

REPORT ON PROCEEDINGS BEFORE

STANDING COMMITTEE ON STATE DEVELOPMENT

**INQUIRY INTO THE DEFENCE INDUSTRY IN NEW SOUTH WALES
INQUIRY INTO REGIONAL DEVELOPMENT AND A GLOBAL
SYDNEY**

CORRECTED PROOF

At Queanbeyan on Tuesday 24 October 2017

The Committee met at 10:35

PRESENT

The Hon. G. Pearce (Chair)

The Hon. W. Fang
The Hon. J. Graham
The Hon. P. Green

The CHAIR: Welcome to today's Standing Committee on State Development public hearing for its inquiries into the defence industry in New South Wales and regional development and a global Sydney. Before I commence, I would like to acknowledge the Ngambri people, who are the traditional custodians of this land, and pay respect to the elders past and present and extend that respect to other Aborigines present. Today is the seventh hearing day for the Committee's current inquiries. The defence industry inquiry is seeking to identify opportunities to incentivise and grow the industry in New South Wales and generate economic development in the State's regions. The Committee's second inquiry seeks to identify how Sydney's growing prominence as a global city can enhance regional development within the State.

Today we will hear from three panels, the first two panels are made up of local defence industry representatives in Queanbeyan the third panel will be regional development stakeholders. Before I commence, I will make some brief comments about the inquiry and the procedure for today's hearing. Today's hearing is open to the public, and a transcript will be placed on the Committee's website when available. In accordance with broadcasting guidelines, whilst members of the media may film or record Committee members and witnesses, people in the public gallery should not be the primary focus of any filming or photography.

I remind media representatives that they are responsible for what they publish. Parliamentary privilege does not apply to witnesses for anything they may say outside the hearing, therefore, there is no protection from defamation for what witnesses say outside the hearing. The guidelines for the broadcast of proceedings are available from the secretariat. If media representatives are present they should approach the secretariat and sign a copy of the guidelines.

If witnesses would like to take any questions on notice because they need more time to answer questions or to have access to documents, they may do so, and we would ask witnesses to respond within 21 days. If witnesses have any messages for Committee members they can be delivered through the Committee staff. Could everybody please turn their mobile phones to silent.

ROBERT BOZ, Managing Director, Meccanica, sworn and examined

STUART ALTHAUS, Chief Executive Officers, SME Gateway, sworn and examined

The CHAIR: I will invite you both to make an opening statement and tell us a little bit about what you do and what your business is. A little bit of serendipity: Today is my last public hearing and it is the Hon. Wes Fang's first public hearing. When you have made your statements I will ask the Hon. Wes Fang to ask the first questions.

Mr BOZ: Meccanica provides an engineering consultancy and precision machining services to Defence itself, our local Defence contractors, and the developing space sector that is being developed at the University of New South Wales Australian Defence Force Academy [ADFA]. In that case, we are the preferred supplier to the CubeSat program that is developing there and we see a lot of opportunity both in the space and Defence sectors. We are going through a bit of a modernisation program ourselves at the moment and we see the biggest risk for some of our future prospects to be basically employment—trying to attract and maintain apprenticeships in manufacturing, advanced machining and that type of thing. That is basically it.

Mr ALTHAUS: SME Gateway is an organisation that commenced back in 2004 with a very small group of small to medium enterprises that got together to facilitate access into, particularly, Federal Government but also State Government through the panel arrangements. Since then it has grown considerably. We now look after some 400 small and medium-sized enterprises [SMEs] across Australia and we facilitate that access into particularly Defence—they are our major client—and we help shape some policy, we help our SMEs put together their tender documents and basically look after their contracting and financial side of working with the Commonwealth.

It has been a bit of a journey and we are currently a \$35 million company based just down the road. I have a staff of 12 and we are currently in the process of bidding for some major Defence work, which will literally see us triple our organisation, mainly in Defence. We are on 23 different panels across Federal and State Government and that gives us a very wide range of access into all sorts of disciplines, but predominantly in the professional technical services—the engineering space and also the information and communications technology [ICT]. We have excellent relationships with senior bureaucrats in all of the departments, but the politicians up on the hill are also very keen to know what we are doing and how we are progressing. As you can imagine, with that sort of volume we have a very clear understanding of the barometer of what is going on in terms of the industry as a whole.

The Hon. WES FANG: In both your opening statements, you identified employment as a risk moving forward. If you are successful, you are looking at a tripling of business. Being regionally based, how do you attract and retain staff? If you are looking to expand, is that attraction and retention difficult for you? Is there a way the State Government can assist you to recruit and train the staff you require so you can to expand your businesses?

Mr BOZ: I think there is definitely an opportunity for State Government to assist with that. We have always had difficulties attracting people, especially in the local region, especially with apprenticeships and that type of thing. The main thing is commitment. They need to be trained up and it is probably a 10-year duration from when you decide you are going to do it until you are capable. A few people have mentioned that Canberra Institute of Technology [CIT] just over the border, which is basically a TAFE, no longer runs computer numerically controlled [CNC] machining courses. A lot of it is only theory, so it is not a practical experience anymore.

The Hon. WES FANG: Do you find you have to look further afield than the local area when recruiting, or are you able to find good quality local candidates to fill roles?

Mr BOZ: We have always had difficulty in the local area. We have had some interest from interstate but in the end it is a difficult situation for them as well. Obviously apprenticeships give a very low wage. We normally try to give them a higher than award wage but it is still a bit of a struggle, especially for accommodation and that type of thing.

The Hon. WES FANG: Your work is quite specialised. Do you recruit people to train them in those roles, or are you trying to find a mix of some people with experience and some people to train?

Mr BOZ: Absolutely. Even locally there is a fairly small business base in this sort of field. A lot of them start at the ANU school of physics or at CIT and do their apprenticeships there. I have found that that pool of expertise is dwindling as well as people retire. Passing on that knowledge is critical, I think.

The CHAIR: Mr Althaus would like to answer as well.

Mr ALTHAUS: It is quite a timely question. We are trying to recruit at the moment. There is a distinct lack of interest in people working in Queanbeyan, and it is really quite depressing. I am in a situation where I am looking for administrative people, both at the junior end and also at the mid range, and we are getting applications from the United Arab Emirates and Egypt—it is just ridiculous. People from Canberra are also not keen to come to Queanbeyan. I have been in the chair for two years now and getting good quality staff is a real problem. It drives a whole set of initiatives from our perspective. Do we then bump the salaries up? Do we bump up the seniority of the positions? That has not worked either.

Unfortunately, Queanbeyan in particular does not seem to have—I will not say educated—people, but people who go to year 10, for example, and that is pretty much where they stay. That is just a demographic thing. It is getting much better, but from my perspective as an employer it is really quite tough. We are a couple of companies here, but we have found that our member organisations have gone to Canberra because they simply cannot attract people, particularly at the professional end. When you talk regional, we go right out to Gundaroo—we have a member there—and down as far as Gunning in terms of that regional space, but it is really tough. Unless you are in a hub like Canberra that has professional expertise, be that at the administrative level or at the engineering level, we find it incredibly difficult.

The Hon. WES FANG: What skill sets do you require for your organisation? Where could the State Government assist you in securing a workforce? Is one issue that people are not trained locally to do what you do? Is there a lack of places to train? Is there nowhere for them to learn their craft before they come to you? Are you in a position to assist people with those skills? Do you need some assistance in that?

Mr ALTHAUS: Gosh, we could be here all day! It is a multifaceted answer, so I will take a little time. The training we provide to our staff is generally done in-house. I do send them away on courses that vary from honing their administrative skills to learning how to network. Is any of that done here in a regional centre? Absolutely not. Again, it is back to Canberra. Occasionally with things like project management courses—and I am also putting my general manager through the Australian Institute of Company Directors [AICD]—that is an interstate exercise as well.

I have two levels: One level that we are looking at is an internship where we get graduates from, again, Canberra and take them through a process, but that is a short-term thing. We also are working with the Indigenous community to try to do something that is meaningful rather than some of the interesting, I guess, ways that are being used to access Supply Nation, for example. I have some fairly firm views about that but that is not for this forum. What I am saying is that we are looking at all sorts of different ways of attracting people, not only for our own organisation to run with the facilitation but also for our members. That is a multifaceted way of looking at a training continuum. We have one who has just finished; she was an intern. We assisted her with a whole range of training. Now she is working in a law firm and starting a law degree—again, back in Canberra.

The only other thing I would mention is the payroll tax. It is a killer. We operate on very small margins. With revenue of \$35 million that is largely derived from professional services, it is a big disincentive and it cuts out profitability of a lot of SMEs. Yes, there are the thresholds and Canberra has the same problem. Canberra has the biggest payroll percentage in the nation. It creates quite a problem for SMEs. In answer to your question, "Can we have a look at the payroll tax", can we look at ways of executing meaningful training into the regions so that it becomes available and it is affordable for people in Queanbeyan? It is a long answer, I am sorry.

The CHAIR: No, not at all. Do you have anything to add, Mr Boz?

Mr BOZ: No. I think I have probably answered most of it. Maybe next year we would be looking at probably taking on one or two apprentices. I have just taken over my father's business as well. He is 78 and he has a wealth of experience, but we are running out of options in terms of to whom we transfer that knowledge. In respect of training locally, we have had apprenticeships and apprentices in the past who have had to travel to Goulburn once a month to TAFE. The Canberra Institute of Technology over the past couple of years have had only one or two apprentices go through the program. Again, there are not many opportunities for getting quality training in that respect, either. That is probably all I have to add.

The CHAIR: Mr Althaus, do you wish to add anything?

Mr ALTHAUS: No.

The CHAIR: We will take questions now from Mr Graham, who has the burden of being the acting Deputy Chair of the Committee. I know he is champing at the bit to ask some questions.

The Hon. JOHN GRAHAM: Sure. Thank you for your attendance. One of the things that has been put to the Committee already is the view that in this region, governments and the agencies increasingly are realising that across the Australian Capital Territory and New South Wales it should be a reasonably seamless engagement: that it just does not make sense to look to strict State or Territory boundaries. I just wonder if that actually reflects the reality on the ground. Are you seeing the impact of that view that has been put to us—that that is what the approach is heading towards—or not?

Mr BOZ: I have been attending quite a few events in the ACT—the Government-led Centre for Defence Industry Capability—and Kate Lundy has made that point quite clearly: They see it as a transparent border. Putting our commodities together and working together sort of makes sense. It will be difficult for Queanbeyan to do it on its own and I think the same applies to Canberra.

The Hon. JOHN GRAHAM: Yes.

Mr ALTHAUS: I agree with Mr Boz. We are working very closely with Kate and the Defence advocate team. I think it was a great initiative. From Kate's perspective it does not matter that there is a border in place. I work very closely with Warren Williams, who is the next witness. We often get together and have a chat about what is going on in terms of the cross-border "Mexico" scenario that goes on. I reiterate that Queanbeyan and the region are seen to be a bit of a black hole. A lot of what happens occurs over the border. As Mr Boz said, if you want to do anything you have to go into Canberra and do it; there is not a lot that happens out here. That is not a bad thing, but again it is recognised—you guys are from Sydney and it is a bit of a false look here—that Canberra is 20 minutes away.

The Hon. PAUL GREEN: Close to.

The Hon. WES FANG: I am from Wagga Wagga.

Mr ALTHAUS: Canberra is 20 minutes drive north-west of here. It takes a heck of a lot of time out of your day to go backwards and forwards from the office. I use the AIDC offices and the Institute of Management. I plonk myself there and I do my meetings and then I come back. Those sort of things really are annoying, but it is a big city that does incorporate some of the regional areas.

The Hon. JOHN GRAHAM: It is a bit inevitable. Are there things we can do to improve what that means on the side of the border?

Mr ALTHAUS: You would upset Terry Snow, but if you would move some of Defence out here—I do not know where—but into officers out here, because they are screaming for space, that may well be a solution. It would put a piece of string between the two areas.

The Hon. JOHN GRAHAM: One of the other major issues that has been raised is the very long lead times for Defence procurement, inevitably: That is the nature of the system. I am just interested from both your perspectives about how companies survive financing these incredibly long lead times, particularly the small companies that you are talking about. How does this work in practice, in your experience?

Mr ALTHAUS: I might take a while. I will use the perfect example that we are working on at the moment. It has taken two years to get to this point where we have been short-listed as a major services provider for the Capability and Sustainment Group. We are one of seven. We are the only SME that is sitting at the table with the likes of KPR, KPMG, Jacobs and Nova—all the big guys. We started this process early last year and it has now been extended by four months out to 23 April. All that time we have expended money. It has taken us a lot of money to put this bid together—over a quarter of a million dollars—and time. They have done it right in that there has been a lot of consultation and all that stuff and they have been very cautious. Because SMEs are the flavour of the day, particularly with the current Government, they have been very cautious about how they approach it and the consultation processes that are involved. That takes time. For an SME, that is also money.

The Hon. JOHN GRAHAM: How do you manage that? How does that work in practice?

Mr ALTHAUS: From my perspective, we have very good relationships on the hill and we also have very good relationships inside Defence at senior levels. That is my job as the chief executive officer—to go and foster those relationships, understand what we can do quicker, and provide that back into our membership base so that they end up with the end result of gaining more and more access into Defence. The Smart Buyer Program

that is now underway with defence I think has a lot of merit. The problem there is you have a situation where the public service, which has been significantly downsized to around about 17,000, are very, very risk averse. It will take a cultural shift to move that kind of thinking into risk profiling that is appropriate and into this whole smart buyer thing. I think we are moving in the right direction, is the answer.

The Hon. JOHN GRAHAM: Mr Boz, do you have a view on that question?

Mr BOZ: I know that it has been very difficult. We went through a period of about two years where it was very quiet, then suddenly everything started to happen at once. It is massive peaks and troughs. I have heard this mentioned by a few other local people as well. The way we try to manage it is just through diversity, defence-type work, space-type work, astronomical-type work and various other things, just so that you try to get that baseline a bit more stable.

The Hon. JOHN GRAHAM: I turn to the space issue you mentioned. Can you tell us a bit more about the University of New South Wales [UNSW] Australian Defence Force Academy [ADFA] project that you referred to?

Mr BOZ: I think this is all in the public domain anyway because there was a bit of a publicity statement recently about UNSW basically building three CubeSats for defence—I think it is air force. Basically we have got involvement in the engineering design process. We have got about 20 years of experience in the space industry going back to 1998 when Australia launched a Federation satellite. We have got experience in materials, design philosophy, assembly integration and testing. I subcontract to Mount Stromlo Observatory as well. They have got some vibration and environmental test facilities there which will be quite important in the future test requirements for these CubeSats.

The Hon. JOHN GRAHAM: It is an exciting time for this part of the industry, for a country like Australia which has not been part of this space discussion to the extent it might now be? Do you have any views about the growth potential in this area?

Mr BOZ: It is difficult to tell at this stage. I know there have been a lot of false promises in the past and false hope. I hope that it does move forward and I think there is a lot of opportunity there. For example, UNSW, the next satellites will have some optical payloads as well. Being able to use some of the capabilities at Mount Stromlo, for example, in designing some of those payloads might be a good relationship. One thing I have noticed though is, being at Mount Stromlo, they have lost a couple of engineers there recently because they were offered positions at UNSW and they want to become space engineers. They can put a tag on their shirt and it sounds better than an optical engineer, or something like that. I think in a recent meeting in the ACT that was raised as well, how do we raise the profile of some of these defence areas so that people do want to get into that area and develop their skills?

The CHAIR: What are the factors that influence you to be in this region? What are the positives, both of you?

Mr BOZ: I did my university degree in Sydney and after four years I was quite happy to get out of there again. Family has always been here and we have our business on a rural residential block. It has its benefits in terms of being isolated in some ways. But you have got Canberra and Queanbeyan literally 10 minutes away. It is small but it is almost big enough for us. We have been working on the Centre for Defence Industry Capability [CDIC] over the last six months as well. One of the points that they have made is that the defence sector is no longer a local thing, it is a global thing and there are opportunities there as well.

The CHAIR: Did you have anything to add, Mr Althaus?

Mr ALTHAUS: I guess I inherited the office sitting above here and part of the reason was, I raise the payroll tax issue again, it is cheaper to work in New South Wales and when you are talking about skinny margins that does make a difference. The rents are also cheaper and unfortunately I was not part of the negotiating deals so Queanbeyan-Palerang Regional Council was not on my list. Those are fundamentally the reasons. We have a very big office up there, it is probably a little too big but if we are successful with what we are doing it will be filled up pretty quickly.

The Hon. PAUL GREEN: In terms of red tape and green tape, what are the hindrances to your businesses in New South Wales? Is there anything that we can clear up? We hear about the payroll tax issue. Have you had many council regulations cutting across your opportunity to keep your overheads down by having a factory in a rural area?

Mr BOZ: In some ways, yes.

The Hon. PAUL GREEN: How do your neighbours see it?

Mr BOZ: Our neighbours normally do not have any issues, I think. During the day when most of the machines are operating we are not generating noise pollution or anything like that. It is a quiet, clean industry. There is no smoke stack or anything like that. Most people that come through the door think it is more of a laboratory or something like that. We have got permission to extend the workshop from 800 square metres to about 2,000 square metres. Back in the day that was Yarrawluma Shire Council and we had to contribute \$30,000 to the gravel road because they thought by growing bigger we would be employing more people and increasing road traffic. That is probably the main thing that I can think of.

The Hon. PAUL GREEN: Was that unreasonable?

Mr BOZ: At the time we had to point out that it was still a gravel road and they did not realise that. I think it was just a case of going by the book rather than trying to tailor something for a particular situation.

The Hon. PAUL GREEN: There is no red tape that makes business harder to run?

Mr BOZ: Not so much for us I do not think.

Mr ALTHAUS: My world is red tape. If there was not red tape, then I would not be in business. That is as simple as it gets. As I said, we facilitate the access into government through the panels and if those panels were not in place then we would not be in business. We are looking at changing quite a few of those models now. We are there to circumvent a lot of the red tape. That is probably one of the best ways of describing it.

The Hon. PAUL GREEN: That is good. You mentioned earlier that you teach SMEs different things. One of those things was learning to network. Can you walk us through that course? How does that work?

Mr ALTHAUS: SMEs are very focused on putting food on the table. They are not good at getting up and mixing in with the functions and meeting people at all sorts of levels, both at peer, politicians and senior bureaucrats. They just do not have the time because they are too busy doing what they do. I guess we give a lot of advice about a whole range of things. One of them is about network and we encourage our members to come along to the plethora of functions that are put on by all of the engineering houses and the AICD, Institute of Management, all these other ones that are there. Then there are all of the defence ones as well.

The Hon. PAUL GREEN: Do you actually walk them through how to network? It is one thing to put them in the room, but if you are not Mr Personality you will always go to the corner, stand there until it is over and then walk out again. You said you trained SMEs to network and I think that is crucial, because as you say, they are interested in product development, that is why they exist. There are so many great SMEs out there that are missing opportunities in the niche market of defence.

Mr ALTHAUS: One of the downsides of being an engineer—and my apologies to Mr Williams, and myself—is that they tend to be introverts.

The Hon. JOHN GRAHAM: He gets a right of reply, by the way. I will only warn you.

Mr ALTHAUS: As a result they are not comfortable in that space at all. Yes, we have a number of functions where we encourage people to come along. Whilst we do a lot of that because we get a lot of people into our office on a one-on-one basis, again I keep coming back to the Institute of Management. It runs seminars on just how to do that. We encourage that and take people along to that.

The Hon. PAUL GREEN: It is done through them?

Mr ALTHAUS: Yes.

The Hon. PAUL GREEN: Are you having issues with the capacity of the NBN and communications technology, especially in sending massive files from the back of Queanbeyan? Is that an issue?

Mr BOZ: Our line was upgraded probably about 15 years ago, so our connection speeds are not too bad. Having a faster connection would obviously facilitate better communication with some of our customers and suppliers.

The Hon. PAUL GREEN: Are you still on ADSL2?

Mr BOZ: Yes.

The Hon. PAUL GREEN: Are you intending to go on the NBN?

Mr BOZ: I think the only option at the moment is the Sky Muster satellite service. Googong is a major development that is occurring just down the road from us at the moment. Whether there is going to be an upgrade in order to service that I guess we will probably wait and see for the next 12 to 24 months.

The Hon. PAUL GREEN: The ADSL is able to carry the files you have to send?

Mr BOZ: Yes, at the moment.

The Hon. PAUL GREEN: Mr Althaus, do you have any comment from your SMEs?

Mr ALTHAUS: I was talking to one of the guys out at Gundaroo just last week. It is the pits out there. But I am getting 100 megabytes down and 50 up where I am, so I have no issues.

The Hon. PAUL GREEN: I was more interested in the SMEs because we have met some people who say it will create a boundary to what they can achieve because they need to send massive files.

Mr ALTHAUS: The thing about my SMEs also is that a lot of them do not work in their own little spot. Most of them work on site. From the Department of Defence's perspective they are using all of defence's networks, so it does not become as much of an issue for them. Where it will start to become an issue is when defence says that they have not got enough space for all of our people and they need to put it out somewhere else, which is part of this process that we are going through at the moment. That may then start to become an issue.

The Hon. PAUL GREEN: Earlier you talked about Indigenous participation in SMEs. Can you talk about what you are doing there?

Mr ALTHAUS: Very briefly, as I said, we are a bit disillusioned with the whole Supply Nation thing so we have engaged with the Ngunnawal people in Yass and Yass council and we are working very closely with them. We have put a number of proposals on the table including providing a bus service to get people into Canberra to enable CIT and education, but that has gone nowhere. We are also working with Centrelink and seeing how we can get people into a situation where we can then potentially provide resources through to our SMEs as well as ourselves. It is a very slow process. We have also engaged with the Indigenous Defence Consortium. Adam Goodes, the footballer, is the chief executive officer. We have got a good relationship with them and they are also helping us. We need mentoring in this space because we are not from that background, so Adam and his team are providing with us some advice in that area. We have been on that journey for about 18 months. It is quite slow.

The CHAIR: When I was finance Minister I had a bit of experience with the panels in formulating procurement in New South Wales. I can say that the process was incredibly complicated and skewed in favour of existing contracts and other things. We opened it up enormously, particularly to small to medium business. I am interested in your experience with the panels at both the State and Federal levels.

Mr ALTHAUS: In terms of the Federal ones, once they have opened up and you are on the panel it is happy days. If you are an SME and do not have the goods in terms of either capability, financial stability or indeed the breadth of what is required to be supplied then you are locked out. Some of those panels can be up to five years. They are getting better, but at the same time—to be blunt—government does not like working with SMEs because they are too hard. The little guys are not as sophisticated as the big guys. That is a fact of life. That is why we are that intermediary and we do a lot of that work for them.

In terms of New South Wales, I am commencing discussions with the current Minister to see how we can best help the New South Wales scene particularly from the ICT panel perspective. There have been a lot of changes over the years and, quite frankly, I have not kept up to date due to my focus on Federal. But we are in Queensland and we are in Victoria and they have their own special arrangements as well. We are an ISO 9001, which is really quite important from a compliance perspective. It really means that from a New South Wales perspective we are starting from scratch. With 2020 and moving on you had the multi-use list and all that sort of stuff. We have got to get some sophistication behind that. That is next on the list.

The CHAIR: Your evidence has been very helpful and interesting. Thank you very much.

(The witnesses withdrew)

WARREN WILLIAMS, Managing Director, Codarra Advanced Systems, sworn and examined

BEN GREENE¹, Chief Executive Officer, Electro Optic Systems, sworn and examined

STEVE BOWDEN, Director, Spearpoint, sworn and examined

The CHAIR: Welcome and thank you for your time in coming along to the Committee today. Mr Williams, obviously your notoriety precedes you.

Mr WILLIAMS: Yes, I have been around for too long, that is the problem.

The CHAIR: We would like each of you to make a short statement and tell us a little bit about your business, if you would like to. Dr Greene, thank you for hosting the Committee later today, we appreciate that very much. Mr Bowden, would you like to start?

Mr BOWDEN: Spearpoint is a small company that opened about 11 years ago. It is made up of veterans from the Defence Force. We currently operate as a reseller of international products, with a level of assembly and support provided in our facility here in Queanbeyan. It is a small workforce of about six to seven people, made up of a split between ex-veterans and a number of local people. Our turnover is between \$5 million to \$7 million a year and our primary issues with Defence are cash flow and finances.

The CHAIR: Dr Greene?

Dr GREENE: I am the founder of Electro Optic Systems [EOS]. Our first employee was here in Queanbeyan in 1986. We still have about 80 people employed in town here. We specialise in military aerospace. We have two sectors: we have a space sector that does what we call space intelligence for allied countries, and we have a weapons systems division, which is the largest weapons systems provider in the world. We have been at times the largest Defence exporter in Australia. We are currently, I think, still the largest in New South Wales. OzSteel set a cracking pace and we are still out to catch them.

It took us, I think, 27 years to export our first billion dollars, but we are currently accruing export orders of about a billion dollars every five quarters. The company has been on a very, very rapid trajectory. We are ASX listed, and our headquarters is in Sydney, with a reasonable number of staff. The main headquarters of the company is in the ACT region, so the two divisions are split between the ACT and New South Wales. We are establishing a greenfields plant across the border with 90 new jobs, starting in a couple of months, and, as I said, we still employ about 80 people here.

Mr WILLIAMS: Codarra Advanced Systems has been in the Defence business for about 27 years and has been headquartered here in Queanbeyan for the past 12 years. We employ 40 people, split mostly here in the Queanbeyan/ACT region and a handful of people down in Melbourne in Victoria. Our primary focus—we have three threads, I guess; professional service is our mainstream business. We provide engineering, project management services to Defence and other security agencies. We were the primary contractor that did all of the initial design of everything electronic that went into the HQJOC facility just down the road a bit.

We have two other divisions, one of which is a training division. We deliver training services in disciplines related to our core professional services business—that is in engineering and project management—and we invest a lot of money in research and development. We create innovative products and we have tried to create some jobs and export opportunities. We are certainly not in the league of my friend Dr Ben Greene here; however, we have a very innovative product that has been adopted by most of the major aerospace companies in North America, as well as the United States Navy and the United States Air Force. It is only tiny but it is our little contribution to export. We maintain a continuous interest in innovation and we continue to invest a lot of money in that. We have got one product at the moment where we are awaiting a decision out of our friends in the Defence through its innovation hub, to see if they will buy into our product and give it a bit of a life to push it along.

The CHAIR: Can you give us a little more on those innovation products—what sort of materials, what sort of functions?

¹ Dr Greene is also a Member of the Prime Ministers Science, Engineering and Innovation Council [PMSEIC], Australia but was not appearing in that capacity.

Mr WILLIAMS: If I go back in history, Codarra was one of two manufacturers of unmanned aircraft here in Australia. We developed one of the first aircraft that was designed for covert operations, effectively. It was an electric aircraft and we were quite passionate about it because we had done a lot of surveillance work in the lead-up to the Olympic Games. We found though that, as try as we might, we really could not get a lot of traction in selling it and providing a lot of funding to it here in Australia. When the Australian Government needed unmanned aircraft they went sole source overseas on three separate occasions, and then we had an opportunity to possibly sell our unmanned aircraft to our northern neighbours in Indonesia and we had an export restriction slapped on us. So at that stage of the game we gave up; people were not buying it and they would not allow us to sell it so we stopped. We thought this is a silly business to be in.

From our unmanned aircraft then we developed a range of robotics-related products. I will not explain them all but I will just go into the current project where we have taken our legacy of knowing something about unmanned aircraft and we are developing a product to counter unmanned aerial vehicles [UAVs]. UAVs represent a serious threat to people in terms of smuggling drugs into prisons, in terms of interfering with firefighting operations and, in the military context, in terms of delivering some nasty payloads as well as surveillance of our armed forces. It is a very serious threat and we have got a really interesting solution. There are competing solutions—all of them big and heavy and need to be transported on the back of trucks; we have a unique product that we are developing that will fit in a soldier's backpack or even possibly into pockets, so it will provide him with an added level of safety. The other product we are developing at the moment is multiple cameras providing different spectrums for a person doing surveillance work. It provides them with far, far greater information on what he is looking at.

The Hon. JOHN GRAHAM: I would like to turn first to the export question, because clearly that is one of the new directions that the Federal Government has outlined. I am interested—perhaps firstly from you, Dr Greene, and then from the others—what has been the secret to your export success and what do you see are the crucial things that have got to happen if we are going to lift a country's game in that field?

Dr GREENE: Our export success is based on the fact that we deliberately identify niches that are too large for a normal SME to address and probably too small for large aerospace corporations and there has to be an unmet need. We have the big advantage that in both our sectors we are what we call embedded with our customers; we actually work within the organisations of our customers, whether it is in the United States or in other countries. By the way, we are only allowed to export to about 12 countries. One of the things that governments have to remember is that exports are a double-edged sword; for every 10 jobs we create with a new product, between two and four come to Australia because of the offset requirements of the other countries. We could have more jobs out of every 10, but we never get enough cooperation within Australia to get the full benefit.

The Hon. JOHN GRAHAM: Tell us about those offsets.

Dr GREENE: In terms of the other countries, we have got a significant number of jobs in Korea and in America, in the Middle East, in other countries. In this country our employment base is focused in the ACT region. Probably the best exercise I could tell you in terms of the current time is we are in the process of putting a footprint of 200 new jobs in the US, and the professionalism of the US-backed delegations in terms of what they bring to us—most of the States, within each State are two or three different corporations that specialise in two or three different regions in the State and they literally cover everything: all the red tape, all the registration, all the green tape, everything is done, including all the approaches to package what we could call the payroll tax and other benefits that have come in. We are literally down to a short list. I will not identify the states, obviously, but we have two outstanding proposals from two states in America for those 200 jobs and we will make a decision within the next four to six weeks.

The Hon. JOHN GRAHAM: You say that is a real contrast with how we work here in Australia.

Dr GREENE: The Americans do it probably better than anyone else, and they make it easier. Given how dominant they are in terms of a marketing base as well, it makes it that much harder to put jobs here. What we have succeeded in doing for 30 years is keeping all our technology development in Australia. We have maintained control of the pipeline from here. But on a decade-by-decade basis—and sometimes even less than that, depending on exchange rates and where the flow of sales is—that is pretty much where those seven out of 10 jobs will go. We have averaged over the last 30 years that we keep three out of 10. Looking back we could have captured a fourth.

The Hon. JOHN GRAHAM: What would have made the difference to keep the fourth?

Dr GREENE: A more coherent approach towards understanding what industry requirements are and getting out of the way. The fact that we are even having this conversation tells me that there is at least some recognition that government can do a little bit more to help and a lot more to get out of the way of industry making what would be very attractive jobs, because in our industry, particularly in exports, we tend—and it is not our choice; it is the choice of our customers—to have to export the lower end jobs, the assembly production, manufacturing support and maintenance jobs. So the jobs that we retain here—the three out of 10—are very high-end jobs, so the multiplier is quite high and the salaries are quite high. They are great contributors and they are great placement outlets for the university graduates, but a very high proportion of our company are double graduates, PhDs and so on.

The Hon. JOHN GRAHAM: Do either of the other witnesses have a view on export?

Mr WILLIAMS: Our export record is very small. The way we approached it was to hire a marketing specialist who had contacts in our target audience, that knew people at the senior vice president type level. We found that was a success. We have not been able to mirror that in Australia with some of the same products, unfortunately, but in the United States we seem to strike a chord. Now that we are well known and we have a unique product, we have people just come through the front door. Last year we had the United States Navy and United States Air Force both seek licences for our software. We do not do any more marketing at the moment.

Mr BOWDEN: We are predominantly an importer, but we do export some of the stuff that we warehouse in Australia to New Zealand and to some of our local areas, like Papua New Guinea, and to Malaysia as well. From an exporting perspective, it is merely that we are holding and then exporting stuff that we have already imported. From a job creation perspective, we are not much of a contributor either.

The Hon. JOHN GRAHAM: Dr Greene, given your expertise in the space area, I imagine you would welcome the increased Federal Government focus on this area. It has started to talk about sharpening Australia's focus on this area.

Dr GREENE: Yes. We have a very good platform of expertise in this country now and we are quite intelligent users of space. It is time we started to be more intelligent exploiters, in our own right, of space.

The Hon. JOHN GRAHAM: What do you see as the potential in this area?

Dr GREENE: In civil space I think there is huge potential for us to do more of what we are doing. In fact, we are the world leaders in the smart use of other people's assets. That is true in terms of applications of space data. I am not talking about EOS now; I can think of probably 20 or 30 very smart small SMEs that would be able to grow significantly if they had the right kind of coordinated support in the international marketplace. But with an Australian footprint increasing in space activities, you get the advantage that those companies could get support from domestic audits. One of the things that made it hard for us is that EOS has always been well over 90 per cent exports over 30 years. There is not one year that we get even 10 per cent of our revenue from Australia. That is a strength and a weakness. The strength means that, by projecting ourselves into the world's leading-edge markets, our products will never be outflanked by new technology.

Australia by design, and by intelligent design, is what we call a tier two buyer. Australia tends to buy technology which is a bit old and proven reliable, so the risk levels are low. Quite often you will find, to the surprise of most taxpayers, we are a tier three buyer: We buy just above not quite First World standards in technology just to be reliable and safe. I think there is a lot of scope in civil space. In military space it is a bit more difficult because those programs are all siloed within each country, but we have significant military activities in space in four countries now and we have all the appropriate clearances and so on to do that.

The Hon. JOHN GRAHAM: Some of the research in this area is happening pretty strongly in Australian universities, including in New South Wales universities. Is that right? We heard about one project this morning.

Dr GREENE: There is some very good technology emerging in space-applicable technologies, yes, but there is a huge barrier between a university research program and access to a military or even a civil space program. The larger civil organisations are getting much better at collapsing that pipeline between innovation and application in space. It has traditionally been 15 years from an invention in the lab to when it flies in space. It is now down to about 11 years. The new companies that are talking about flying large new Constellations have plans to have that innovation space shrunk to four or five years, and they may succeed.

The Hon. JOHN GRAHAM: What are the key things make a difference in making that possible?

Dr GREENE: Honestly, the key thing is a set of decisions that started in the US 10 years ago to get government out of the space business and move into the commercial—moving NASA out of the space transport business and moving the contract to three or four companies to see how that would work, including one contract that went to the Russian space agency to deliver cargo. What has happened now is that the cost of cargo into space has dropped by 75 per cent, and from where it is now it will drop by another 60 per cent, because we have moved government out of the supply business. That change has reduced the cost of deployed infrastructure in space so much that decisions can now be made on a commercial basis. That means that we can start to collapse innovation to application because those decisions have to be made commercially and governments could never make them.

The CHAIR: Music to my ears.

The Hon. JOHN GRAHAM: It is that collapsing cost base that means a country like Australia might be able to have a footprint in this industry for the first time.

Dr GREENE: The barriers to entry are falling faster than we have ever seen before. The barriers to entry have been huge capital cost per satellite, and that has dropped—

The Hon. JOHN GRAHAM: But we are now in a very different world, yes.

Dr GREENE: There is a bit of a false dawn with CubeSats. There are not going to be many really good commercial applications coming from CubeSats, but they will be the harbinger of what is coming next which is, just above CubeSats, a microsat which will deliver tremendous capability for a small fraction of what that capability would traditionally have cost. That barrier to entry has gone. The launch barrier to entry has gone, because we have now seven launch agencies in the world which compete for the launches. If you look at the cost per launch, it has dropped by 70 per cent in the last six years as well. The GEOs cost pretty much the same. Australia has picked a very good time to surf the wave.

The Hon. WES FANG: Do you see opportunities available to your organisations for expansion in, say, the next 10 years? If there are any barriers from a State perspective, what are they and what we can do to eliminate or ameliorate some of them?

Mr WILLIAMS: I see expansion as being more than feasible, but it is our plan to expand substantially in various areas. We are talking with another company at the moment about a collaborative venture to create a particular type of technology training facility here in Queanbeyan, and then we are hoping to export that training overseas. That is our target.

In terms of the impediments to progress, State Government-wise we have found that we have been sitting on the border here. Often there is not sufficient harmonisation between State governments in terms of its rules regarding things like payroll tax, workers compensation insurance and long service leave. Those three issues are not a real impediment; they are just a nuisance. It would help if we had a common rule regarding the way we deal with those things and some flexibility. We have run into problems with flexibility in stuff like long service leave. We were trying to look after our employees' best interests and we are stopped by licence and Government laws.

In terms of the Federal Government, as I said to you before we were prevented from a particular export opportunity years ago because we were export restricted. But that was unusual and I have not seen a recurrence of it. I do not think the Federal Government is particularly getting in our way but it would help if it would buy products and be a reference site for us. It is often harder to sell to our own Government than it is to sell overseas nowadays. It would help if we had some champions here in Australia.

The Hon. WES FANG: Why is that?

Mr WILLIAMS: I think it is just an attitude.

The Hon. WES FANG: Cultural?

Mr WILLIAMS: Yes, it is a little bit cultural. If it is made overseas, it has got to be good and it has got to be high quality, but if it is made here in Australia it is not necessarily the best. I will give you an example. We went to a particular Defence organisation in this State, as it turns out, to sell our software product. We had had people like Lockheed Martin in the United States using our software at that stage for 10 years on some of the most sophisticated aircraft in the world. We said to this particular organisation, "This is the track record", and they said to us, "Can you prove to us that this software is always accurate?" We explained, "Software is software, you know. Software always has bugs." But they used that as a speed bump to stop accepting the sale. I do not have any explanation for it except for the fact that it is not made overseas.

The Hon. WES FANG: At what level were those inquiries made? Were they at a procurement level or were they high level?

Mr WILLIAMS: A reasonably high level. It was a chief engineer of a particular Defence establishment.

Mr BOWDEN: We intend to expand, but our major problem is cash flow. As a small company with very little equity, generally speaking the banks do not want to know us. We cycle a lot of our resources into stock that we can hold and distribute to our customers but because of the nature of our business—that is, defence-related—the banks just do not care. Stock has no meaning to them because they cannot resell it because it is so specialised, so we sink our effort into our resources—into our stock—which has no value to the bank. From an expansion perspective, we receive some assistance from the State guys because the Federal Government is just not interested in us to allow us to have a certain level of cash to expand our business.

An increase in stock of a particular type of product line, and then to expand the support services and the construction-type activities that are associated with that product, will allow us to take it to a broader audience than just Defence, such as local councils and other government and State agencies. It has been very frustrating to run a \$5 million to \$7 million company with a \$50,000 overdraft. That is all the access to cash reserves that we can get. When you bring in a large consignment, from the overseas-is-better perspective, we are the reseller and you have all the overheads of the freight, the GST and the duties that you have to stump up for up-front and then, generally speaking, it is 45 to 60 days later that you get paid by the government agency, as long as they accept the product. Based on the contracts, which are quite adversarial, between the small business and the Commonwealth, they can reject it out of hand; so you have no capacity.

In terms of taking ourselves forward, we need access to subsidised funding that the banks cannot give us, or are unwilling to give us because of, firstly, the nature of the product and, secondly, they do not want to get involved in a defence-related industry and products because of a policy decision not to become involved. The products we deal with are personal protection type of stuff. Some of it is in small arms weapons and some other matériel high-tech types of products. While Mr Williams finds the world's leading stuff and takes it to Defence or develops it in his company, they look overseas for the leading-edge technologies and then bring it to the Government and to the Defence's attention to say, "Here is a capability. You may not be aware that you need it." Generally speaking, that is a five-to-seven year activity for Defence to overcome its conservative nature of implementing new systems. I think that is pretty close to your experience, Dr Greene.

Dr GREENE: I think the question was: What are the obstacles to bringing new employment? I think the key obstacle that I see in very simple terms is competition from other locations. You can parse that down to: What are the obstacles here? But, frankly, we deal in projects in employment by 100 units at a time or 100 jobs at a time. A major State, even California, will put together a three-inch proposal with a \$10 million support program to get 100 new jobs and in Australia you get nothing. In Australia we have three tiers of government that are not coordinated so you can get two tiers supporting it and the third tier will not help you get a site and will put every obstacle possible in the way. There is no coordination. I mean, there are one or two States that are exceptions and that are working on that kind of coordination—again, I will not name them—but we have very coordinated proposals to appropriate the entire company and move it offshore to countries that will coordinate at the national level and their defence forces will order X hundred million dollars worth of your product every year: At the location level, "We will guarantee this. This is the tax regime we will guarantee you for 20 years."

We are not expecting that. That is not what we expect. That is not how this country works. But we would expect every one of our domains of government to act in their own self-interest intelligently and at arm's length, and they do not. When they do, they cannot coordinate with the next tier, so we have this fractiousness within government. Even within one tier you can have changes of administration, as I would call it, and it can change the policies quite radically. I should not focus just on government issues. Outside government I agree that there are significant issues. We fortunately are occupying a plane where finance is not a problem because the world is awash in cash, but that cash can only be allocated in \$20 million to \$30 million lumps. The industry that has the trillions of dollars in cash cannot deal in \$500,000 or \$1 million or \$500 units.

It is a matter of public record that my company has raised \$30 million this year. We are also on the public record as saying for every billion dollars worth of new orders we sign, we need to raise \$100 million in working capital. We are continuing to raise capital and it is relatively simple for us because we raise capital \$20 million at a time, but it is much harder if you are at the lower end of the SMEs. You cannot get their attention. Frankly, if we wanted more capital in \$100 million units, there is a much bigger stream. That bus is moving even faster if you want to jump on that one. Many people do not realise that the world is awash in capital. You need to be at the right quantum to get to it and you need exactly the right return-on-investment story. If you have

a multi-year contract delivered to a tier A customer as a government, that easily qualifies as the right kind of story. But if you are in the business of creating new jobs, that is not necessarily where you will be. There are issues with finance. We see that in our supply chain.

One of the things I did not mention is that in Electro Optic Systems we talk in terms of jobs within EOS, but for every hundred jobs in EOS there is another 200 in the supply chain around us. We are based here in the ACT region. I think almost half our supply chain is within New South Wales and the ACT.

The CHAIR: Our time has really flown. We have been very privileged and interested to hear what you have had to say. I will ask one quick question of each of you: What are the factors that got you or keep you in this region? Just answer very quickly.

Mr BOWDEN: We deal in a product that we cannot hold in the ACT, so we are sited 50 yards, 100 yards over the border. Our major customer is over there in the ACT. We get him to come to us and we occasionally go to him. Because we deal in fully-automatic weapons, we have to get permits to take them into the ACT. The benefits are that it is cheaper to do business here.

Mr WILLIAMS: I think the same. I will not go into the story of why we came here initially but since we have been here we just like the area, the environment. It does not matter what I need, it is close by. It does not matter whether I need products just across the border in Fyshwick or anything else, it is a great place to work being in a New South Wales country town

Dr GREENE: I think for us it is similar. If you looked at objective criteria we would not be here, which makes me worry what happens when the next generation of leadership takes over the company. But subjectively, my current leadership team likes it here. We have got a core of very dedicated employees who would be reluctant—I would not say they would not—to move. The environment here is, if you consider the region as a whole—which we tend to do, and I think governments cooperate more and more in a regional sense—it is very attractive for young families. Our demographic is that 30-year-old, professional engineer, scientist, whatever and that demographic really likes this region, so that is a plus.

The CHAIR: That is a pretty high note to conclude on.

The Hon. PAUL GREEN: I just want to encourage Mr Williams that not even Jesus could perform a miracle in his own home town. Good luck with selling your product to the Federal Government.

(The witnesses withdrew)

(Short adjournment)

RUTH WALL, General Manager, Regional Programs, Department of Infrastructure and Regional Development, sworn and examined

NICOLE PEARSON, General Manager, Regional Development and Strategic Policy, Department of Infrastructure and Regional Development, affirmed and examined

The CHAIR: Welcome and thank you for making some time to come along and talk to the Standing Committee on State Development, Inquiry into Regional Development and a Global Sydney. We are very interested in regional development and doing something that seems a bit unique, looking at Sydney as a global city, and then how regional development can fit in and maybe leverage that and what the gaps are. That is the context. You are the feds.

Ms PEARSON: We are. But could I just clarify, I did not want to make an opening statement, but Ms Wall and I are part of the department that looks after regional and regional is in a lot of different parts of the department. We will answer as best we can. We may need to take some questions on notice if they do not relate to our areas.

The CHAIR: That is fine. Did you want to give us an outline of what you do? It is not really an opening statement.

Ms PEARSON: I look after, I suppose policy that is developed across areas in the government line departments, the impact that has on region and keeping an eye on the Minister who looks after regional development, how policies are developed, do they take into consideration regions. We also look at emerging issues around regional development, such as migration and different changes that are occurring. My area also has the decentralisation agenda. I think that is my role. We interact with all the other areas of our department that look after things like Independent Viability Assessments [IVAs]. IVAs are not actually in my area but my colleague looks after those. We interact, and with Ms Wall's area as well.

Ms WALL: I am responsible for the delivery of the regional programs, Building Better Regions Fund, Stronger Communities Programme, Community Development Grants Programme, National Stronger Regions Fund, the Regional Jobs and Infrastructure Fund packages and the new Regional Growth Fund.

The CHAIR: When I say Sydney global city and regions, what does that provoke in you?

Ms PEARSON: For me it meant quite a big area. I assume it is all of New South Wales and how that is linked into, I suppose the hub of Sydney and other hubs that might exist in New South Wales. That was kind of where my mind was going.

Ms WALL: Similar to me. I was thinking it ensures that the benefits of global Sydney flow out into the regions and that Sydney also appreciates what the regions do for Sydney.

The CHAIR: That is a pretty good summary.

The Hon. PAUL GREEN: Your submission on page 3 states:

Contributions to the Productivity Commission's report have "emphasised the importance of connectivity ..."

What are the possibilities of telecommunications in regional areas, given some of the challenges? And do you have any comments on the opportunity of the very fast train linking Sydney with regional areas?

Ms PEARSON: On telecommunications; that is a whole different department to us.

The Hon. PAUL GREEN: I note that you said you may not be able to answer all our questions.

Ms PEARSON: Trains; that is an area within our department. We could take that on notice. I do not work in the rail area. That is the trouble with infrastructure development, they break that up into different areas such as rail and all sorts of modes of transport. I do not actually look after those areas but I am happy to take any questions on notice.

The Hon. PAUL GREEN: Your submission also states:

... when looking at business and trade factors, the inquiry might look at local business demography for regions outside of Sydney; the reach of tradable and non-tradable businesses; ...

Can you take the Committee through that?

Ms PEARSON: In terms of tradable and non-tradable?

The Hon. PAUL GREEN: The opportunities that exist for regional areas.

Ms PEARSON: Which paragraph are you talking about?

The Hon. PAUL GREEN: Page 3, "Measuring connections", the third paragraph, "the inquiry might look at local business demography".

The CHAIR: Take a minute to have a look at it. The Hon. Paul Green is not trying to test you.

Ms PEARSON: It is just this submission came from all different parts of the department. Unfortunately that paragraph did not come from my area but I will see if I can interpret as well as I can.

The Hon. PAUL GREEN: I will not refer to the submission if that is the case. You may take the question on notice. I will ask you something you might know about; migration and decentralisation.

Ms PEARSON: Yes.

The Hon. PAUL GREEN: Can you walk the Committee through what that means for Sydney, trying to work in regional opportunities and grow regional areas, what might be seen as the issues?

Ms PEARSON: At the moment that is before Cabinet. There is a process where our Minister is taking a submission to Cabinet that will look at what entities are possible and there will be a two-phase process considering those options and locations. At this stage there has been a robust process that departments and Ministers have gone through to look at what parts of the Federal Government departments might be able to move out to regional areas. There are no decisions at the moment about which ones will and no decisions at the moment about location. However, a number of places have written to the Minister making offers, but at the moment no decisions have been made and it has not gone back to Cabinet as yet.

The CHAIR: Is a further program of Federal decentralisation of government a live discussion?

Ms PEARSON: It is something that is being considered by Cabinet. As I say, they have not got any decisions around which agencies. There have been suggestions. The next stage is to come up with which ones are the most feasible when looking at a criteria of what is most feasible. Then those agencies will go away and have a look at a first pass business case for consideration again by Cabinet. In that there will be some suggestions about location, but that is down the track a little bit.

The CHAIR: There has been one, has there not? Tamworth?

Ms PEARSON: Been one what, sorry?

The CHAIR: One move.

Ms PEARSON: No decisions have been made in this current Cabinet consideration. It is a live discussion that is on foot with government but it has to go through the Cabinet process. Once they look at the first pass business cases and potentially select some there will be a second pass which will be the more detailed costings and those sorts of decisions around location and what can go. I answered something; I am so pleased.

The Hon. PAUL GREEN: I dare not try again. I do not want to get four strikes.

The Hon. JOHN GRAHAM: I liked the submission so I want to touch on that.

Ms PEARSON: Let us have a go. I may need to take things on notice.

The Hon. JOHN GRAHAM: Feel free to defer on it. I found the referral to the Productivity Commission's work really useful. We have talked about it briefly before, but that is the first set of work I have seen that is a rigorous examination of the tensions between the cities and the regions.

Ms PEARSON: It is very comprehensive.

The Hon. JOHN GRAHAM: Your submission goes to the key question the Committee is trying to look at. That is, as the cities take off how do we spread some of that benefit more generally?

Ms PEARSON: That is right. I think the Government's view is that what works comes from the ground up. It is not really the Federal Government telling people what they should have, and one size does not fit all. That is certainly the ethos behind how the Federal Government looks at things: one size does not fit all. Each region, each town is different and they have their own microcosm of strengths and weaknesses and where they are going in the future or not. Suggestions of what works really needs to come from the ground up. It does not work when it is imposed.

Ms WALL: We have used that model under the Regional Jobs and Investment Packages. In New South Wales both the North Coast and the South Coast had a package. We had a local community road plan as to what they need in their community, looking at their competitive advantages and where they want to progress to. The applications for that program had to align with that plan designed by the community.

The Hon. JOHN GRAHAM: But while each of the areas vary, one of the strengths of the Productivity Commission's work is mapping out what is going on. Looking at that is quite powerful. It really is one of the first maps we have had of what is going on in some of these economies.

Ms PEARSON: Yes, and then looking at Big Futures and what is going to happen in that environment in terms of the big trends and then communities looking at positioning themselves and then looking at what is available in terms of funding to help position them for the future. You will be aware that some communities have had one single industry or one single thing that they have relied upon that has kept them going and that may be changing or stopping. It is about getting in ahead of time to predict where you go next.

The Hon. JOHN GRAHAM: Essentially, as we look across the county, your submission states:

Such analysis will likely identify a number of data gaps, as well as the need for nationally comparable data sets...

One issue from a New South Wales point of view is that it can often be difficult to tell what is going on in the regions because we do not get the economic data or we get it too infrequently. While there is New South Wales wide reporting, you cannot tell how regions outside of Sydney are travelling. I do not know if you have any views on that or what we could do to address that. Certainly, from a State government point of view knowing what is going on more regularly and in more detail would really put us in a better position to address the sorts of issues the Committee is worried about.

Ms PEARSON: The Federal Government does not actually do that mapping, but you probably know there are companies out there that will come in and map regions for you. I think Queensland had done a fair bit of that mapping for some information that their government was trying to look at in terms of what is happening in that community, what is the size, what is the economic viability, what is the job market and all those sorts of things. The Federal Government does not actually do that, but that mapping I feel is really important in terms of you deciding what your gaps are and, if you are applying for funding, being able to show that you have an evidence base to those gaps. There certainly are companies out there that do that sort of work.

The Hon. JOHN GRAHAM: It is the mapping but also the regular reporting, which is more the Australian Bureau of Statistics side of things. Doing it regularly enough and at a level of detail which is useful for State governments to look at is one of the issues.

Ms PEARSON: I do not have any comments. The Australian Bureau of Statistics sets its own timetable for how it looks at data and when it looks at data. We do not influence that from my department's point of view.

The Hon. JOHN GRAHAM: But I thought it was really useful. You have drawn attention to that in your submission and I think it is an important point.

Ms PEARSON: Where I have seen States that have drilled down and come up with this mapping, it is certainly very effective information. It is very costly to get it done but it is useful in making cases if you have a particular case you want to make.

The Hon. JOHN GRAHAM: The Productivity Commission report said that when you look across the regions not everyone is doing well, particular sorts of communities are struggling as the economy shifts. Do you have any views on that from your perspective?

Ms PEARSON: From my recollection it was about 80 per cent of them are doing okay but there is this 20 per cent that is not. I think the issue around the ones that are doing well and the ones that are not doing so well is they are all individual and all have individual reasons as to why they are or are not doing well. Again, drilling down into the demographics and the economics of that community gives you a lot more information. It was interesting that they said they are doing reasonably well.

Ms WALL: CSIRO has been doing some work in regard to resilience of communities. I do not know if you have looked at that at all.

Ms PEARSON: It is on their website.

Ms WALL: They did one particular piece of work, which is on the website, for when the coal seam mining was shutting down in a particular town. I think it was in Queensland. They examined the impact and

how resilient that community was to deal with this significant change. Resilience of communities is very critical to see how they can adapt into the future.

Ms PEARSON: Again, tying that resilience into that Big Futures and what is happening can be quite a powerful tool to use to have a look at where you might go next with a smaller community that is perhaps not doing so well.

The Hon. JOHN GRAHAM: Returning to the decentralisation question, which is a bit closer to home, can you give us any sense of the timing of some of those decisions that you have referred to?

Ms PEARSON: I believe it will go to Cabinet very soon in terms of the very first discussion they will have about the possibilities. Out of those possibilities, if some are selected to look more closely at, you are probably looking at, I think, end of February, early March, before those things are looked at in a first pass business case sense. Then if there are further decisions that say yes let us really look at this one, that second pass business case will then be more towards mid-year, but it will be part of that budget cycle that is coming up. As you can imagine, there is a lot of work that goes into those business cases, so if, say, in November there is some sort of indication that we are going to look more closely at these parts of agencies and these options around where we might put these, that is going to take probably to the end of February to come up with that first stage business case. I think it is more the timing that you are looking at.

The Hon. JOHN GRAHAM: Thank you, that is useful. Finally, has there been any written debrief of the pros and cons or just the process related to the Australian Pesticides and Veterinary Medicines Authority decentralisation that has taken place?

Ms PEARSON: Not that has come across my desk. Certainly it is an issue that would be at the forefront of decision makers' minds about what works, what does not work. I think you have also got to look at the particular agency that you are trying to deal with, what is the demographic around their own staff and where you are trying to shift it to, what about schools, what about the connections in those communities? It is a very big picture to consider. Certainly we look at what has happened previously—not only the Federal Government but the State Government have got a lot of experience in this area. People are aware of those sorts of things. I have only been in my job for perhaps about six weeks, so I have not actually seen something come across my desk, but there are lessons learned from the previous attempts.

The Hon. WES FANG: Where do you see the future of the Regional Development Australia [RDA] committees?

Ms PEARSON: RDAs are not in my area, but if you have specific questions about RDAs we could perhaps take them on notice. They belong in a different division to our division, so unfortunately I cannot give you any forecasting or too much information about those. I am happy to take the question on notice—as many as you like.

Ms WALL: Just adding to that, I suppose the Commonwealth Government did just reaffirm their commitment to RDA committees with the Government's response to the recent review. So a new charter has been established for them.

The CHAIR: That response is where?

Ms WALL: That response would be on RDA's website.

Ms PEARSON: And the new charter will be there as well.

The Hon. WES FANG: Obviously, Sydney is what we would describe as a global city. How do we funnel people from there as a hub to what I would consider one of the better parts of New South Wales, as in the regions? We have got the proposed Western Sydney airport and we have got places like Canberra Airport which are now international facilities. How do you see those two locations being used to actually hub people into the regions and how can they be better used?

Ms WALL: Unfortunately, we are not from our aviations branch.

The Hon. WES FANG: From a development standpoint. Regionally, how can they be used better or has there been any planning around them?

Ms PEARSON: I do not know because I do not work in that area. I do not know what other planning they have done with the local areas. I do not know about Canberra Airport either in terms of what their plans are. I do know there are all sorts of predictions about Western Sydney bringing a lot more tourism. Certainly,

aviation travel is going to increase; it is not going to decrease. But, no, I could not tell you about what discussions there are about the future.

Ms WALL: Continuing on that, not only are we building the airport but we are doing significant investment in the roads around the airport to ensure that connectivity to the airport from regional Australia.

The Hon. WES FANG: What do you see as the key sectors for development, particularly in this region that we are in now?

Ms WALL: Unfortunately, I have not seen a plan or been given any information in regards to the Palerang area.

Ms PEARSON: I can take that on notice and see if we can find something for you within the department.

The Hon. WES FANG: Do you see any opportunities for better collaboration between State and local governments?

Ms PEARSON: I think there are always opportunities for collaboration.

The Hon. WES FANG: Can you expand? Where do you see those opportunities and how do you think that they could—

Ms PEARSON: Only from the perspective that all of the things that work in regions come from the ground up, and not just between State and local government; I think, from my experience with some of the projects I have seen, if it just stops at between State and local government and does not involve community groups and the people on the ground, it can go off track. There is always great opportunity, and proposals that come together with that three-pronged approach are more likely, I think, to succeed. If you can have a robust argument around why you need funding, you have got a good chance of you fitting the guidelines.

Ms WALL: And under my programs the stronger applications do have the endorsement of State government or local government. With the new Regional Growth Fund, which is the Australian Government's largest regional program they have ever run, which is for projects over \$10 million, State endorsement and one with plans will be required. So it is really critical that local governments are working with the State and are in partnership with what they want to do for their region.

The CHAIR: What is the total of that Regional Growth Fund and what is the rollout period?

Ms WALL: The Australian Government has committed \$272.2 million for projects over \$10 million. So, do the maths; it would probably only be about 27 projects come out of this initial funding for this program. We expect the guidelines to be released soon. The States have come and spoken to us—they come and speak to us a lot about projects they want to get up.

The CHAIR: Is this directed at any particular parameters around what sort of—

Ms WALL: Jobs creation, trying to make regions more sustainable; also, trying to encourage partnership with the private sector, and all three levels of government working together.

The CHAIR: We were up in New England recently and one of the themes that was coming through was that a lot of programs in the past have bid for something and they have not aligned with local priorities and have not necessarily had some logic and a sequencing to them. That program sounds like it has maybe not got logic and sequencing to it. How do you deal with that? New South Wales regional development is changing the model to make sure that what it does with a region—

Ms PEARSON: Sort of grassroots up.

The CHAIR: Yes, the point that you have made several times today.

Ms WALL: From what I have experienced in our programs, somebody has to go first. So if it is State, local or Commonwealth government or private sector they need to make a commitment to the project. That does cause a bit of a barrier for some projects to do that; they may be ideas but they have not got State commitment yet, so therefore they have not got their co-funding confirmed, so therefore I cannot fund it because one of the things we consider is if this project is ready to go. That definitely is a disconnect, and that is something we all need to work on in regards to aligning our funding commitments and the projects that we want to fund. So hopefully we can achieve that through the Regional Growth Fund.

The CHAIR: How do you do that? What are the ideas? This is key.

Ms WALL: I think really relying on the plans. There are lots of plans out there. The State governments do a lot of work. If they can demonstrate to us that the State has already got this in a plan and it may get funding in the next budget cycle—because it is all rolled in with budget cycles, as you would be aware—we are really trying to work with them and bring them all together. If it is in your plan and you have a letter of commitment or something like that saying, "If you go, we all go"—that sort of thing.

Ms PEARSON: Of course, having some community happiness that you will make it successful when you are rolling it out.

The CHAIR: What recent successful programs in New South Wales have you been involved in?

Ms WALL: New South Wales programs? I have not had any involvement with the New South Wales programs—

The CHAIR: I mean from the Federal partnering or whatever.

The Hon. JOHN GRAHAM: From your perspective.

Ms WALL: We have not really done that in the past. The first relationship one is probably the new Regional Jobs and Investment Packages program. Applications for them are under assessment, so I will probably be in a better position to discuss the benefits of that and whether it has worked in about three months.

The CHAIR: We will still be around in three months. There seems to have been perception of a change in the approach of the Federal Government and that it is more willing to be a leader and more interventionist than the traditional old constitutional "this is our box; this is your box" approach. Is that right? How do you see that approach changing and developing?

Ms PEARSON: The Minister for Regional Development released the 2030 outlook, which is also on our website, which is probably the first real statement about regional development for many years from a government on either side. It focuses on the key areas that we talk about all the time—employment, health and all those sorts of things—but it reinforces that it cannot be a one-size-fits-all approach and it has to be a collaboration across community, local, State and Federal for things to actually work. I think that is probably the whole ethos behind where it is at the moment and that is the leadership that it is taking. I think that does provide better results than either "your box; not my box" or the top-down type approach in other times.

The CHAIR: What is the mechanism for getting that collaboration, other than putting things up on a website or something?

Ms PEARSON: A lot of people talk to me when I go to different conferences and things like that about what the Federal Government can provide in terms of funding. That is Ruth's area and the program she has been talking about, but I attend meetings—and Highfields is an example—

The CHAIR: Which one?

Ms PEARSON: Highfields in Toowoomba—where you have community, local and State Government collaboration and trying to support those activities where people come together and are trying to build quite substantial a precinct of different things in future and have a model that they are working towards. As Federal Government, we do not drive that. We are happy to be part of those discussions. Certainly Ruth's area has the funding or part of the funding. The State governments also have their funding. I suppose it is trying to point people in the right direction to talk to the right people and come up with proposals that might be successful.

The CHAIR: What is the timeline for the rollout for the regional growth fund?

Ms WALL: The guidelines are still under consideration by the Government.

The CHAIR: But is it a one-year program or a four-year program?

Ms WALL: At the moment I think it will be one round, given the low dollar amounts, then future budgets might contribute more money to it. Further on what Ms Pearson was saying, we also have officials meetings or forums which New South Wales attend with all the jurisdictions. They are quite beneficial for being educated on the programs that are coming up, the lead in thinking, sharing ideas and lessons learned and that sort of thing, which is quite informative.

The Hon. JOHN GRAHAM: We have talked at a general level about collaboration. One of the things that would help us is to know what, from your perspective, looking across the country, are the useful bits of engagement with the New South Wales Government. Who do you work with in the New South Wales agencies? What helps or works well when it comes to engaging, specifically with the New South Wales Government?

Ms PEARSON: I have only been in my particular job for about six weeks but my staff speak very highly of their regional development counterparts they deal with in State governments, and New South Wales is the one that is particularly mentioned, so that obviously works very well. They exchange information and have informal as well as formal meetings.

Ms WALL: The gentleman's name is not with me at the moment—I do not even know what his role is—but there is definitely a local area here that comes and talks to us about the work it wants to do, its planning and that sort of thing. We have had good discussions with Premier and Cabinet with regard to your programs. We are connected to like departments. They can happen as frequently as each party wants them.

The Hon. JOHN GRAHAM: That is good. That gives me a bit of a flavour.

Ms PEARSON: Keep in mind that as much as different parts of our department are broken up within the department, there will be different areas. For example, Infrastructure might be quite different in one State Government as opposed to another, and Regional Development might sit somewhere and Roads might sit somewhere else, but we are linked with all of those places across the department.

Ms WALL: My old role was in the road and rail area and there are very strong relationships with the department of transport in delivering a program that aligns with the overall strategy of the New South Wales Government.

The CHAIR: Thank you very much. We appreciate your time. Thank you for those things on the website that you mentioned to us. We will take those as being evidence if they are not already in the submission.

Ms PEARSON: How will you let us know of questions on notice?

The CHAIR: We will come back to you with questions on notice. If you can answer them within 21 days, that would be good, but longer than that is fine.

(The witnesses withdrew)

The Committee adjourned at 12:37.