

# VERIFIED VERSION

## PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

### Inquiry into budget estimates 2013–14

Melbourne — 14 May 2013

#### Members

Mr N. Angus  
Ms J. Hennessy  
Mr D. Morris  
Mr D. 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 D. Hodgett, Minister for Manufacturing;

Mr J. Strilakos, Director Of Finance,

Mr H. Ronaldson, Secretary, and

Mr J. Hanney, Deputy Secretary, Trade and Industry Development, Department of State Development, Business and Innovation.

**The CHAIR** — We will now resume the hearings on the manufacturing portfolio. I thank Mr Jim Strilakos, Director of Finance, and Mr Justin Hanney, Deputy Secretary, Trade and Industry Development, for joining us, and I ask the minister to give his third 5-minute presentation for the afternoon.

**Overheads shown.**

**Mr HODGETT** — There is a lot happening in the manufacturing portfolio, so I might, with the indulgence of the committee, get through it as quickly as possible and touch on the main highlights. I am pleased to here today to report on the manufacturing portfolio today. The manufacturing industry in Victoria has undergone significant structural adjustment for well over a decade, in addition to the recent global financial crisis and resulting economic recession in Victoria's major trading partners in North America, Europe and Japan and the decline in demand globally for manufactured goods.

As shown in the chart, the output in the Victorian manufacturing industry has remained relatively steady in real terms since 2005–06 considering the significant pressures faced by the industry. As a result manufacturing as a share of the Victorian economy or percentage of gross state product has remained at around 9 per cent since the middle of the last decade.

I will just quickly touch on the next slide. Map 1 shows manufacturing industry activity in metropolitan Melbourne and the areas that it is concentrated in, certainly relevant to the new member for Lyndhurst and myself, noting Bayswater in the east and the Dandenong, Kingston and Monash areas are significant there. Map 2 shows the manufacturing activity in regional Victoria. It is often marked by large-scale businesses operating in a town with a particular specialisation. According to WorkSafe data, manufacturing business establishments in regional Victoria are concentrated around Geelong, Ballarat, Bendigo, Mildura, Shepparton and parts of Gippsland.

**The CHAIR** — I assume that map is postcodes, Minister?

**Mr PAKULA** — It is the redistribution!

**Mr HODGETT** — We wish!

**Mr ONDARCHIE** — That is not bad. I am happy with that one.

**Mr HODGETT** — It is electoral districts.

**The CHAIR** — Thank you.

**Mr HODGETT** — Turning to the next slide, the government is committed to providing support to Victoria's manufacturing firms as they adjust to the ongoing difficult operating environment. The government has launched a comprehensive plan for manufacturing, *A More Competitive Manufacturing Industry*. This was part of the government's commitment to streamline industry programs in order to improve efficiency and ensure that assistance to industry is directed to where it will maximise business and jobs growth. The strategy is also complemented by the release of the new Victorian industry participation policy guidelines. Finally, the delivery of these initiatives is underpinned by the Victorian government business engagement model. I will not go into too much detail on any of those.

The next slide talks about the strategy and what it delivers. As you can see, these programs are already delivering real outcomes. The Investing in Manufacturing Technology program is supported by \$29 million of investment in new technologies. The projects are expected to create at least 82 new jobs and transition 164 employees to higher value roles. The Managing Productivity Networks program has so far resulted in 500 businesses across the state being involved.

The next slide shows a fantastic front page from the Ballarat *Courier*. Even though it has been a difficult investment and business environment, as at 13 May 2013 the government has facilitated over 110 business investment projects, valued at over \$1.3 billion and which are expected to generate over 3700 jobs. Over \$578 million and 1500 jobs have been facilitated in regional Victoria. The purpose of this slide is to give a small sample of some of the investments that have been made in manufacturing, including the Mars Australia example where our facilitation has contributed to attracting \$52 million of new manufacturing investment into its Ballarat facility, helping to safeguard over 400 manufacturing jobs in Ballarat. On 6 December 2012 Toyota

opened its new global engine line plant at its Altona facility — the first in Australia to produce both conventional petrol and hybrid engines. A \$330 million investment to help secure Toyota's future in Australia.

The next slide is a shot of some of our good friends at Australian Paper and its \$90 million project to construct a greenfield wastepaper receiving, recycling and de-inking facility at Maryvale; I think that is up in the member for Morwell's electorate. Then of course there is Kraft Foods. The investment of \$59.3 million will see the establishment of an Asia-Pacific centre of excellence in Ringwood, which is out my way.

Turning to the final couple of slides, the government also leverages off key Victorian events to highlight the state's manufacturing capability. This year the events include the Australian International Airshow and the Inward Food Buyers Mission. The airshow resulted in 172 new business leads, with 28 new projects or contracts expected to be generated within the next two years. The Inward Food Buyers Mission involved 110 buyers from Asia, who participated in 15 site visits to leading Victorian food and beverage businesses. There has been significant follow-up activity, with around 150 meetings occurring.

In conclusion, I look forward to building on all of these achievements in 2013–14. While these are very challenging times for our manufacturing sector, there are many exciting and significant opportunities, and the Victorian government is committed to ensuring their realisation. I would be more than happy to take questions, Chair.

**The CHAIR** — Thank you, Minister. That was again a succinct presentation within the time frame. Given that, allowing for breaks, we have about 20 minutes left in this session. I will go to Mr Angus for the first question.

**Mr ANGUS** — Minister, I refer you to budget paper 2, page 13 and table 2.1 entitled 'Victorian economic projections'. It shows the gross state product across the forward estimates. It shows a rise and then an improving outlook for economic growth. Minister, we read a lot of doom and gloom about the economy and so on, particularly about manufacturing from time to time, which does not appear to be supported by these projections, so I ask: are some people talking down the economy?

**Ms HENNESSY** — Is that really your question?

**Mr ANGUS** — It certainly is. It is very relevant.

**Mr HODGETT** — I am happy to answer the question. Thank you for that question. As the budget papers indicate, the economic forecast is indeed showing a rise in GSP and moderate growth thereafter. As Minister for Manufacturing this also tells me that manufacturers are showing resilience despite ongoing challenges.

Mr Angus, you talked about perceptions, if you like — not necessarily talking down but perceptions. Certainly in my very short time in this job there are as many success stories in manufacturing as there are unfortunate stories that sort of get reported on. I will list a few I have been to in my very short time in the job. It is unfortunate that there is a widespread perception, if you like, of manufacturing being a — 'dirty' industry is probably not the word, but it is talked down a bit, and it is facing those sorts of perceptions. When I go out into manufacturing areas and talk with manufacturers or indeed when I talk to businesses, people tell me that some parents talk about their children — 'I want to go into manufacturing. I want to get involved in a manufacturing business', and the parents say, 'No, you do not want to get involved in that. It is a declining industry' or, 'You should be aiming for something else' or, 'You could be doing better than that'. So it does put that negative perception, I guess, on the manufacturing industry, where people think it is in decline or think they could be doing something different or something better, whereas there are many examples of fantastic stories, if you like.

I mentioned before that in my electorate of Kilsyth I have a huge manufacturing base, which I proudly represent. It never ceases to amaze me when you visit a local manufacturer that could have been in your area for 10, 15, 20 or 30 years employing people and exporting, and you have driven past it a hundred times and never realised what has been going on or what they are doing there. Just in the past two weeks I have seen impressive, advanced manufacturing successes. At Qenos — I was out there with the Premier. I think that is out there in your electorate.

**Ms HENNESSY** — A terrific company.

**Mr HODGETT** — A great company. I was out there for an announcement with the Premier, securing 400 jobs and \$195 million of redevelopment investment. Aerosonde produced their 400th unmanned aircraft, exporting to the US. It is state-of-the-art defence manufacturing — a fantastic story there out at Notting Hill. That company started off flying unmanned aircraft into weather — into cyclones, if you like — and weather patterning. Now it is actually doing surveillance and reconnaissance missions for defence forces on active service and is actually helping to save lives. Diver Consolidated Industries — they have a new contract to supply Commodore's latest technology, a cross-car beam. Incredible. I think through assistance from our government they have come up with a product, won a contract and now have to produce 10 000 of these by 1 July. So, fantastic stories. The final one I will mention is Volgren — 38 locally made buses as part of a \$6.5 million project that the Victorian government contributed to this investment.

In my view, Chair, we should never sit back or be content to sit back on the sidelines and surrender to fears about whatever diminishing industry. Certainly the Napthine government is confident about the capacity of the Victorian manufacturing sector to build a strong and successful future. We will keep talking it up, and we will keep on supporting it as much as we can. I do not know if any of the officials want to add to any of that. I hope that answers the question.

**Mr ANGUS** — It does. Thank you.

**Mr PAKULA** — Minister, the Treasurer in his budget speech made reference to eight new X'trapolis trains to be manufactured at Alstom in Ballarat. That is on top of the 38 that were ordered by the previous government. I am wondering, Minister, if you could just take us through the local content target on those new orders and if you could break that down into, sort of, whole of life versus build and give some indication of what makes up the percentage.

**Mr HODGETT** — I will endeavour to answer it as best as I can, and then maybe in terms of the technical detail breakdown I might seek some assistance if I need to. On 10 April this year the Victorian government announced a \$176 million order for a further eight brand-new X'trapolis trains, to be fitted out by Ballarat manufacturer Alstom. This order of rolling stock for the metropolitan commuter network adds to the previous order that the Victorian government placed last year for seven X'trapolis trains. The first batch of those X'trapolis trains were delivered approximately four months ahead of schedule and budget — again, great to hear they are ahead of schedule and budget. Four of those trains are already in service, with a fifth currently being tested, so we are riding on those new ones now.

Due to this government's initiative Alstom re-established its manufacturing capabilities at its Ballarat site in February 2012 and increased its workforce from 15 to 110 to deliver the seven new X'trapolis trains, so great news for there. The workforce went from 15 to 110 to deliver the seven new X'trapolis trains and also to refurbish the Hillside X'trapolis trains with the new passenger information system. Alstom has also committed \$8 million to the further development of the site capacity in order to position itself for any future orders and to increase service delivery. So, if you like, it is good for jobs, good for Ballarat and a great story.

The Deputy Chair asked a question in relation to local content, and I think, importantly, Alstom has confirmed that local content on these new X'trapolis trains is in the order of 30 to 35 per cent. I am also advised that in January this year Alstom also employed a localisation expert from Europe to work with local suppliers on how to secure more opportunities to increase that local content on the next train orders. The total number of new retained jobs in Ballarat as a direct result of the last train order is 65.

If I can make just a personal comment, Chair, as manufacturing minister I have a great interest in supporting local content in projects. Part of the reason, if you like, of why you might not specify an exact rate across the board is because it is a bit like horses for courses. For example, with the Bendigo Hospital I think we have got 90 per cent of local content up there, because it is a project that lends itself to the engagement of locals. Where you have got that, as manufacturing minister I would push hard to get as much local content as possible. But there have been other examples that have been brought to my attention that have got lower levels of local content, and that may be because — —

I will give one example. Forgive me if I have not got all the detail, but there was a certain metal or steel product required in a defence make that was not manufactured here so, even if we wanted to, it could not be done here. Whilst I constantly push — and rest assured I argue long and hard around the cabinet table and around our party

room so that we do not always focus on price or do not always focus on certain particular variables but we always go for the best value for the Victorian taxpayer — I am always looking at opportunities for local content. Some 30 to 35 per cent on the X'Trapolis trains is good, and I am pleased that they have employed an expert to try and boost that up a bit. It would be great to see it higher.

**Mr PAKULA** — I want to dig down into that a bit. As I am sure you know, Minister, I think trains 20 through 38 of the order prior to you coming to government were fitted out at Ballarat as well. In your election commitment the coalition said:

The coalition's plan will specify as part of the tender process that these new trains will largely be manufactured in Victoria, in contrast to Labor's policy of exporting jobs to Europe.

You say today that it is 30 to 35 per cent. Trains 20 to 38 were fitted out at Ballarat, I think, at roughly the same rate. I understand what you said about the future, but is it your evidence that the trains that you have ordered so far are basically carrying on the same local content provisions at Ballarat as trains 20 through 38 of the previous order?

**Mr ONDARCHIE** — A pity the federal government do not do it.

**The CHAIR** — Order!

**Ms HENNESSY** — Let us talk Tony Abbott ripping half a billion dollars out of the automotive industry and what that will do to the Victorian manufacturing sector.

**The CHAIR** — Let us not talk about anything. Let us listen to the minister answer the question.

**Members interjecting.**

**The CHAIR** — Order!

**Mr HODGETT** — The VIPP, or Victorian industry participation policy, has been refined twice since its inception, firstly in the Victorian industry and manufacturing statement *Building Our Industries for the Future*, which introduced strategic projects and applied VIPP at the short-listing stage of evaluating bidders for government work. These changes were introduced from 1 July 2009.

The second reform followed the Victorian Competition and Efficiency Commission 2011 inquiry into manufacturing and came into effect on 1 January this year — 1 January 2013 — and have been rolled out over the first half of the year. The key elements of this latest reform, if I can perhaps list them, Chair, are the need to prepare a VIPP plan is now targeted at contestable procurement where local goods or services are competing with international goods or services; public sector bodies must register their procurement with the ICN, the Industry Capability Network Victoria, prior to tendering to enable a contestability assessment, which will recommend if a VIPP plan is needed of short-listed bidders; where there is no limited contestable items, only an estimate of local content rather than a VIPP plan is needed; and there are stronger monitoring and reporting requirements to ensure suppliers' VIPP commitments are actually achieved and demonstrated. That is a question that I ask. It is all right to put these in, but how do we go back and check? This is done by requiring suppliers to complete a monitoring table upon practical completion of the project, accompanied by a statutory declaration. Finally, grant recipients and design contractors, including architects, undertake consultation with the ICN rather than preparing a VIPP plan. This will help ensure local content opportunities are not inadvertently designed out of the project.

I reiterate my comments before. This whole local content and industry participation, Mr Pakula, through you, Chair, is something that I am deeply interested in. I think our statements have been the majority, and we want to get some of that up. The example I gave was Bendigo Hospital where we are getting some 90 per cent. If we could get that across a number of projects, that would be terrific to see.

**Mr PAKULA** — I was just asking if there was any change with the trains; that was what I asked.

**Mr ANGUS** — You have had two or three questions.

**Mr O'BRIEN** — He gave you a comprehensive answer.

**The CHAIR** — Order!

**Mr O'BRIEN** — In addition to \$52 million sweet deal you have outlined in my Western Victoria Region, you have also indicated in the regional and rural Victorian budget information paper 1 the Geelong Development Fund and its purpose to generate jobs in the state's second-largest city. Minister, can you outline to the committee how the Geelong Development Fund is assisting manufacturing in the Greater Geelong area?

**Mr HODGETT** — Can you give me the reference again there?

**Mr O'BRIEN** — It is a budget information paper which refers also to the Geelong Advancement Fund, an \$11 million fund of which this is part as well.

**Mr HODGETT** — I thank Mr O'Brien for the question. Raising our productivity and competitiveness will be vital to securing growth and prosperity into the future. This is especially true in our regional centres, and I know Mr O'Brien, through you, Chair, has a great interest in that area down there in Geelong.

The Geelong Development Fund, or GDF as we would know it, consists of two streams: one made up of \$4 million for the Greater Geelong Industry Fund, better known as the GGIF, as I think most people refer to it, and the \$11 million Geelong Advancement Fund. GGIF acknowledges the challenges facing the manufacturing sector in the region. Given recent announcements of job losses at Alcoa and Ford and Qantas at Avalon, the focus of the overall fund is to generate substantial new jobs, develop new products and adopt new technologies and processes so as to support business and industry to identify and explore new markets. These two funds are great examples of the government supporting Geelong and supporting the manufacturing industry in the region down there.

The Victorian government has also called on the current federal government to match the funding, and so far we are to hear, but we would be hopeful that the federal government might step up to the mark. That would be more good news for Geelong and for the fund.

**Mr O'BRIEN** — We live in hope.

**Mr HODGETT** — Yes. If they do not come to the table, we have committed to put in additional funds. We will do that because, as I said, these are terrific examples of supporting that region and supporting Geelong and supporting some programs. The first project under the GGIF, to IXL Metal Castings, was announced by the Premier on 30 April, just recently. IXL Metal Castings received 180 000 in coalition government funding to go towards a \$561 000 project and will generate 12 additional jobs.

In the interests of time I will not go through a couple of examples. I would expect that we would make some further announcements down there out of that fund, but we will continue to work closely with manufacturers to drive new opportunities for employment and growth, not just in Geelong but across all regional Victoria. I do not know if anyone wants to add to that.

**The CHAIR** — Thank you, Minister. For the final question for the day, Mr Scott.

**Mr SCOTT** — Thank you, Chair. Minister, I refer to your presentation, which had Victorian manufacturing output over a number of years, but it did not have a target into the future. I would like you, if you could, to inform the committee what your targets, as the minister, are for production, employment and level of investment in the Victorian manufacturing sector for 2013–14.

**The CHAIR** — Minister.

**Mr SCOTT** — I am happy to repeat it.

**The CHAIR** — The minister heard the question.

**Mr HODGETT** — We do not target, but I might get the secretary to just explain that to the committee, Chair.

**Mr RONALDSON** — Sorry, Mr Scott, was that a question about the government trying to predict output in manufacturing — —

**Mr SCOTT** — What target the government had — —

**Mr RONALDSON** — In total manufacturing industry, was it?

**Mr SCOTT** — For production, employment, level of investment in the Victorian manufacturing sector, yes.

**Mr RONALDSON** — We do not try and predict future output for particular sectors. We do not have those models. Certainly Treasury predicts for economy-wide effects, but manufacturing at the moment is about 8 or 9 per cent, as the minister said, of the economy and it has many moving parts, as you know, and we really just do not build those models with any great accuracy and try and build in that predictive ability.

**Mr HODGETT** — Chair, I can probably add a bit more, if the committee wishes. In terms of the investment attraction measures and private new capital expenditure, the new investment-facilitated target was based on a percentage of the private new capital expenditure and jobs target, which is calculated based on a ratio of 2.5 jobs created for every \$1 million of new investment-facilitated target. So for 2013–14 the target was therefore derived at a particular investment number driving what a particular job rate would be. These targets were then adjusted for any known factors within the department that were not evident within the broad macro environment. I do not know if that assists the committee at all.

**The CHAIR** — Thank you, Minister. That concludes consideration of the budget estimates for the manufacturing portfolio and for Minister Hodgett. I do thank the minister and the departmental officers who are still with us for their assistance this afternoon. Where questions were taken on notice — and I think there were two questions on notice in the ports portfolio — the committee will follow up with you in writing at a later date. We do ask that written responses to those matters be provided within 21 days in order to assist a timely report to the Parliament. That concludes the hearings.

**Committee adjourned.**