossing films across the world in the last few months and which was made in Melbourne late last year; it has already achieved box office sales of \$99 million, I understand.

That is a pretty successful result. Notwithstanding the success of what I have just described, there have been a number of difficulties in the film sector over the last couple of years — fluctuations in the Australian dollar, issues such as the screenwriters strike in the US — that mean that we are currently trying to recalibrate the government's arrangements of the film studio not only to try to make it viable into the future but also to look at the way we can make sure it has the infrastructure in place to attract those footloose productions — a mixture of footloose productions of high value, high employment generating film productions — while also maintaining a level of TV engagement and production capacity within the studio.

That is a shandy that you try to work — to have enough capacity to deal with the big footloose productions and maintain an effort in terms of continuity of small-scale local productions. That is something that needs to be massaged through.

What this investment is doing is having a look to make sure that we have got the right sound stages, the mixture. We actually look for ways in which we can drive greater investment occurring down there. We are specifically looking at whether a 3700 square metre studio would add to our desirability and make us an even more desirable outcome than our direct competitors.

They are international competitors; we are in an international marketplace. We have some national competitors in terms of Fox Studios in New South Wales and some studio capacity in Queensland that we compete with. We actually think that this will enhance our desirability. As I then briefly announced, there is a new Miramax production that is coming to Melbourne shortly, and we actually think it will continue a momentum. Miramax is one of the more high-profile and successful independent filmmakers in the world, and we are pretty pleased that just overnight they have announced they will come and do a major project here.

Ms PENNICUIK — Minister, at the budget briefing breakfast yesterday I asked the Secretary of the Department of Treasury and Finance why the impacts of climate change are not factored into growth forecasts for the entire state budget — or I asked him if they were, and he said no, they were not, and the reason he gave was that they rely on innovation to achieve a 3 per cent growth forecast in the state budget. So I am wondering if there is any resourcing in your department to assist in that regard, and whether there are any specific projects looking at that, particularly under the seven science projects?

The CHAIR — Minister, that is a very long bow, but see how you go.

Mr JENNINGS — It was, and I can imagine from Ms PennicuiK's vantage point, it was irresistible to use that bow. But interestingly enough, there is a serious answer.

Ms PENNICUIK — I was relying on you to provide one.

Mr JENNINGS — The thing about it is that the answer you got was not a bad answer. It may not have actually satisfied you but it was not a bad answer either — —

Ms PENNICUIK — That is why I am following up.

Mr JENNINGS — Because the answer you got yesterday means that in fact unless we are innovative we will not account for the greenhouse gas abatement, we will actually not account for the adaptation that is required to deal with climate change scenarios. So innovation is an essential part of that story.

Ms PENNICUIK — Exactly, and that is why there is a serious aspect to the question as well.

Mr JENNINGS — Yes, there is. From my vantage point, in terms of policy determinations and program settings across government, that is a focus. So if I have had some success in getting the head of Treasury to hear that message, that is a good thing. Beyond that, specifically, in terms of the innovation statement we commissioned, that I talked about in the overhead presentation, we have added into it an organising principle of sustainability within innovation, so key drivers of the innovation strategy going forward are health-related matters, so healthy outcomes; productive outcomes; and sustainable outcomes. So our investments are aligned in terms of the innovation strategy to try to achieve that outcome.

When I talked a few minutes ago about the support in the SME sector, what I actually was talking about was that through the strategy we have asked the public sector to identify what public policy outcomes they should seek to attain, and many of those relate to environmental performance, better efficiencies, community engagement, real-time information in communities about dealing with adaptation issues — interestingly enough, there is a high degree of alignment with what I am sure you would be concerned about.

We actually collate those fields in which we need those public policy outcomes and then we tender out through an innovation process to actually see how our SMEs can make a contribution, whether they have got technology, whether they have got processes, whether they have got advice on better outcomes, sustainable outcomes, so that we can then support them to develop further.

That is a relatively small program but it is totally consistent with that intention. Whether it be through that, whether it be through our approach to the drive across government in relation to the ETIS program — which is not my responsibility but is a program I am acutely interested in in terms of its supporting transitional capability in large greenhouse gas abatement — these are things that we are acutely interested in.

The CHAIR — Thank you, Minister — a long answer to a long bow.

Ms HUPPERT — I wanted to draw your attention, Minister, to page 128 of budget paper 3 on a matter that you highlighted in your presentation earlier. Under the 'science and technology' output there is an expectation the government will embark upon seven science projects and programs during 2009–10 and also that 60 per cent of funded science programs will be industry led or will contain an industry partner as a founding consortium member. Can you expand on this and explain how this measure relates to previous programs such as the very successful science, innovation and technology initiative?

Mr JENNINGS — Thanks for the opportunity to talk about that because you are quite right in the premise of the question, that in fact the STI has been extremely successful in terms of leveraging a great degree of not

only public but also private investment in terms of science. In the early days of the program you would see a lot of these high science programs driven out of the university sector or were intellectually driven out of research institutions that may or may not have a commercialisation element to them.

That is not to say that we discount pure science; we actually appreciate the pure science. But increasingly in terms of the innovation space what we are trying to look at is the way in which that science can be applied to dealing with day-to-day concerns, whether they be health-related concerns, whether they be productivity concerns or whether they be sustainability concerns, and how we can lead to the application of it. The best way to get to the application of it is to see its commercialisation as part of economic activity or its clinical application in terms of health.

As a continuation of that effort in this program that you have referred to, we have an overlay because we want to actually have an eye for where these projects are coming from, who is collaborating on them and how likely are they through the nature of that collaboration to become a commercial reality. If in fact we see a high correlation between the commercial partners — the industry partnering — in terms of that collaboration, we now see this as an indicator that it is coming from the vantage point of an industry that is wanting to deal with a real-time business opportunity and is seeking out partners in academia and seeking out partners in terms of being very entrepreneurial about who may bring this science to delivery.

What we have added into this program is a viewpoint for who is bringing forward the collaboration. What we are seeing is a very different profile than what we might have seen just two or three years ago. In fact we are so confident that that profile is changing, we set ourselves up for scrutiny by saying that we anticipate that 60 per cent of them will actually have an industry collaborator from day one in even making the submission for the research support.

The CHAIR — All right. Thank you very much.

Mr DALLA-RIVA — My question relates to what I think was the first slide, if you can get the first slide up.

Overhead shown

Mr DALLA-RIVA — Yes, that one there. In budget paper 3, service delivery, page 287 under ‘Victorian innovation strategy’ I note that footnote (g) states:

These initiatives were previously reported in the 2008–09 budget update.

In terms of the second part of that slide, they are already programs that have been announced. That is my understanding of it. I am trying to get clarification. You are investing a further \$300 million in innovation. Where is that? I am just trying to work that out in the budget papers.

Mr JENNINGS — I am not having a go at you. Maybe I spoke very quickly, maybe you were not quite in the room when I spoke about it, but that is in fact how I started. How I started my presentation to you today was that last year when I appeared before the Public Accounts and Estimates Committee there was a contingency in the budget for the innovation strategy, but it had not been announced. Just to square the ledger with PAEC, I started by telling you from last year to this year about how that contingency was committed and is now being expended. Without preamble, that now may make sense to you.

Mr DALLA-RIVA — That is the \$300 million?

Mr JENNINGS — Yes.

Mr DALLA-RIVA — That was previously announced?

Mr JENNINGS — Yes. Then the rest of the presentation flows, and the logic of it is how we have been acquitting that funding both historically — what we have done in the last year — and the last slide ended up with a demonstration of some of the programs that are going to be the output expenditure in this year’s budget of those programs that we announced.

Mr DALLA-RIVA — So in terms of the forward estimates — I am trying to get clarification — it appears there is no new money in this year's budget for innovation. Would that be right? It is not meant to be a loaded question.

Mr JENNINGS — No, I understand.

Mr DALLA-RIVA — It was announced; it is in the forward estimates. In terms of this budget, are there new moneys allocated or is it just existing moneys that were pre-announced?

Mr JENNINGS — It is a fair enough question. I am not worried about that question. There are a couple of answers to it. One of the reasons why I identified the money in relation to the film studio is that that was new investment. But in terms of what are we dealing with in the innovation budget going forward, it is in a similar context to last year's budget in the sense that there are some things that will be in contingency that we may be fleet of foot in responding to. And whilst I do not take exclusive responsibility for the comprehensive cancer centre, because that is in fact a whole-of-government initiative, the reason why I was at the launch yesterday is that about one-third of the capability of the comprehensive cancer centre is a research base. So about one-tenth is beds, about one-third of the floor space will be for scientists who are doing research. Without apportioning a number, I can say to you that from the innovation budget's perspective we are a significant contributor or user of that investment that was announced yesterday. So that is not an item that we have referred to.

There are similar contingencies in relation to some other investments that may come, depending upon the availability of leveraging and support from the commonwealth. I understand you might come back to this. Whilst there is a high degree of collaboration between the state of Victoria and the commonwealth in relation to a lot of the investments that the commonwealth supports, probably I can volunteer to you that it would have been nice if we had got the sequence slightly differently so that the comprehensive cancer centre could have appeared in the budget paper rather than being a contingency. That would have been nice for your purposes and it would have been nice for our purposes, but that is not the way that it fell. There are other projects that may actually have an innovation flavour that will be in the pipeline, depending upon our contingency and the commonwealth's leverage.

Mr DALLA-RIVA — Just to clarify that, because I was just asking the Chair, where are the contingencies that you talk about? I am sure you have got them.

The CHAIR — We should ask the Treasurer that, I think.

Mr JENNINGS — It is page 105 of budget paper 4.

The CHAIR — You will find that at the second last one, under expenses.

Mr DALLA-RIVA — Yes; 'not allocated'.

The CHAIR — As that relates to assets, that is all we have got coming forward. A final question, Mr Scott?

Mr SCOTT — This question relates to budget paper 3, page 128, and the measure of biotechnology projects and programs under way. I note that there is an increase in the target for 2009–10 when compared to both the expected outcome and the target for 2008–09. Can you explain this increase and what the government is doing to support Victoria's biotechnology sector during the global economic crisis?

Mr JENNINGS — Hopefully the government — and hopefully I — will continue to play a continuing supportive role. It is my intention to travel next week, and the reason we have brought this forward is so that I can travel to BIO, a conference in the US next week as part of our continuing momentum to support biotechnology in Victoria and expose our scientists and our start-up companies — and some well-established companies — in this biotech space, to international markets and international collaborators.

Last year out of BIO, for instance, the conference itself established a momentum for something of the order of \$160 million-worth of connections in terms of licensing arrangements and market opportunities that came out of what happened at the event in its own right. For all of us who again have some degree of scepticism about the involvement of ministers or departments involved in networking and industry facilitation processes such as BIO, I actually think we have got a pretty good track record of demonstrating some traction there, so it is worthy of support again.

But that is not all we are doing. We are very interested in try to make sure that we do facilitate a high degree of collaboration. Again, consistent with the answer I gave Ms Huppert before, quite often you need not only the scientists but you actually also need those who can bring it to either clinical practice or commercialisation. We want to make sure that we continue that momentum through the commercialisation fund, and that is what that program is designed to do.

We see examples of that occurring, I am pleased to say, increasingly. In the last few months we have seen a relationship mature between Genentech, which is a major pharmaceutical corporation, and the Walter and Eliza Hall institute in Melbourne. We have also seen another collaboration that has involved ChemGenex with GBS and Alta Partners. That has been pretty exciting, to actually see these collaborations come to fruition.

Earlier this week I had a meeting with people from those parts of the Victorian biotechnology sector that are travelling to the US next week. We reflected on the huge investment in R and D, which is not only an achievement in its own right but the number of clinical trials that are currently being commissioned in Victoria is quite extraordinary — somewhere of the order of, from memory, 39 phase 2 clinical trials and about a dozen phase 3 clinical trials. What that means is that around the world people are collaborating with our institutes to do their research here at a higher stage level of clinical application, which is the pipeline to their application in clinical practice and then their commercialisation.

That is quite an extraordinary thing. Somebody put to me that if, in fact, we bundled up that collective capability and called it VicInc we might be close to being the leaders in investment and collaboration across the world at the moment in terms of this space. We will not overreach or overdescribe ourselves, but it is pretty exciting to actually see what is happening in Victoria.

The CHAIR — Thank you very much, Minister. I would like you to take on notice the same question for DIIRD in terms of the department providing the committee with a list and description of federal grants that your portfolio and agencies receive in the budget and the accountability mechanisms that these grant programs use.

That concludes the consideration of the budget estimates for the portfolios of environment and climate change, and innovation. I thank the minister and departmental officers for their attendance today. It has been a very interesting session. Where questions were taken on notice, the committee will follow up with you in writing at a later date. The committee requests a written response to those matters be provided within 30 days. We will meet again on Monday at 2 o'clock, with the Premier.

Committee adjourned.