

VERIFIED VERSION

PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

Inquiry into budget estimates 2013–14

Melbourne — 24 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

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Witnesses

Mr G. Rich-Phillips, Minister for Technology;

Mr H. Ronaldson, Secretary,

Mr G. Mailes, Deputy Secretary, Innovation and Technology, and

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

The CHAIR — We will resume the hearings with the technology portfolio, and I welcome back Mr Howard Ronaldson, Secretary of the Department of State Development, Business and Innovation, together with Mr Grantly Mailes, Deputy Secretary, Innovation and Technology, and Mr Jim Strilakos, Director of Finance. Could the minister give a 5-minute presentation on the most important aspects of this portfolio?

Overheads shown.

Mr RICH-PHILLIPS — Thank you, Mr Chairman. I am happy to be here for no. 44 of 50, and counting. On the first slide we have a quick overview of the funding allocated in this year's budget, which was an additional \$19 million of new funding towards the new Victorian government ICT strategy, which was released in February of this year, as well as a commitment towards *Victoria's Technology Plan for the Future — ICT*, which was released at the end of 2011.

Basically what we have in this portfolio is a focus on industry development, be that investment attraction, export development and obviously job creation along with that, or developing capability within the sector. The portfolio focuses on ICT, biotechnology and small tech, which are the three sectors brought together under this portfolio. Traditionally we had an ICT portfolio in Victoria back to the 1990s, and this portfolio brings those together because of the convergence that now exist between those three streams and the capacity to develop our biotech and small tech sectors based on the model we have seen around ICT over the last two decades.

The next slide highlights the new aspect of the portfolio, which is the whole-of-government ICT strategy, which, as a consequence of the machinery-of-government changes announced by the Premier in April, sees responsibility for whole-of-government ICT vested in the Department of State Development, Business and Innovation. The whole-of-government ICT strategy was developed in 2012 and released in February of this year to really look at the way in which government uses ICT, firstly, to engage its citizens, recognising that citizen engagement with government has changed dramatically over the last couple of years with the advent of personal devices, tablets et cetera, and the way people expect to engage with their government has changed dramatically; and secondly, the issue of managing and delivering whole-of-government ICT projects within government. There were issues, well known to this committee, articulated by the Ombudsman and the Auditor-General, which meant the government needed to change the way in which it undertook those types of projects. Allied to that was the need to develop capability around ICT projects and project management, and that is largely what the strategy is about. There are a number of projects to be implemented under that strategy, and I am happy to talk about that in more detail.

In terms of Victoria's technology plan for the future, which is the industry development plan, as I said, released in 2011, there are a number of programs running under that plan. There is the tech voucher program which I launched earlier, \$8 million; Digital Futures, \$11 million; the e-research agenda; the health market validation program, and I have recently announce some funding proposals under that program; and the skills packages which have been articulated under the industry plan as well.

The final one listed there, which I am happy to talk about in some detail if the committee wants to ask me a question, is a new initiative that has recently been committed between the government of Victoria and the government of Massachusetts to create opportunities for our biotech companies in the United States market, which is one I am particularly proud of and happy to take a question on.

That is a quick overview of where we are with the portfolio, Mr Chairman, and I am happy to take questions.

The CHAIR — Thank you, Minister; we have just over 20 minutes left.

Mr ANGUS — Minister, I refer you to budget paper 3, page 1, and also to the presentation you have just given to the committee, particularly in relation to Victoria's economic and fiscal strategy to improve productivity growth and efficient delivery of front-line services. Can you advise the committee as to how the ICT strategy, which you have just touched on, supports this?

Mr RICH-PHILLIPS — I thank Mr Angus for that question. A big part of the ICT strategy, and it goes to your question around efficiency and efficient service delivery and efficient project delivery, relates to how we manage ICT projects. As I said, this committee would be well familiar with that Auditor-General's report — a selection of 10 projects, an average of 110 per cent over budget, schedule overruns. It is a fairly unfortunate

record but a fairly typical record in the delivery of public sector ICT projects across governments everywhere. It is not a particular criticism of the previous government, it is reflected in many jurisdictions.

We needed to change the way in which we deliver those projects so that we can deliver more effectively and more efficiently and so that we can intervene early if they go off the rails. A big part of the strategy relates to a new paradigm for delivering projects. One of the key things we will be looking for with projects in the future is actually to see if we have done them elsewhere in the Victorian government. There are hundreds of agencies across government; every time we need a CRM, for example, we do not need to be commissioning a new one for every agency. The starting point needs to be looking at what other agencies already hold, and can we take something from another agency and use it in the particular agency that has a requirement, rather than reinventing the wheel time and time again? Likewise, buying off the shelf rather than buying customised — taking a proven package that we may not have within government that exists out in the marketplace and implementing that.

Regarding the scaled development of projects, one of the key weaknesses that the Ombudsman looked at related to projects that were whole-of-government projects, trying to develop a platform and roll it out across government. The approach of the strategy will be to pilot programs, pilot projects, in agencies in smaller chunks, which can then be scaled up to whole of government, if that is the desire, and which can also be ended if they are not working in that development stage, rather than having to do that on a whole-of-government basis.

Likewise, in terms of purchasing services for government, increasingly you have seen a huge change in the ICT services market globally. Things such as software as a service and cloud computing have very much changed the dynamic in the ICT services market. The commoditisation of services creates new opportunities to buy 100 units of X, rather than having to build and maintain an in-house capability. This is something that government is already doing; indeed the CRM in the Department of State Development, Business and Innovation is a sales force product, which is basically a fee-per-use service that can be scaled up or scaled down as the department's requirements change. That is a very different paradigm for ICT service delivery to that which existed four or five years ago, and the strategy is designed to allow us to harness those opportunities to deliver services efficiently into government.

Mr PAKULA — Minister, budget paper 3, page 224, has the output summary for innovation and technology, and on page 229 you have the performance measures under innovation and technology, including 'Businesses provided with research and development assistance'. In February last year you issued a media release with regard to the injection of \$60 million and 58 jobs at the GlaxoSmithKline Boronia site, and you said as part of that media release:

... the Victorian coalition government was supporting GSK to expand its manufacturing and new drug development activities in Victoria.

You would be aware of course that this week GSK announced the offshoring of 120 jobs, and I am wondering whether you can tell the committee what the level of the Victorian government's support for GSK was. If you cannot tell the committee that — I suspect I know your answer to that — can you at least tell us whether the Victorian government has handed over any of the funds committed?

Mr RICH-PHILLIPS — I thank Mr Pakula for the question. The government is disappointed, frankly, with the announcement by GSK this week around the closure of that particular line and the loss of those manufacturing jobs in Victoria. In terms of the announcement made last year around the blow-fill-seal manufacturing line, it is worth keeping in mind that that is a new line that will still go forward at GSK. Although an existing tablet line is closing, this new blow-fill-seal line will still be put in place. That investment will be made by GSK, and the jobs associated with that obviously will exist.

Mr Pakula's question went specifically to government support, and it will come as no surprise to Mr Pakula that I am not in a position to indicate what type of support, level of support, the government had for that facility. It is a reality across all governments in this particular area that governments do offer facilitation and assistance to attract investment into the state, and that is a reality of the modern business environment, but in terms of payments under that agreement to GSK I can inform the committee that no payments have been made under that agreement. Obviously if GSK is not meeting the targets of that agreement — and they typically relate to capital spend but more particularly to job creation — then payments will not be made.

The CHAIR — I suspect there might be a supplementary.

Mr PAKULA — There is a supplementary. I want to make sure that I am clear on what the minister has implied in his answer. It is a big facility, as you know. I have a lot of experience with it.

Mr RICH-PHILLIPS — Positive or negative?

Mr ONDARCHIE — Were you the organiser out there, were you?

Mr PAKULA — Not quite, but I had a fair bit to do with it. It is a great plant. Can I ask you, though, Minister: is it the government's position then, if the company is closing down one part of the facility but continuing on with the part that is the subject of the government's agreement, that the government will maintain its commitments under whatever agreement had been reached, despite the fact that the jobs being created over here might be more than offset by the jobs going over there?

Mr RICH-PHILLIPS — In answering Mr Pakula's question, I need to be a bit generalised in what I say, because otherwise I will end up in the specifics of the agreement. If I answer generally, these agreements relate to job growth; they do not relate to job substitution. When we look at an investment project, we are looking at a net increase of jobs rather than jobs being moved from one part of a facility to another part of a facility.

Mr PAKULA — It sounds like they will not be — —

Mr ANGUS — He has given his answer. He does not need commentary from you.

Mr RICH-PHILLIPS — I am hesitant to give — —

Members interjecting.

The CHAIR — Order!

Mr O'BRIEN — I would like to ask a question in relation to budget paper 3, page 43, and also again your presentation, for which we thank you. There it refers to additional funding to continue aspects of Victoria's technology plan for the future. Can you give an example of what this means in a practical sense?

Mr RICH-PHILLIPS — I thank Mr O'Brien for his question.

Mr O'BRIEN — Further to Mr Angus's question.

Mr RICH-PHILLIPS — Sorry? I missed that.

Mr O'BRIEN — It was further to Mr Angus's question as well.

Mr RICH-PHILLIPS — Right. As indicated in my opening statement, the Victorian tech plan for the future is very much around industry development, creating opportunities for industry development and also creating opportunities to drive what we have called technology-enabled innovation — encouraging the broader non-tech economy to pick up opportunities created from our tech centre and build those into their products and processes.

One of the programs we offer under the tech plan is the Technology Trade and International Partnering program. This is to provide opportunities and resources to Victorian companies, typically to participate in international missions, to participate in international conferences and events and to have exposure to overseas markets and overseas events. Typically, the tech sector, whether it is biotech — —

I use biotech as an example because I recently led a Victorian delegation to 2013 BIO in Chicago, a global convention on biotechnology and the place where Victorian companies need to be if they want to participate and grow in that market sector. The TRIP program assists them in getting into that market; it provides practical assistance of \$2000 or \$3000 to assist with travel costs et cetera. It provides that type of assistance. The new funding in this year's budget will assist in continuing that program. For example, in the last 12 months we have had 188 grants provided to 135 companies under that program, allowing them to access events such as 2013 BIO, as well as other international events around the world. So it is basic assistance, it is low-level

assistance, but it makes a big difference to SMEs in being able to access markets, collaborate with partners in distant overseas markets and get a foothold in those markets.

Mr SCOTT — Minister, in your presentation you mentioned the Victorian government ICT strategy, and I believe it is also referenced in the budget on page 41 of budget paper 3. In the government's ICT strategy there is reference made on page 26 to trends in data, saying that the NBN will provide high-speed internet at 100 megabits per second to more than 93 per cent of Victorian premises. Further, on page 7, there are references to the sorts of opportunities that high-speed data creates, and there is a paragraph underlining that ICT infrastructure has been enhanced across Australia and that access to high-speed broadband will open up opportunities to quality multiparty videoconferencing and remote servicing. Then it goes on to talk about how Victoria needs to look at how to exploit these opportunities and channels, particularly in regional and rural remote areas.

As there is obviously some discussion around how to deliver high-speed broadband, the question I seek to ask is: is the government confident that these opportunities will exist if these services are provided using the old copper network, taking into account issues around its reliability? Would these opportunities exist if the copper network was the basis of the delivery of such broadband services?

Mr RICH-PHILLIPS — I thank Mr Scott for the question. I am not aware that Senator Conroy has flagged a shift to the copper network for rolling out his NBN.

Mr SCOTT — No, he has not.

Mr RICH-PHILLIPS — The government's position is quite clear. We do support the rollout of high-speed broadband. Indeed we have programs such as the broadband-enabled innovation program, which is an \$18 million commitment by government to develop the applications to use that technology. Broadband by itself, in terms of delivering productivity benefits, does not get us very far; you need the applications which will harness that. We have funded a number of programs. I announced one up in Shepparton a little while ago, which allowed the teaching of dentistry at the School of Rural Health in Shepparton, being taught from the University of Melbourne's dentistry school here in the city. It uses 3-D imaging, 3-D cameras, the presentation of dental classes, et cetera into Shepparton, and it is obviously available in other remote locations. So the potential is enormous; as a game changer it is enormous.

It is a matter of public record that the Victorian government has had some concerns about the way the commonwealth has gone about the rollout of NBN, and the limitations associated with the rollout of the NBN. For example, to date under the three-year rollout plan that we have seen, Victoria is not yet getting its fair share of that rollout — that is, a 25 per cent share against 25 per cent population. We are well behind that, which is regrettable, and it is inconsistent with discussions I have had with Mike Quigley and the government has had with Stephen Conroy. We really need to see that change. We also need to see the rollout occur within the areas which do not have high-speed broadband currently. One of the areas where the NBN is being built is in Melbourne's CBD, which already has the best broadband in Victoria, and it is being replicated with the NBN rollout. While other areas — some of our regional areas, even some of our metropolitan areas — do not have access at all. So we support high-speed broadband rollout, but we do have some concerns about how the commonwealth has gone about it.

Mr SCOTT — I note you actually ignored the question relating to the copper network, and I would seek to tease out the answer. You touched upon videoconferencing and 3-D imagery; can you at least give an answer to what sorts of download speeds you believe are required, or the government believes are required, to create the sorts of opportunities that you referred to and the ICT policy paper refers to? What sorts of bit rates per second do you believe are required to create those sort of opportunities?

Mr RICH-PHILLIPS — I thank Mr Scott for the supplementary question. Sorry, Mr Scott, I am not in a position to go down the path of a technical discussion around the merits of speeds for particular things. I understand where Mr Scott is going with this particular question, and obviously he wants to contrast the proposal put forward by the federal opposition with Labor's policy. I guess one of the issues around high-speed broadband is why are we doing it? We are doing it to get productivity benefits for the Australian economy and to leverage those productivity benefits; that is why the Victorian government has invested in the BEIP program and others to harness the productivity benefits.

The question is whether a proposal to put fibre into every home versus fibre into those premises that want it and need it is going to deliver the productivity benefit, versus the time frame to roll it out. There are trade-offs, and I am not here as an advocate or a spokesman for the federal opposition, but its members have a view that obviously a quicker rollout using different technology is the better outcome. Now ultimately the Australian people will make a decision. There are two proposals on the table, and they will make a decision later this year.

Members interjecting.

The CHAIR — Order!

Mr ONDARCHIE — Minister, in light of technology sector investment I want to talk a bit about jobs if I can. I will start by saying that the thoughts and prayers of all of us go to the families of Ford across both Geelong and Broadmeadows, and I guess the component suppliers as well. Some people yesterday chose to put politics over people, but we care about the families here involved. You talked about the facilitation of a significant number of tech jobs in your presentation. Could you talk to us a bit more about that?

Mr RICH-PHILLIPS — I thank Mr Ondarchie for his question. Indeed obviously the government is concerned and the Premier and Deputy Premier have expressed concerns around the announcement at Ford, and the government is working with the commonwealth on the transition arrangements for those Ford staff at Broadmeadows and Geelong. It is a very unfortunate situation.

But in terms of the technology portfolio and where we have progressed over the last couple of years in technology — and Mr Pakula spoke about GSK before — on the whole it has been a positive outcome. We have seen over the last two years around 2400 new jobs facilitated in technology, be it biotech, ICT or life sciences. We have seen in this financial year, 12–13, around 880 new jobs facilitated across a range of projects. These typically are SMEs, often companies with a very short life span; they might have only been in operation one or two years and they are growing quite rapidly in a niche market. It is a fantastic outcome to see that sort of innovation and development. Some of those have been attracted into the state, some of them have been generated here in Victoria.

Technology is one of those unique industry sectors which has that capacity to quickly generate jobs through new innovations. Obviously they are not all going to be successful, but it only takes the one good idea to leverage a very substantial business, and we are seeing that increasingly. That is why the government investment around technology is so important. Last year — I will touch on this point briefly — we had the AusBiotech conference here in Victoria, and in attendance was a representative from the government of Massachusetts. Massachusetts have a commitment to their life sciences program, which they say amounts to \$1 billion over 10 years, which is a commitment of 100 million a year for 10 years.

As a consequence of hearing about Massachusetts, the Victorian government actually did some work on the investment by successive Victorian governments around our life sciences infrastructure and our technology infrastructure. Our governments, Victorian governments — to the credit of three or four governments, back to the 1990s — have actually invested \$1.8 billion in our life sciences and technology infrastructure and programs over a 15-year period.

That is a fantastic achievement and a fantastic selling point for Victoria and for Melbourne as a hub and a critical mass to generate technology jobs and life sciences jobs. I think it is something that all Victorian governments can be proud of, that we have had that continuity of policy and that commitment to infrastructure — that we can say we have spent \$1.8 billion and that we are attracting these jobs. It is a great outcome and it is something we certainly intend to use more to promote Melbourne and Victoria as an investment destination.

Mr PAKULA — Minister, I have the Victorian technology plan for the future, or bits of it, in front of me.

Mr RICH-PHILLIPS — Which one — bio, ICT, or?

Mr PAKULA — All of them; I have got bits from all of them. I just want to quickly ask you about this. Under the ICT section, page 22, you talk about supportive investment of \$85 million; under the biotech part, page 24, you talk about supportive investment of 55 million; and under the small technologies part, page 18, you talk about supportive investment of more than 10 million. So on a rough calculation there is about

\$150 million there. Now when you look at the budget papers, the total under the relevant outputs is about 19 million in this budget that you refer to.

Mr ONDARCHIE — What page?

Mr PAKULA — Which page? I will give you a page reference if it is required. It is budget paper 3, page 41. You have got under 'Innovation and technology', 'Victoria's technology plan for the future and government information and communications technology (ICT) strategy', 7, 6, 3 and 3 over the forward estimates period, so it adds up to 19. The plan talks about a total of 150. I can identify 19 there. Where is the other 131?

Mr RICH-PHILLIPS — I thank Mr Pakula for the question. That strategy, the tech plan, is not newly released with this budget; it was released in 2011. Those figures amounting to \$150 million are spending for the last two years, committed across those three streams. This \$19 million is not all for the tech plan but part of it is new funding for the tech plan. So that 150 is what we have been spending for the last couple of years, what we intend to spend I think over the next two years, along with some new money.

The CHAIR — A supplementary?

Mr PAKULA — Yes. Have you read the Vertigan report?

The CHAIR — That is — —

Mr PAKULA — Have you read the Vertigan report?

Members interjecting.

Mr RICH-PHILLIPS — If you had asked — —

Members interjecting.

The CHAIR — Order! Why do you not hold that question until the next session, because it is certainly not a supplementary.

Mr RICH-PHILLIPS — If you had asked me earlier, in the Treasury section, I may have answered.

Members interjecting.

The CHAIR — Order. That concludes the session. I thank Mr Mailes for his attendance. We will have a very brief changeover because we still need to finish at a quarter to 11.

Witnesses withdrew.