

CORRECTED VERSION

PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

Inquiry into budget estimates 2011–12

Melbourne — 20 May 2011

Members

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Mr D. O'Brien

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Witnesses

Mr G. Rich-Phillips, Minister for Technology,

Mr H. Ronaldson, Secretary,

Mr R. Straw, Deputy Secretary, Innovation and Technology, and

Mr J. Strilakos, Chief Financial Officer, Department of Business and Innovation.

The CHAIR — I now welcome Mr Howard Ronaldson, Secretary of the Department of Business and Innovation; Mr Randall Straw, deputy secretary, innovation and technology, Department of Business and Innovation; and Mr Jim Strilakos, chief financial officer, Department of Business and Innovation.

Before I call on the minister to give a brief presentation of no more than 5 minutes on the more complex financial and performance information relating to the budget estimates for the technology portfolio I will ask that all mobile phones be switched off or to silent. Thank you, Minister.

Overheads shown.

Mr RICH-PHILLIPS — I am pleased to now switch to the technology portfolio, which is supported by the Department of Business and Innovation. I have only got a couple of slides to run through for you this morning. Basically the technology portfolio is a new portfolio in the Baillieu government. It is an evolution of the structure that existed under the previous government with separate innovation and information technology portfolios. The structure the Premier has elected to put in place is a broader technology portfolio which brings together ICT functions, biotechnology and nanotechnology, because we see those as convergent technologies with important roles, both as industry sectors in their own right and as enablers in the broader Victorian, and indeed Australian, economy. The focus is dual.

Basically, as with most DBI portfolios, the role is largely around investment attraction and export promotion, skills development and, in the technology sphere, capability development within the sector, and it contributes towards the government's overall targets for investment attraction and export promotion. What the technology portfolio does not cover is also set out in this slide to draw the demarcation between the ICT element and ICT within government, where the Assistant Treasurer role is responsible for ICT whole-of-government issues and Treasury more generally for ICT projects within government.

The next slide refers to the two relevant election commitments for this hearing: the establishment of the Victorian Biotechnology Advisory Council, which is a commitment of \$1.2 million over four years, and the government's commitment to release a new ICT industry plan in 2011. I think that is it for the slides, so I am happy to take questions.

The CHAIR — As I invited you previously to comment on predictions of population growth and demographic change, could you advise the committee on how predictions concerning population growth have shaped the budget for 2011–12 and the out years?

Mr RICH-PHILLIPS — This answer is very much down the path of the government's productivity agenda. As I indicated, budget paper 2 shows that population growth is slowing over the forward estimates period. As we know, population growth has been a big driver of economic growth in Victoria for a number of years. Now that population growth is slowing we need to move to an economy where growth is driven by productivity growth.

The government sees the technology sphere and the convergence of the three technology streams as important growth industries in their own right but significantly also as enablers of productivity growth in the economy more generally. I think the committee would have to agree that the impact of ICT on the broader economy has probably been one of the most significant drivers of productivity in the last 30 or 40 years, and we expect that sort of trend to continue. We see this portfolio as assisting in driving the productivity agenda that will replace economic growth driven by population growth.

Mr SCOTT — Just before I begin, could I seek clarification from the minister about what he said previously. Is what you are saying that information technology within government is actually under your responsibilities as Assistant Treasurer and your responsibilities as Minister for Technology relate to the industry within Victoria? Is that correct?

Mr RICH-PHILLIPS — That is essentially correct. That has been the case for governments for quite a period of time. Generally the IT portfolios, as it then was, back through the Kennett government and back through the Bracks and Brumby governments have been aligned to Treasury portfolios. They are generally occupied by a person in a Treasury role. But the role of IT within government is on the Treasury side of things rather than the technology portfolio side of things through DBI.

Mr SCOTT — I noted in your presentation reference to biotechnology, small technology and the reference to nanotechnologies. I also refer you to budget paper 3, page 156, and DBI industries and innovation outputs. The development of advanced new products and processes is one of the keys to maintaining and growing Victoria's industries, particularly in areas like biotech and nanotechnology, and the synchrotron has a significant role to play in those developments. How do you plan on repairing the damage done to our vital advanced technology based industries sector as a result of the government's failure to fund the synchrotron?

Mr RICH-PHILLIPS — I thank Mr Scott for his question. I agree the synchrotron has been a very important research facility for the technology sectors in this state. I had the opportunity to visit the synchrotron a couple of months ago for the launch of the new, MASSIVE computer facility which has allowed some extraordinary research to be undertaken at the Australian synchrotron. In particular, there were the programs that were demonstrated to me during that visit around, in this particular instance, health research relating to airflow through a human lung. The synchrotron, along with the MASSIVE facility, has allowed for the first time research scientists to actually understand the way in which air flows through a human lung, not only in and out but the passage within a human lung. It is extraordinary technology with absolutely extraordinary capability. It is incredibly important for Victorian technology companies, and we are very fortunate to have it here in Victoria.

As to the issue of funding for the synchrotron, the synchrotron is currently on the funding that was put in place by the previous government. In terms of the future funding for the synchrotron, that is a matter for discussion between the Victorian government and the commonwealth, and those discussions will continue. As you know, that is primarily the responsibility of Minister Asher, the minister for innovation and services, but the government recognises this as a very important facility.

Mr MORRIS — Minister, can I refer you to budget paper 3 on page 160. I am particularly interested in the government's election commitment to create a new Victorian biotechnology advisory council, and I ask: what progress has been made in implementing that election commitment?

Mr RICH-PHILLIPS — I thank Mr Morris for his question. The Victorian Biotechnology Advisory Council was one of the key commitments the government made in the biotechnology area. The budget delivers \$1.2 million over four years for the establishment of that biotechnology advisory council. The key function of the council will be to provide government with constant contact and constant engagement with the biotechnology sector.

Over the last six months, I have had the opportunity to meet with a range of researchers, institutes and, to some extent, companies operating in the biotechnology sector. The establishment of the biotechnology advisory council will give government direct and constant access to the thinking of the biotechnology sector, which will be very important in informing the development of government policy around biotechnology.

Now that the funding has been appropriated, or is to be appropriated through the budget, in the coming months the government will be advertising for expressions of interest for people to join the Victorian Biotechnology Advisory Council, and I look forward to working with the people that nominate to that council.

We have already in Victoria the Biosciences Victoria Collaborative which is chaired by Professor Richard Larkins, former vice-chancellor of Monash University. I had the opportunity to have a good discussion with Professor Larkins a week or two ago about the work that is being done with the BVC in terms of ensuring collaboration within the sector here in Victoria. The establishment of the council will take that a step further in ensuring that the Victorian government has direct and constant engagement with the sector. We think this is an important initiative for the further development of the biotech sector.

Mr SCOTT — One of the important elements in terms of technology is access to communication services. There have been examples in other jurisdictions where, particularly, distributed denial of service attacks have not just affected a direct organisation or a government organisation but where, in the case of Estonia — if my memory serves me correctly — the entire internet was brought down within the country leading to disastrous effects. Has there been any work done within government relating to the stability of internet services within our jurisdiction regarding distributed denial of service attacks and is there any preparation for that?

Mr RICH-PHILLIPS — I thank Mr Scott for his question. I smile at the Estonia reference.

Mr SCOTT — I don't think they were smiling.

Mr RICH-PHILLIPS — I don't think they were smiling, and I don't know if the committee is familiar with the reference that Mr Scott is making, but it was to an example where an elderly lady digging in a garden managed to sever the entire internet connection for Estonia — —

Mr SCOTT — No, it is actually another example, but that is — —

Mr RICH-PHILLIPS — If I recall correctly, she ended up in custody and it was all very nasty, but it did demonstrate the reliance that modern economies have on communications technology. In relation to the Victorian government and the extent of the Victorian government's IT infrastructure, that is a question more in the Treasury portfolio than it is in the DBI portfolio, but — —

Mr SCOTT — I was not just referring to government, though, because it affects industry.

Mr PAKULA — Have a chat to yourself.

Mr RICH-PHILLIPS — As to specifics on that, we will take it on notice and come back to Mr Scott.

Mr SCOTT — Could I just clarify — —

The CHAIR — The minister has indicated he is happy to take questions on notice in relation to this, if you would like to clarify your question.

Mr SCOTT — I would just like to clarify to assist in the provision of information on notice, because there was a slight misunderstanding of the question. The example I was referring to in Estonia, from memory, was not the actual example, though that is a useful example to raise of a different issue.

The example of the distributed denial of service attack was where there was a series of hackers some said were related to a particular government and others denied, who launched denial of service attacks which were directed at government but had the effect of disrupting industry, so that is how it relates to your portfolio directly. There was an attack by a large number of hackers on the systems in that jurisdiction that not only brought down government but brought down the internet, internet banking and a whole series of other services and disrupted the economic activity as it related to technology, and as anyone would understand once you disrupt those sort of systems, the whole economy is rapidly affected. That was the context of the question.

The CHAIR — Is the minister in a position to give any information at this point, or do you wish to take it on notice?

Mr RICH-PHILLIPS — Yes, I am. I can give some further information. The matter that Mr Scott raises is a different one; I accept that. It is an incredibly important one for governments and for industry. In terms of the Victorian government context, that work, I am advised, is undertaken largely from a justice perspective through Victoria Police and the federal police and dealt with within the justice portfolio rather than as an industry issue. I certainly recognise the industry impacts that you refer to, but in terms of planning around those matters and risk management around those matters, it is dealt with in the justice plan.

Mr ANGUS — Minister, I refer you to budget paper 3, page 16, together with your presentation from a few moments ago regarding the government's election commitments in the technology area. Minister, can you advise the committee how the government is addressing industry demands for skilled ICT workers?

Mr RICH-PHILLIPS — I thank Mr Angus for his question. Skills demand is an incredibly important issue, and the capacity for Victoria to supply a pipeline of suitably qualified graduates — they are generally graduates in the technology and ICT sectors — is incredibly important. A lot of work has been done within the Victorian government, and I had the opportunity two months ago to meet with the ICT skills working group to look at what initiatives can be put in place to ensure that we have a pipeline of people entering into training and study relevant to the ICT sector.

Unfortunately we have seen since the tech wreck of the early 2000s a decline in the number of people undertaking ICT-related training. Victoria, I am pleased to say, is still well ahead in its share of ICT-skilled graduates. Compared to other states we are well ahead in our population share, but the overall trend since the

early 2000s has been one of decline in the number of people interested in entering the sector. If we are to have a viable sector, we need a pipeline of people. One of the key challenges is to ensure that, for people of school-leaving age, and even for those in middle school, ICT and technology careers are seen as viable, high-yielding options and that we encourage people into the relevant secondary school subjects to ensure that they end up at the appropriate point to enter tertiary study and can be available to companies in the sector when they graduate.

The other aspect, of course, is ensuring that there are appropriate research opportunities and appropriate ICT and technology companies operating in Victoria undertaking research — a critical mass of them — that generates interest in Victoria. There is no point in having graduates from Victorian or Australian institutions immediately departing overseas because they do not have opportunities in Australia. In some respects it is a chicken-and-egg scenario, and we are very keen and are working very closely with the industry as well to ensure that opportunities are available.

One of the issues I have come across, not just in this portfolio but generally in industry-related portfolios, is a demand for skills but not always a recognition that industry has a role to play in facilitating a pipeline of people to come through. It is the case of, suddenly, ‘We need people; where are they?’, not the case of, ‘We have invested over the last four years to ensure that people are available when we need them’. That is an important balance.

Mr SCOTT — Minister, in relation to your portfolio responsibilities in technology, one of the critical areas facing industry in this area is the protection of intellectual property. There is certainly — and I will put it really bluntly — fairly well developed commercial piracy operations related to ICT and intellectual property. I will not name the jurisdictions responsible, but you smile and laugh.

Is there any role that government will take to give guidance and assistance particularly to smaller companies in this area? You would be aware of the sort of threats that exist with viruses, malware, the direct denial of service attack, hacking, trojans, the inadequacies often of passwords and user names, authorised and unauthorised external devices — I could go on, but I will not take up too much more of the committee’s time. You are nodding and understand.

Are there any activities that you will take in your area to help protect the important intellectual property rights that exist within our jurisdiction, particularly in smaller firms that may not have the security, in-house IT departments and the sort of knowledge required? As I said, and you nodded before, there is a fairly active piracy community, almost, in these areas, and it is important to protect the intellectual property that exists in our state.

The CHAIR — Thank you for that very brief question.

Mr SCOTT — Sorry; I could have gone on, though, Chair.

The CHAIR — I think it is the shortest question we have had — no, I am being facetious. Minister, when you are ready.

Mr RICH-PHILLIPS — I thank Mr Scott for his question. It is definitely an important area, and I guess there are a couple of elements to it. He referred essentially to companies operating within Victoria, or within Australia, and the risks they may be at. In terms of direct protection of IP, obviously the copyright framework is a commonwealth legislative issue. In terms of providing protection and advice to individual operators or individual companies in Victoria or Australia, there is actually now a very well-developed consulting industry around providing protection to companies and giving advice on protecting intellectual property and systems protection, which I guess is a burgeoning industry as a consequence of the problems that you highlighted.

I guess the other element of your question relates to Victorian companies operating offshore and seeking to expand into other jurisdictions. I think there is a role for government there, through the Victorian government business offices and indeed through Austrade in ensuring that companies seeking to expand offshore where intellectual property is involved are very aware of the risks. I will not talk any specifics, any more than you did, but I think there is definitely a role there in ensuring that those warnings are made, because it is a significant issue.

Mr SCOTT — With the indulgence of the Chair — —

The CHAIR — With great indulgence, Mr Scott. Some other members of the committee would like to participate.

Mr SCOTT — With the indulgence of the Chair, are you willing, on notice, to put your other hat on and respond to issues of security in the Assistant Treasurer's area and the security measures that you are taking in response to the issues that I raised in reference to the industry for the government sector?

Mr RICH-PHILLIPS — To jump back an hour to a previous portfolio? I am happy to do that, in the absence of Treasury officers.

The CHAIR — Unrestrained.

Members interjecting.

Mr RICH-PHILLIPS — One of the benefits of the establishment of CenITex — which is the whole of government IT provider, including the operation of data centres for government — is that it now has, as a consolidated operator, the capacity and the knowledge to provide those types of services to ensure that government has the protection it needs. It has been an important development to have that as a whole-of-government approach rather than relying on individual agencies to hopefully have the knowledge, expertise and services to ensure that that protection is provided. So CenITex should go a long way to ensuring that those protections are in place with respect to government. But as you would appreciate, it is a constantly moving field as to what the next emerging threat is — a very dynamic area.

Mr O'BRIEN — I wish to briefly return to some answers you gave earlier in relation to the government's commitment to the Victorian Biotechnology Advisory Council. I refer to budget paper 3, page 16, and ask you: what is the government's commitment to the Victorian biotechnology/life sciences sector and how does that sector deliver benefits to Victoria?

Mr RICH-PHILLIPS — I thank Mr O'Brien for his question. Of course biotechnology and life sciences we see as an important sector for the economy. That is why we are bringing them together in the technology portfolio as an emerging technology. ICT is quite well established in Victoria; biotechnology has been a growing sector of the economy, and we see it as an important one; and nanotechnology is more of an emerging technology. A lot of work has been done by the Department of Business and Innovation in the bioscience/life science areas. A lot of it to date has been research based, and we are looking to see a transition from a largely research-based sector to a more commercial sector. That will of course come with time.

We have seen some recent successes in the life sciences area. Last month Biota, which is a well-known Victorian company, announced a new agreement with the US department of health for a \$230 million trial for the development of its latest anti-flu drug. I do not have any technical experience in the area, but I understand the successful introduction of that drug will have a dramatic impact on the way in which flu is treated, in terms of reducing the frequency of the usage of that medication that will be required.

It is a Victorian development that will have, potentially, a very significant impact in the health life sciences area, but of course will have, we hope, a very significant commercial impact for Biota and for the Victorian life sciences sector. So there have been a lot of successes in the sector for Victoria, and it is one where we see a great opportunity to move from a research-based sector to commercial outcomes. Successive governments in Victoria have made substantial investments in supporting research, and we are now looking to see the spin-offs from that in terms of commercialisation.

The CHAIR — Thank you, Minister. Regrettably this brings us to the end of the dialogue between Mr Scott and the minister; we are out of time. I thank Mr Straw for his attendance.

Witnesses withdrew.