

UNCORRECTED PROOF ISSUE

Monday 28 June 2010 - Estimates Committee A (Aird) - Part 1

LEGISLATIVE COUNCIL

ESTIMATES COMMITTEE A

Monday 28 June 2010

MEMBERS

Dr Goodwin
Mr Hall (Chair)
Mr Harriss
Mr Wilkinson
Ms Forrest

SUBSTITUTE MEMBERS

IN ATTENDANCE

Hon. Michael Aird MLC, Treasurer; Minister for Industry

Department of Treasury and Finance

Don Challen, Secretary
Tony Ferrall, Deputy Secretary, Budget and Finance
Rob Nicholl, Deputy Secretary, Economic and Financial Policy
Craig Jeffery, Director, Government Finance and Accounting
Wendy Sawford, Director, Revenue, Gaming and Licensing
Jonathon Root, Director, Corporate Support

Tasmanian Audit Office

Mike Blake, Auditor General
David Strong, Director, Corporate Services

Ministerial Office

David Bailey, Head of Office

The committee met at 9.30 a.m.

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DIVISION 11 (Department of Treasury and Finance)

CHAIR (Mr Hall) - Welcome to this first session of the Estimates.

Ms FORREST - Treasurer, last year when the Henry tax review was still being undertaken you stated that your own taxation and regulation review panel had been established under your reference group. Has this panel made a response to the Henry tax review report? Is there a copy of this response and if that is the case why do you need a tripartite panel to undertake further review?

Mr AIRD - The reference group made a submission to the Henry report.

Ms FORREST - Is that the one that you signed?

Mr AIRD - No; they did it independently of me. Obviously the debate has changed. I think now that Henry has reported we need to try to capitalise on the information in the Henry review to achieve some taxation reform in the State. My view is that to do that you need to have the three political parties trying to work together to achieve some response to it.

Ms FORREST - Did the panel prepare a report as such or just a submission to the Henry tax review?

Mr AIRD - They made a submission.

Ms FORREST - That is all they did. They have not undertaken any further work since?

Mr AIRD - No. They had their last meeting last week, I think. They are winding up.

Ms FORREST - They have not made any report following the Henry review?

Mr AIRD - I have not seen the final minutes from their last meeting so I do not know what they have done at that level.

Ms FORREST - Would you not think that part of their job in this broad overarching tax reform that the State is going to look at was the purpose they were set up for?

Mr AIRD - No; they were there to try to flesh out some of the issues which related to tax and regulation in the State. The Henry review has changed that so the reference group is being wound up.

Mr WILKINSON - Can I just break in on that - as you were saying there was a reference group and that reference group was looking into tax reform. That reference group has been superseded by Henry, is that what you are saying?

Mr AIRD - It is a moveable feast. I thought the reference group was a useful group to absorb ideas and really freewheel about, in terms of the individuals involved.

Mr Wilkinson laughing

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Mr AIRD - Did I say something funny?

Mr WILKINSON - No, it was 'freewheeling'. -

Mr AIRD - They went about their business and made a submission to Henry. Henry has now reported and I think they are into another phase of the debate.

Mr WILKINSON - As I understood it, with a couple of questions that were asked last year, the stock answer was look we will wait for the Henry report to be handed down.

Mr AIRD - Yes.

Mr WILKINSON - The Henry report has been handed down and now you are saying you want this tripartite group to get together.

Mr AIRD - Yes.

Mr WILKINSON - To see which part of Henry Tasmania should or should not accept, is that right?

Mr AIRD - I think it obviously has to have reference to the Henry review. Henry has touched on various aspects of state taxation. I think there has been an acknowledgment of the type and nature of most taxation in Tasmania - all state taxes in and around Australia - and that, because of the Henry review, we have an opportunity, I think, to build on that and to pick up some of the ideas that are part of the Henry review.

Mr WILKINSON - Which are the major parts of those ideas that you want to pick up, or you are strongly considering picking up?

Mr AIRD - I said earlier I am not going to rule anything in or out of what we do in Tasmania and what we need to do is start afresh and look at all aspects, look at all the transactions taxes, the nature of our taxes, whether they are efficient, and what is the level of compliance. Basically, I want this to be a broader review, if possible, in terms of taxation reform.

Mr WILKINSON - If I was an investor from overseas or interstate saying I want to come to Tasmania - I think I want to come to Tasmania - what incentives am I going to get by coming to Tasmania, as opposed to any other State?

Mr AIRD - Last week, or the week before I met with a major investor in Tasmania and he believes the total taxation regime in Tasmania is better than anywhere else and that is why he wants to invest here. There are some comparative advantages in doing business in Tasmania - it is the total set of the costs of doing business - labour, the price of land, taxation, regulation, the whole set of conditions, which I think we have to look at to make sure that Tasmania is an attractive place to invest.

Ms FORREST - Why wouldn't you then use this sort of committee, that has obviously got the tax expertise, the understanding, and the knowledge, rather than members of parliament who do not come from that background, to drive this reform of the State taxation review, particularly as you said yourself that Henry made a number of recommendations and considerable commentary about the state taxation regime?

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Mr AIRD - Because we are going into another stance of the reform - we will be having the resources of Treasury, we will engage with consultant tax experts, we will be calling for submissions, and we will be having an open submission process. We will be engaging with everyone. If any member of the reference group wants to make a submission, they can.

Ms FORREST - You not just going to get the three parties in to tell them how bad things are, with the lack of cash in our situation at the moment, such that they have to toe a line - because that is the line developed by that group, as opposed to a tax expert group.

[9.45 a.m.]

Mr AIRD - We want to build a broad consensus of change and reform. We will go about that, and we will try and get as much information as we can in order to make a considered judgment about where to go forward. I would like this to be a broader representation of understanding of tax reform by the major political parties. Obviously, I want to engage with the community and everyone else about it, including Legislative Council.

Ms FORREST - Your interim fiscal strategy contains the 'no new taxes' strategy - won't this strategy potentially constrain the tax review process, as Henry was similarly constrained by not being able to look at the GST?

Mr AIRD - We will hold onto our fiscal strategy as it is. That is why we are doing this. If we have to change the strategy, following on from the review, we will. I do not expect the Liberal Party or the Greens to be changing their policies immediately, either, but you have to be prepared to change the fiscal strategy if required.

If the fiscal strategy is found to be correct, then we will maintain it. We are prepared to change it, but we hope to engage with the major political parties to achieve that. To achieve significant reform it is too easy, in a political debate, to keep arguing for less taxation when in fact we need to make sure we have a fairer taxation system.

Ms FORREST - So, a new tax could be part of that?

Mr AIRD - A new tax?

Ms FORREST - Yes.

Mr AIRD - Maybe.

Ms FORREST - You could get rid of half a dozen others.

Mr AIRD - That is true.

Ms FORREST - But, your fiscal strategy suggests that you will not consider that.

Mr AIRD - As I said, we will hold onto that fiscal strategy for the time being. If, at the end of the review period, it is obvious that we have to change it, then we will.

Mr WILKINSON - When are we able to look forward to the answers and recommendations, not only from the Henry Report, but also from the group that you have got together to look at it?

Mr AIRD - I hope that, within 12 months, there should be some movement in trying to understand the broad thrust of where we are going. It could take longer. I do not want to constrain this by time. If you look at the balance of this year, time disappears very quickly. But, I like to think that we would have engaged and started a process and perhaps even developed some papers discussing models which maybe useful to Tasmania.

Mr WILKINSON - Often people argue 'there is a lot of looking it', a lot of committee stage but no action, if we believe it to be a major incentive, a major strategy that should be put in place I would have thought that there would have been a time lien put on it. not wanting to forget anything or not discussing anything but if it is important you get your forces together, you discuss it and you come back within a certain time period.

Mr AIRD - Roughly 12 months.

CHAIR - Any more questions on tax reforms at this stage? None, okay, as an overview side things and budget development, Treasurer, you will be surprised to hear me ask this question about the public sector, the question is, do you agree with the TCCI view that the public sector wage bill is increasing to such an extent across the forward estimates that it is putting our net debt free status at risk?

Mr AIRD - No I do not agree with because will not allow our net debt free status to be compromised. It is a fundamental part of our fiscal strategy. We will be maintaining the strength of our debt status because it is fundamental to where we are going.

The demand pressures of the State sector really relate to those areas, in health particularly, and that is where the increase has been. We always keep an eye on the growth of the State sector but if you are telling me what area of government activity you would not engage in, we have in some areas made a decision where we think the non-government sector can deliver some services better than we can, and the disability sector is one of those. But that always requires a fair bit of planning and effort, it needs the transition to that position and it takes resources as well.

CHAIR - But as you know we are part of the global economy and if things go awry there - I mean last year with the GFC - obviously there were strategies in place to make 800 redundancies, but none of that happened, so you would argue that because -

Mr AIRD - No, savings were made.

CHAIR - Can you quantify it? How many were made?

Mr AIRD - The budget management savings last financial year - it works this financial year actually - the budget management strategies total management savings was \$52.5 million.

CHAIR - Did we not have a drive for about 5 per cent savings, I think it was, and does that equate to \$52 million then?

Mr AIRD - It is a saving in a percentage for recurrent services appropriation of 1.6 per cent.

CHAIR - We were quite a way off in that respect.

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Mr AIRD - All the agencies achieved their budget outcomes.

Mr WILKINSON - It was to cut in where the major pain was going to be felt this coming year.

Mr AIRD - They still have to achieve their budget management strategies this year.

Mr WILKINSON - In relation to the 800 people who said -

Mr AIRD - That was the equivalent, it was not the target. People want to label it as a target but we use that as a way of demonstrating that it is the size of the task before us.

Mr WILKINSON - How many people - we were looking at 800 equivalent - are you able to say how many positions last year?

Mr AIRD - Tony can explain.

Mr FERRALL - The budget management strategies were measured against the then forward Estimates so it really was not that you were going to reduce the number of FTEs by 800, it was a measure of effectively curtailing growth that would have occurred without the budget management strategies. If you looked across all agency budgets they did not actually go negative, they just did not grow as high as they had been previously, and the 800 was really a measure of saying if we had not implemented the budget management strategies the agencies would have had 800 more but it was not actually going to reduce their numbers per se.

Mr WILKINSON - Are we able to put a figure on it then, looking at 800 as the figure, as it was last year?

Mr AIRD - Are you asking simple FTE numbers at that point in time?

Mr WILKINSON - Yes, because my question really is how many of the original 800 positions proposed to be reduced have been reduced? I hear what you are saying in relation to growth retirement, but if it was 800 positions that you spoke about last year I am looking at the number of positions compared to last year's estimate.

Mr AIRD - How can you measure something that did not actually happen.

Mr WILKINSON - Well, it must have been a figure that you used because you believed that you were able to achieve it.

Mr FERRALL - It was an indicative figure and essentially what the budget management strategies were about was keeping in check the growth in agency expenditure. That is really how it works. Through the budget process it was asked roughly how many FTEs would that growth level indicatively be and that is where the 800 figure came from. So, if the agency budgets had been allowed to grow as they previously had been in the forward estimates, then they would likely have been about 800 higher than they ended up. There were specific reductions in SES; I think there were 35 SES reductions and they were actually positions that were eliminated or reduced.

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Mr WILKINSON - I spoke with a couple of heads of agencies, though, and they said they were having extreme difficulties in endeavouring to say to people, look, you are not going to be here next year. They were finding it difficult to the target you are speaking about. They were speaking to me as if it was positions they had to cut in order to meet that target. That is why I cannot really seem to understand what you are saying; if there were 800 indicative positions, what I am wanting to find out is how many indicative positions did you actually meet.

Mr AIRD - I think Tony has made an explanation about how to achieve that. There is still going to be some challenges made to agencies in this coming financial year; no doubt about that. I am meeting with them at the beginning of August to work out the strategies to achieve the budget management.

CHAIR - The question that follows on from that; when, in response to the GFC there was a moratorium put on creating new positions, is that moratorium still in place or are we going to see a continual expansion this coming year.

Mr AIRD - Where we have allowed some growth is on the front line services and, obviously, in the Budget we have announced some initiatives which will create positions and they will be funded in the Budget.

CHAIR - So, we are talking about frontline such as health, police -

Mr AIRD - Yes.

CHAIR - Parks?

Mr AIRD - Parks and Wildlife.

CHAIR - Previously you or somebody mentioned some savings that had been made. Just a couple of little examples; I noticed, for example, DPAC blew its budget by \$750 000. Any explanation for that?

Mr AIRD - DPAC blew its budget? I would have to look at that in detail.

CHAIR - Can you take it on notice?

Mr AIRD - It is more appropriate that it goes to DPAC, isn't it?

CHAIR - I thought the Treasurer would have a good handle on that.

Mr AIRD - An amount of \$750 000 might be a one off, it might be an establishment cost or it could be a range of different things.

CHAIR - Yes, but I am just pointing out small examples. I think ministerial support rose by \$1.7 million.

Mr AIRD - Yes, it did.

CHAIR - Over and above budget; that is what I am saying.

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Mr AIRD - Yes, it did. Part of that was the new ministry. There was some -

Ms FORREST - Which new ministry was that?

Mr AIRD - It was Minister Singh when she was sworn in, as I recall. There was also some extra cost for the Liberal Party. They had some requests for further assistance, so they got it. I am not too sure whether the Greens required some extra assistance as well. You are going into areas which really relate to some other minister's Estimates, not mine. I am not going to go through every single portfolio area here.

CHAIR - No, no. I just highlighted a couple of small items that were drawn to my attention.

[10.00 a.m.]

Ms FORREST - There are a couple of things. One of the matters that was raised as part of the Budget Management Strategy and the 800 position issue was vacancy control.

Mr AIRD - Yes.

Ms FORREST - That was identified as one way of trying to achieve that. Is that still something that is -

Mr AIRD - I would expect agencies to be using vacancy control as a measure of managing their budget, yes.

Ms FORREST - Have you any idea of whether that is being used and how effective it has been?

Mr AIRD - It is one of the issues that I will be discussing with the agencies in August, as soon as we have finished this process, to work out how much they are going to be putting into place. I can check to find out but I would expect that to be a tool that they would use.

Ms FORREST - Further, in your interim fiscal strategy; last year in the budget you talked about reducing wages growth; one per cent in 2009-10 and 2010-11 was the stated aim last year and 2.5 percent for 2011-12 and 2012-13. We are now looking at 3 per cent straightaway. Are things that good that we can do that?

Mr AIRD - The 3 per cent relates to the new agreements.

Ms FORREST - I appreciate that.

Mr AIRD - You can see in the allocations we have made; they are already built into the agencies' allocations. We think it is realistic. There is going to always be some tension in terms of wage increases. I have thought long and hard about this issue. In the end -

Ms FORREST - It is a big sudden change.

Mr AIRD - Well, it is a change of a size that you give a lot of consideration to. In the end you could sit down and just keep on holding onto that wage indexation factor knowing that it is not realistic or you could make some adjustment, which is up front and put it into the agencies' allocations knowing that it represents a fairly realistic outcome.

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Ms FORREST - What sort of impact has this had then on your Budget?

Mr AIRD - The increases from the last wage indexation have now been factored into the new allocations going forward.

Ms FORREST - So the 3 per cent has been factored in?

Mr AIRD - Yes.

Dr GOODWIN - Treasurer, you mentioned the 35 SES positions that were made redundant.

Mr AIRD - Abolished, yes.

Dr GOODWIN - Were there others; other positions, other redundancies? Do you have any figures across all the agencies for how many?

Mr AIRD - Yes, DPAC would have those figures.

CHAIR - Were they front line, those 35 SES people, or were they in administration?

Mr AIRD - They would tend to be in administration I would suggest.

Ms FORREST - Do you have the list of them or not?

Mr AIRD - DPAC would have that.

Mr HARRISS - On this budget management strategy process, Treasurer, the Chairman mentioned DPAC and you said that is a different portfolio and so on, but in the revised expenditure process every single department - apart from his good old Excellency - overshot their budget. Let us talk about the global impact of what happened

Mr AIRD - What page are you looking at?

Mr HARRISS - In the Consolidated Fund estimates, 2.7, the appendix and budget paper 1, if I am on the right track. In the budget, as against the revised budget and what the variations are, the variations for every department are above budget. In so far as me trying to get my mind around the budget management strategy, where the expectation was to rein in, then that does not suggest to me that there was too much reining in. Just to round out that question, I think, Treasurer, some figures that Tony provided to you, you indicated that the budget strategy saved \$52.5 million but my recollection from the 2009-10 expectation was that you wanted to save \$116 million through your budget management strategies this financial year. You have saved less than half that by implementing that strategy. The chairman went to the matter of the global financial crisis and there were no new positions created at all that. I do not get out of all of those numbers a good message that a positive attention to your budget management strategy was achieved.

Mr AIRD - There could be a whole range of reasons for those variations.

Mr HARRISS - Of course but they are all up.

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Mr AIRD - Without going through them in detail I would imagine a lot of them are capital.

Mr HARRISS - Infrastructure would be.

Mr AIRD - Yes.

Mr HARRISS - Education might be.

Mr AIRD - Yes.

Mr HARRISS - Because of Building the Education Revolution.

Mr AIRD - That is exactly right.

Mr HARRISS - We have got a heap of dough -

Mr AIRD - So it is Commonwealth.

Mr HARRISS - Indeed.

Mr AIRD - That has got nothing to do with budget management strategy.

Mr HARRISS - A component of it might be. It might not be because of the revenues coming in, but a component of it could well be.

Mr AIRD - There could be a number of factors here which would lead to these variations and I would think most of them would be to do with Commonwealth allocations.

Mr HARRISS - Is there a snapshot that anybody in your group can provide? I have waded my way through the Building the Education Revolution - \$207 million positive to your budget, reducing to \$138 million for the upcoming budget. There is a whole range of federal inflows, I accept that, for capital works. We could wade our way through all of those from the budget papers and determine just how much extra there is. Suffice to say that all of those inflows have been a major contributing factor, on my assessment - correct me if I am wrong - on your bottom line having been turned around dramatically. Can somebody give us a snapshot? You have indicated you save \$52.5 million by your budget management strategy. Your target is \$116 million.

Mr AIRD - In terms of what you are alluding to in the variation column, if you go back and look at agency by agency the footnotes generally will explain some of the variations going into next year's budget. In terms of some of the allocations made in 2009-10, as a revised budget most of the RAFs that I have dealt with would be dealing in the majority with Commonwealth allocations. That will be the variations.

Mr HARRISS - We will come to RAFs later on. Let us home in for a moment on the \$52.5 million savings. Am I correct in recalling that your budget expectation was \$116 million; that is what you expected to save in the current financial year?

Mr AIRD - That would be about right.

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Mr HARRISS - You have only achieved \$52.5 million. That does not send a very good message about cutting our cloth in tough times? Just because you had major major inflows -

Mr AIRD - We had increased revenues. The increased revenues that we received in 2009-10 are greater than the increases in expenses. That is why we are back in surplus in 2009-10.

Mr HARRISS - That is right.

Mr AIRD - That is a pretty good message, I would suggest. The judges of good messages are really the credit rating agencies. They make an assessment about how we go about our budgets, both Standard and Poor's and Moody's. Standard and Poor's straightaway reaffirmed their credit rating and Moody's have always said that we over-achieve in terms of our budget outcomes. We have had this discussion year in year out and everyone was saying this is all a stack of cards and everything else. The fact is we always over-achieve against our budgets, and we have again. That is our aspiration.

Mr HARRISS - You comment that the bottom line has turned around and we have spent less than our revenues. Does that not indicate that we are most likely carrying forward a whole heap of expected capital expenditure? Just because we have not spent it all does not mean that we are not going to at some stage.

Mr AIRD - No, you take it year by year and our budget operating surplus for 2009-10 is a turn around, and of course there are always judgments to made in other years, and we have allowed for those in terms of our budgeted allocations. We have done that.

Mr HARRISS - Yes, but still the observation is accurate, is it not, that a lot of the under-spent will be carried forward. It is all capital infrastructure processes.

Mr AIRD - If it is carried forward on capital it will not affect our operating balance. It will affect our fiscal balance, but it will not affect our operating balance, and so the capital of carried forwards will not affect the operating balance. In terms of the headline balance that we are talking about here, we are talking about the operating balance.

Mr HARRISS - Which slides again for next year and then rebounds a couple of years after that?

Mr AIRD - Yes, that is right.

Mr HARRISS - With regard to the budget management strategy then, staying with that for a moment, you had established the expenditure review committee; what is its status?

Mr AIRD - We have rolled that function back into the budget committee.

Mr HARRISS - How many times did that meet after its establishment?

Mr AIRD - Pretty much once a month - seven times or six times. I can get details of that.

Mr HARRISS - The reason for rolling it back into the budget committee?

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Mr AIRD - Basically because the effort that we had put in at that stage was just to target the expenditure side and now we are into the new budget process I have just washed all that work into that process and we can still achieve our desired outcome in terms of our strategies. As I indicated, the agencies will be making presentations to the budget committee on the expenditure side and how they intend to go about their management strategies.

Mr HARRISS - Could you indicate to us when that review committee ceased operations and folded into the larger picture?

Mr AIRD - I made the decision as we came into the new Government just to establish the budget committee and not the expenditure review committee.

Mr HARRISS - So the review committee had still been operating up until prorogation?

Mr AIRD - Yes.

Mr HARRISS - Were you concerned then that it did not help to achieve the budgeted savings of \$116 million when it only got to \$52.5 million?

Mr AIRD - We have had a turnaround on our balance -

Mr HARRISS - Is that a reason to keep spending?

Mr AIRD - No -

Mr HARRISS - In terms of outgoings for staff.

Mr AIRD - To answer your question directly we have I think done a really good job. The Government still has to deliver services to the community. The reason you have government is to deliver services and to do that you have to have people. There are all sorts of pressures on government to deliver a range of services, but there are also pressures on governments to make sure that you manage the State finances properly. The argument being put forward here is that we should have cut further, but that would have thrown out a budget of surplus of another \$50 000-odd and that means we would have been throwing a surplus of \$80-odd million. That would be about right.

[10.15 a.m.]

Of course you want to go to surpluses but your surpluses have to be balanced against the level of service you are trying to provide to the community. There are always going to be arguments of can you create greater efficiencies, I am always looking for more efficient ways of delivering services. I am also looking at ways where we have to meet our obligations to our communities as much as we possibly can. There is always an argument about that as well. That is a legitimate test. I think that we have achieved savings where we had to. We could see that our revenues were improving and the extra revenue was covered off any extra expenses, beyond what we had budgeted for. What this highlights is that budgets and financial management is an active dynamic exercise.

You do not have a set of numbers in front of you and say that is it, and just be rigid, things move all the time. A large part of what I do is try to manage the revenues and the expenditure to

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make sure that agencies are working within allocations, making sure that we manage the State finances and get the outcomes we want.

Year after year we have these kind of discussions but every time we outperform our budgeted expectation. Even during the GFC. We have just come through an amazing time in pretty good condition. It is no small achievement that by 2012-13 to be general government net debt free and be back in surplus. We will be the only jurisdiction to do that.

Mr HARRISS - You would have to concede that a large contributor to that, by your own contribution earlier, is the National Partnership Payments of over \$600 million?

Mr AIRD - I would. There are always going to be contributions made by the Commonwealth which are going to affect our balances. But we managed those grants and transfers from the Commonwealth in a way which leads us to have a stable financial management system in Tasmania. There are all sorts of pressures going on.

Mr HARRISS - As tied grants you have got no choice, have you?

Mr AIRD - There are different types of grants and the Commonwealth contributions fade in the forward estimates in any event. But we are still managing the budgeted outcome.

Mr HARRISS - Finally on that thread. Other members have contributed to this debate on the 800 equivalent score, what you like, separations. Am I right in recalling that the average multiplier was \$60 000 in a wage component, if you like, for the 800? So the multiplier was 800 equivalent separations at an average of \$60 000 was the way that you generated your dollar savings?

Mr FERRALL - I will clarify. The employer management strategies were equivalent to approximately 800 FTEs. That was made up with a number of components. The agency cost reduction requirement, which was originally to achieve savings of \$16.5 million in 2009-10 and then raising to \$39.6 million in 2010-11 and thereafter. That was calculated in terms of trying to give you an equivalent of FTE calculation at 600 FTEs out of 66 000. That gave the \$39.6 million 2010-11 going forward. In addition there was a part year saving as well that you would recall in the 2009-10 year. There was the middle management review which was calculated as approximately 172 FTEs at about \$102 000 which gave about \$17.5 million. There was again a part year saving in 2009-10 and with the senior executive service reduction there was a savings target of 25 FTEs at an approximate cost of \$200 000, giving the full year saving of \$5 million. They were the components that were put forward.

Mr HARRISS - So the aggregate of all of those would be roughly equivalent to 800 times an average salary of 60?

Mr FERRALL - It was 66 because the SES and the middle management were at higher cost.

Mr HARRISS - Yes, okay.

Mr WILKINSON - In relation to FTEs in the public sector - in 2004-05 it grew by 969 FTEs; in 2005-06, it grew by another 873 FTEs; in 2006-07, it grew by another 234 FTEs, and it was estimated that in four years -

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Mr AIRD - Is this in the one question or answer?

Mr WILKINSON - It is leading up to the question, and it just highlights the increase - that is what I am getting at. In four years it grew by 2 392 FTEs. The estimated increase the year after that was 2 500 FTEs. Are you able to tell me whether FTEs increased over the last 12 months?

Mr AIRD - DPAC would have that.

CHAIR - We have not got DPAC.

Mr AIRD - Is that your frustration?

CHAIR - The committee would like the latest figure for the size of the public sector and information on how it compares to previous years.

Mr AIRD - I will see what we can do for you.

CHAIR - Is there not a case, then, for a target in the fiscal strategy relating to the size of the public sector? That is something that seems to be missing. It is open-ended at this stage.

Mr AIRD - The big question is - what can you afford? There are going to be demand pressures - some areas of government activity are going to continue, and they are pretty obvious. Demographic change alone is going to determine that. The fiscal strategy should deal with the finances - we cut our cloth according to the finances, and that includes both recurrent and capital spending, to make sure we achieve the fiscal targets.

CHAIR - Is it not the case that there are more public sector employees per head of population in Tasmania than in any other jurisdiction in the Commonwealth?

Mr AIRD - That is true, partly because of our population spread. Every other jurisdiction has nearly 90 per cent of their population concentrated in the capital city. We do not have that. We have 50 per cent in the capital - there are people here who represent regional areas - well, one.

Laughter

CHAIR - Is that not also a case for decentralisation of some of the public sector?

Mr AIRD - You cannot have it both ways.

CHAIR - Why?

Mr AIRD - This is a problem, and the Commonwealth Grants Commission addressed this issue. That is why horizontal fiscal equalisation is adjusted to support us - to recognise the level of effort we have to make to deliver the same level of service.

Ms FORREST - The latest review did not do Tasmania any harm.

Mr AIRD - It ended up being neutral.

Ms FORREST - That is right, despite a \$50 million campaign last year.

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Mr AIRD - They did make an adjustment, but in the end it was neutral.

Ms FORREST - You did not need to wipe the \$50 million off the Budget, as you did last year.

Mr AIRD - No, we discussed that. Sometimes people have to move on. That was last year's budget Estimates.

Ms FORREST - And suddenly it reappears, like magic.

Mr AIRD - There it is. But what if there had been a shock? I prefer to have a conservative approach to these things and go through the 'what if' scenarios, rather than be caught hopping around, trying to make adjustments.

Ms FORREST - You could be honest, and say that there is an extra \$50 million in the Budget - or really \$100 million, as you took \$50 million off last year and added it back on this year - that is \$100 million.

Mr AIRD - No, it was only a one-year allocation.

Ms FORREST - I know it was.

Mr AIRD - I am not denying it. It was there as a prudent exercise in managing the State finances, and since we don't need it for that purpose, we can use it -

Ms FORREST - You saved \$52.5 million in your budget management strategy and you have taken off that \$50 million. You could have done none of that, and still achieved the same end.

Mr AIRD - That applies to 2010-11.

Ms FORREST - Yes.

Mr AIRD - It is one off, though.

CHAIR - I talk to a lot of people in private enterprise, and no doubt you do, too, and with the GFC they are under significant pressures and they have had to cut their costs.

Mr AIRD - We have, too.

CHAIR - Those people talk to me and say the public sector is still going because you are getting extra revenues from across the border.

Mr AIRD - We have improved our financial position and that financial position has given us a surplus, and that has to be seen as a reasonable thing to do. Did you want a surplus of \$100 million? It is two sides of the operating account here. We do not say that we can keep on building the bureaucracy, because it is good in itself - we want the community to get the best service it can from the Government.

CHAIR - But, not over-servicing.

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Mr AIRD - When you talk about extra police - do you want more police? They cost money. You want more doctors? They cost money. Nurses? More money. The health system particularly costs us - pieces of equipment, like an MRI, which I think is \$2.5 million now. They are pretty expensive. This is what happens, and we are trying to maintain a level, and improve our level of service back to the community.

If you talk to people in the private sector, they make adjustments to their income. Well we have, too. As they see their income improving in the private sector, they make adjustments. We are heading back into surplus in 2012-13, and as long as people can see that we are managing the finances on both sides, I think they ought to be satisfied that we are doing the right thing.

If you want to put a lid on public sector spending, where will that be? Does that mean you cannot put on more police, or does it mean you cannot put on more nurses? Or, if you put on more nurses or police or doctors, does that mean you are not providing services in other areas of government activity which are productive - giving something back to the community?

I am happy to have the discussion, but I much prefer to have a fiscal strategy based around trying to reach our forecast outcomes, and we have always out-performed our budgets.

CHAIR - If I could digress slightly, and return to last week's question about red tape. We talked about the Dutch model, and the fact that it has been taken up by Victoria. Can you give us a commitment that you will look at - and I think you extrapolated it out from the Victorian model -

Mr AIRD - Yes.

CHAIR - the possible savings of around \$26 million or \$28 million?

Mr AIRD - When the budget committee meets in August, I expect there will be a proposition regarding how we assess that model and its level of applicability to Tasmania. I gave that commitment, publicly in Launceston, during the second reading debate. I am happy to look at anything.

CHAIR - Or, did you say you might look at it but you did not give a definitive answer?

Mr AIRD - I am developing a process around dealing with it, and the budget committee will be the first part -

CHAIR - I know how progressive you are, so you will take it on board I am sure.

Mr AIRD - I am a reformer, as you know. Some things I succeed in, some I do not.

Ms FORREST - I want to go to a slightly different area.

CHAIR - If Ruth is going into a different area - on this whole budget management strategy, can I -

Ms FORREST - It is still in within that area.

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CHAIR - Is it?

[10.30 a.m.]

Ms FORREST - I want to ask how the national health and hospital network reforms are going to impact on the State Budget, particularly in light of the fact that we will now have a significantly greater amount of GST that is tied, and how this new arrangement will avoid the cost-shifting and blame game that has been a problem with the current model.

Mr AIRD - Very good question.

Ms FORREST - I know it is and I want to know the answer.

Laughter.

Mr AIRD - Well, as I indicated last week or the week before, there have been Commonwealth-State working group discussions about putting in place the national health and hospitals reform decision of COAG. It is an implementation group. I have not seen a report from that group yet about how it is going to work. That is going to affect the judgment about the change in financing of health. All I can say is that it would appear to lead to better outcomes than presently, in terms of the blame game.

Ms FORREST - On what basis do you say that?

Mr AIRD - Well, I think that the issue, in terms of the Commonwealth; they will have to step up and accept responsibility.

Ms FORREST - Well they are not funding 100 per cent; how can we avoid this cost-shifting?

Mr AIRD - There are other models that may lead to a total elimination of any blame; that is true.

Ms FORREST - Cost-shifting as much as blame.

Mr AIRD - Well, let us wait and see. In terms of the implementation, I would like to see what the outcome is of the discussions at the officials level. I understand your point, but in the end the State will be better off, otherwise we would not have signed up to it.

Ms FORREST - I noticed you were the first to sign up with great haste. The other states fought harder for more sweeteners -

Mr AIRD - No, we supported the principle.

Ms FORREST - Yes, signed up straight away.

Mr AIRD - We supported the principle. Do not worry; as you would expect, we are always fighting for the State to try to get the best possible deal for Tasmania.

Ms FORREST - Are you confident that the reward payments that have been included as part of the sweetener package to go to the states - other than Tasmania, because Tasmania signed

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before the sweeteners were really thrown on the table - are you confident they will actually end up coming Tasmania's way, bearing in mind that we are starting from a fairly low base in some of these areas with hard to achieve stated benchmarks? Have you forwarded these reward payments into the Budget?

Mr AIRD - All the aspects that were actually agreed at COAG have been put into the Budget.

Ms FORREST - Including the rewards?

Mr AIRD - Yes. We got our fair share of what was on the table at COAG.

Ms FORREST - I accept that, but a lot of these are tied to rewards achieving outcomes and benchmarks in ?DEMS (TBC) and elective surgery. In Tasmania we are starting from a pretty low base; we are one of the worst performers in the country. The LGH is particularly behind the eight ball. I know you are putting a bit of money into the LGH and I am sure it is most welcome. Are you confident that if you have already factored these rewards, sweetener payments, into the State Budget that we are actually going to be able to achieve them? If you are not, what impact is that going to have?

Mr AIRD - You are getting into health territory here.

Ms FORREST - It is your Budget.

Mr AIRD - Yes but I cannot go into every aspect of every agency. The health department will be managing the benchmarking process to achieve those outcomes at the level of efficient delivery, which is what I think you are referring to.

Ms FORREST - I will be asking the Minister for Health as well about how she is going to manage that.

Mr AIRD - Good. That is on notice.

CHAIR - Okay.

Mr HARRISS - Still on this Budget management strategy, the Treasurer in waiting but our current Chairman -

Laughter.

Mr AIRD - I reckon he would be the toecutter, wouldn't he?

Mr HARRISS - He would. His observations about the public sector and so on. Treasurer, the component of your budget management strategy which was to cut a number of positions; has that been shelved? Is that dead and buried because of our rebounding economic circumstances?

Mr AIRD - No. I have indicated earlier that agencies will still be required to achieve budget management strategies going into the future.

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Mr HARRISS - But nothing related to employee equivalents, if I could put it that way? I understand that departments are told there are constraints within which they need to work, but last year there was a specific strategy to cut a number of positions. Is there any similar component now being retained?

Mr AIRD - Agencies will be asked to achieve their budget management strategies agency by agency. If you are saying how are they going to be achieved; that is something that I will be talking to the agencies about in August when the budget committee meets, and it will be on an agency by agency basis. Some agencies, in Justice for instance, have some demand pressures. How best can we deal with those demand pressures knowing that they need to achieve some level of budget management savings? All I can say in terms of trying to achieve the budget management strategies is that it will be on a case by case basis with the agencies.

Mr HARRISS - Treasurer, I accept that last year you provided to this committee - and also through a prior process to the departments themselves - some flexibility where you might have identified as a benchmark or starting point, x number of separations. They did not have to come to that number. They had flexibility within their own processes to identify what their total savings would be. In essence you are saying, I think, nothing has changed, that that is still a process, a work in progress.

Mr AIRD - Yes.

Mr HARRISS - But nonetheless last year there was an expectation that some separations would be effected. That is a fair comment isn't it? You could not have made your budget savings without some separations?

Mr AIRD - Mr Ferrall made an explanation about how we were achieving the savings through the forward estimates.

Mr HARRISS - Yes, but you could not have made the savings, when we hit this crisis last year, without actual separations.

Mr AIRD - We changed the allocations going through the agencies for 2009-10 and the forward estimates. There were a range of strategies to deal with this. My attention has just been drawn to a report that was put out in November. The results at the end of the first quarter of the 2009-10 financial year, including staffing numbers have been reduced by 296 FTEs, which includes 127 voluntary redundancy packages; 41 middle management strategies and that was part of this strategy as well; 78 fixed term positions; and 21 SES positions. That was at 1 November with the expectation that a reduction of up to 35 positions will be achieved. A total of 374 employees have taken leave without pay; 1 090 employees have reduced their hours of work and 35 employees have taken up fixed term appointments on secondment; 57 officers have been reassigned from lower priority to higher priority areas; and the Government car fleet has been reduced by 93 vehicles.

CHAIR - That confirms what I indicated that you have provided some flexibility, but still the fundamental question is: am I right in assuming that a component of that could not have been achieved without direction separations?

Mr AIRD - Obviously there were some here.

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CHAIR - Yes - you could not have done it without it? That is why you gave the directive?

Mr AIRD - No we did not give a directive. We provided a suite of options from which the agencies could select.

CHAIR - Okay so as a direct savings component, separations is not part of the policy mix now?

Mr AIRD - I could not anticipate that occurring.

CHAIR - Okay. Given that the, as I recall it, the public sector wage component increase for the coming budget is seven per cent? Is that right? You are budgeting on about seven per cent growth?

Mr AIRD - The total expenses increase by seven per cent, as I recall.

CHAIR - Okay. That being the case - and in previous years the budget has been less than that and yet year on year on year that has been exceeded significantly. How can this committee, or others if they want to satisfy themselves and any one of us individually, say that the containment of expenses can be achieved given performance in the past?

Mr AIRD - We have always outperformed our budget.

CHAIR - Not with regard to containment of expenses - that is black and white.

Mr AIRD - We will do what we have always managed to do and we will achieve our budgeted outcome. This is a dynamic exercise as I indicated before. We will be going through this with all the agencies in August to find out where their pressure points are, where are the demand pressures, what adjustments can they make, and what are their strategies in terms of achieving their outcomes.

History will show, notwithstanding some scepticism in the past and this discussion seems to repeat itself every year, that we have made assumptions that cannot be fulfilled; are expectations too high; what is going to happen here; what is going to happen there. I am saying that I am confident we will meet our budgeted outcomes and that we will be able to have the necessary strategies to achieve them. The agencies are going to have to work within their allocations.

Mr WILKINSON - In relation to the previous question you answered, when you look at the employee expenses at 419 of the notes, they increased by \$131.9 million in 2010-11 which in employee increases alone amount to 7 per cent.

Mr AIRD - I will just get some clarification on that figure. I will come back to it if you like.

Mr WILKINSON - Yes. From the papers it said it was a 7 per cent increase.

[10.45 a.m.]

Mr AIRD - The issue here is the increased expenses are not in themselves a bad thing if you can afford them and if they are going to services that you need.

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Mr WILKINSON - One thing that always concerns me to some degree is that when you look at the budget papers, last year the forward Estimate expenses for 2010-11 were \$4.2667 billion -

Mr AIRD - What are you looking at?

Mr WILKINSON - Your forward Estimates, last year's budget paper compared to this year's budget paper and what I am saying to you, to summarise, if this year's budget paper had been able to contain expenses to the levels budgeted in the last year's Budget over the three years, then the Budget would be some \$1.142 billion better off. So when you look at last year's budget papers as opposed to this, in relation to your forward Estimates, if last year's papers had been the figures still applied to we would have been \$1.142 billion better off.

Mr AIRD - What are we here for? Are we here to be \$1.1 billion better off -

Mr WILKINSON - Billion.

Mr AIRD - Yes, I said billion but what about in terms of services to the community.

Mr WILKINSON - I understand that. But the only thing we can go by, and surely you can see that, is the papers in front of us and when you look at your forward Estimates - and I know it is an educated figure -

Mr AIRD - You can cut a whole range of services to achieve all the balances you want. I could have positive surplus balances all the way through.

Mr WILKINSON - What you are saying is if you look at the figures of last year and say that you accept those figures, and looked at the figures this year you can see there has been, for want of another word, a blow-out of \$1.142 billion.

Mr AIRD - No, there has not been a blow-out.

Mr WILKINSON - The figures are different to that amount.

Mr AIRD - The fact is we are in a position where we can afford these services to the community so we will provide them. From last year's Budget to this year's Budget we have improved our balances and we have provided extra services back to the community.

Mr WILKINSON - It says to me though that what we have is a problem with containing expenses. Would that be a fair concern that I have, and if not why not?

Mr AIRD - There is always an issue to look at your level of expenses and that is a legitimate exercise in managing the State's finances but if your income can support that, and I indicated before that our level of increase from our budgeted position last year to our budgeted position now, we received greater unanticipated revenue which is greater than our level of unanticipated increases in expenses. That is why we have a surplus balance and is that not what you do? You manage your costs against your income and that is what we are doing in trying to provide a level of service to the community. People want us to improve the size of our police force and our health system demands that we have more nurses. Our justice system demands more people to support our prison population. We have those situations and we just have to deal with it. We

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want to improve our level of services in the community within a well managed financial situation. I think we are getting the balance pretty right.

You can argue, as we all do, about the priority of the allocations and could you not put more here and more there but just for the deliberate exercise of saying that we can provide surpluses or all the way through, to achieve it we are denying the community extra services. I think it misses the point about why we are here.

Ms FORREST - You talk about savings that you have made but if you look at the policy and parameter statement, the policy decisions regarding revenue will cost \$152 million for 2009-10 and in the four years of the forward Estimates the policy decisions for expenses will cost \$864 million over the same five-year period, so the total cost of the bottom line as a result of policy decisions is therefore a bit over \$1 billion. Doesn't that suggest that, as Jim was saying, the expenses are the issue here? You make your choices, yes, about where you invest that funding but we have seen an election that has resulted in a whole heap of -

Mr AIRD - Obviously.

Ms FORREST - Obviously; that is why we are back here with you at that side of the table.

Mr WILKINSON - You do not sound too enthusiastic.

Laughter.

Ms FORREST - It has shown that spending over those forward Estimates is over \$1 billion but the revenues do not seem to be increasing at the same rate, according to the policy decisions that you are making. Have the Greens blow it out? Have their policy views blown it out?

Mr AIRD - There are all sorts of adjustments here. There are policy adjustments, there are parameter adjustments, but we will get back into surplus in 2012-13. It shows that it is affordable. If, in fact, we did not provide a pathway back to being in surplus then there would be some argument about that, but we do. Not only that, we do not go back into general government net debt. We are the only jurisdiction to get there by 2012-13. Go and look at the debt levels in other jurisdictions. They might have operating surpluses which are larger than ours but they are into big levels of debt. They are servicing debt in a big way. That is the way they want to deal with it. Well, we have restricted our levels of debt for good reason.

Dr GOODWIN - I want to go back to the concern that the TCCI has about the growth in the public sector being unsustainable because it is something that does concern me. There just seems to be this assumption that growth in the public sector is inevitable from year to year, that we just have to keep growing the size of the public sector.

Mr AIRD - Not per se.

Dr GOODWIN - You read out that statement about what happened in November last year in terms of the reductions in staffing numbers - 296 FTEs or whatever the figures were. I think that really challenges that assumption about growth being inevitable.

Mr AIRD - I challenge that assumption too.

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Dr GOODWIN - I am looking for some reassurance that this growth is going to be critically assessed and there will not be unrestrained growth in the public service. Hasn't the Budget management strategy been a good thing because it demonstrated that perhaps there are areas where we were not being as efficient as we could be? Wouldn't it be a good thing for that process to continue to make sure that we are getting the most efficient and effective services out of our public sector?

Mr AIRD - Yes. There are a couple of issues there. One is that we do not work on the assumption that growth of the State sector is inevitable. However, I work from a position that we have to respond to community demand and that we have to try to meet that. The other point is that I think the Budget management strategies exercise was important and we are continuing it, so when we meet with the agencies in August we will be going through that process with some rigour. There is always an element of tension about this, of course, and so there should be. What I will be seeking to do is to have agencies work their way through how they are going to manage within their allocations. I am sure there will be some robust discussion about how they are going to achieve it, but I do agree with you. It does not make you the most popular person around but it is absolutely essential. You can have all the speculation and anticipation about cost increases. We deliberately have a fiscal strategy in place that is transparent. We are working to that and this Budget delivers on that. We will continue to show rigour. In all the budgets that I have been involved in we have always understated and over-achieved. That is the way I want to keep on going. I am confident that we will be able to do it.

The expenditure review committee met 12 times. There was a budget management strategy progress report released on 11 November. That is what I referred to when presenting that information before.

The committee suspended from 10.56 p.m. to 11.13 a.m.

Ms FORREST - I have a couple of questions under 1.1. These are things that I raised in my reply to the Budget that the Treasurer said he would have answers to. There was a statement made in the budget papers that the ratio of net financial liabilities to revenue in the public non-financial sector should be less than 110 per cent and it is only that because of the inclusion of the water and sewerage figures; that was an ABS decision. Can you provide a figure of what the ratio would be without water and sewerage?

Mr AIRD - Yes, we can. Do you want me to table this?

Ms FORREST - You can.

Mr AIRD - Basically there is very little difference. In 2009-10 estimated outcome - and this is at table 3.2 of budget paper 1 - the figure you have in front of you is 95.9 per cent; excluding water and sewerage it is 96.4.

Ms FORREST - 95.9?

[11.15 a.m.]

Mr AIRD - Are you with me? That is for the 2009-10 estimated outcome.

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Ms FORREST - Mine says 96.

Mr AIRD - It would have been rounded to 96.

Ms FORREST - Right, okay.

Mr AIRD - The 2010-11 budget is 106.5; you have that figure in front of you?

Ms FORREST - Yes.

Mr AIRD - Excluding water and sewerage it would be 106.7. The 2011-12 forward estimate is 108.9; excluding water and sewerage it would be 109.

Ms FORREST - It has made no difference at all then.

Mr AIRD - No, not much. The 2012-13 forward estimate is 106.7; adjusted for water and sewerage, 106.4. The 2013-14 forward estimate is 105.1; excluding water and sewerage it is 104.5.

Ms FORREST - How do you make that claim then that this is what made the difference?

Mr AIRD - I do not know if I did say that. I thought you said that.

Ms FORREST - The budget papers alluded to that fact that because water and sewerage had to be considered, that is what allowed the ratio to be as expected. I cannot find it now, I will have to go back and look at that one.

Mr AIRD - Show it to us later on.

Ms FORREST - Overall, water and sewerage made very minimal difference.

Mr AIRD - Yes. But it is still bemusing

Ms FORREST - You still disagree with the ABS?

Mr AIRD - Yes, we do. And we will continue to discredit them strongly. Mr Challen has taken it to the highest levels of the ABS.

Mr CHALLEN - We have worked pretty hard on this thorough all the officer level contacts. I have taken it right to the Australian Statistician with face-to-face meetings and in writing, but they refuse to budge. We think that it is a bizarre outcome; a set of corporations that are owned by local government being included in our PFC sector as if they were a government business. It is not a good outcome in terms of the transparency of our numbers and the ease with which people can interpret them, and you can see from the budget papers in lots of places we have had to say: here are the numbers but here is what they would have looked without the water and sewerage.

Ms FORREST - Is the ABS disputing the ownership of them? They must have made the decision based on some rationale.

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Mr CHALLEN - They have a set of criteria that revolved around the concept of control, and their view is that this applies because these entities are formed under a piece of legislation of the State Parliament and because the Treasurer has a few little roles along the way, for instance having the opportunity to comment on corporate plans. They have interpreted priority dividends in the early years as a level of influence over these corporations that is equivalent to a Transend, a Hydro or a Forestry Tasmania. We violently disagree with that. We have put a lot of effort both in writing and in face-to-face meetings to try and have them see the light, but their boffins have come to a particular view and will not budge.

Ms FORREST - So over time then, as the Treasurer has less influence, you will put the argument then?

Mr AIRD - There will be an argument that can be put.

Mr CHALLEN - We will keep plugging away every chance that we get. We can be very tedious about things like that.

Ms FORREST - So can other people at the table, as you probably realise.

Mr AIRD - Yes.

Ms FORREST - The total State sector net borrowings - as per the state sector cash flow statement - are estimated to be \$383 million for 2009-10, \$868 million for 2010-11 and \$200 million for 2011-12. Can you provide a summary of which entities borrowed what in 2009-10 and who plans to borrow in the other two forward years and for what purposes?

Mr CHALLEN - If you break down those figures Ms Forrest was reading from, would you like me to explain this in terms of the 2010-11 budget? Is that the most convenient way to do it?

Ms FORREST - I am interested in who borrowed in the last year but particularly who is borrowing in the year ahead.

Mr CHALLEN - In the general government sector the main impact is borrowings by the Department of Economic Development. They are borrowing about \$23 million this year to finance loans of various sorts under their loan portfolio, including the special program, the name of which just defeats me.

Mr AIRD - TISS.

Mr CHALLEN - TISS, yes.

Mr AIRD - It was \$100 million - Tasmanian Industry Support Scheme.

Ms FORREST - You did not know and you are the Minister for Industry.

Mr AIRD - No I am not. Well I am minister but I am not in charge of the Economic Development Act.

Mr CHALLEN - That would be a matter for the Minister for Economic Development.

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Mr AIRD - I do not administer that.

Mr CHALLEN - Not the Minister for Industry.

Ms FORREST - Right.

Mr CHALLEN - That is partly offset by some repayment of Commonwealth state housing agreement loans. In the PFC sector the major components are Aurora inquiring about \$79 million; Transend about \$30 million; Hydro Tasmania about \$16 million; and there is the one-off impact of the water and sewerage corporations coming in, which is worth about \$131 million so that is their existing debt coming into the P&FC sector.

Ms FORREST - The Tas Racing borrowings, are they not mentioned there?

Mr CHALLEN - No because they have not taken any up yet.

Mr AIRD - They have not drawn.

Ms FORREST - Haven't they?

Mr AIRD - Not that I know of.

Mr CHALLEN - These are just the significant components. That was the 2009-10 story. I do not have the 2010-11 breakdown because we were trying to answer a question you asked in parliament which apparently focused on 2009-10, 2010-11 and 2011-12, but for 2011-12 the main components are the Tasmanian Irrigation Development Board is borrowing about \$77 million; Aurora about \$72 million; Transend \$51 million; and the water and sewerage entities about \$35 million.

Ms FORREST - What is Aurora borrowing for?

Mr CHALLEN - It would in the main be for their distribution business so poles and wires, new electricity connections for mums and dads, businesses and so on. That is the vast majority of their borrowings.

Ms FORREST - Are you able to perhaps provide 2010-11 on notice then?

Mr CHALLEN - We can provide that later in the day. I just do not have the detail with me right now. For those 2011-12, and incidentally there is an offset of about \$36 million because Hydro Tasmania is repaying debt in 2011-12.

Ms FORREST - Can you provide the purpose as well for those, particularly the 2010-11 ones?

Mr CHALLEN - I can in general. The Irrigation Development Board is obviously borrowing to fund new irrigation schemes. Virtually all of Aurora's borrowings are for the distribution network so mostly new customer connections - new businesses coming on, substation strengthening that is needed where there is growth - new subdivisions for mums and dads. Transend is network strengthening so they have a couple of major projects on at the moment, the biggest of which will be Lindisfarne to -

Ms FORREST - Waddamana to Lindisfarne.

Mr CHALLEN - Waddamana strengthening is quite a large project. The water and sewerage entities are obviously projects to strengthen infrastructure.

Ms FORREST - I just need the 2010-11 and I will be happy with that.

Mr CHALLEN - We will get you the 2010-11.

Mr WILKINSON - What is the biggest risk in the Budget for credit rating?

Mr AIRD - The biggest risk would be if they thought we had an unrealistic fiscal strategy and we could not achieve the outcomes in terms of not being able to manage. It goes back to wage indexation and we could have gone with the old wage indexation and the credit rating agencies could have said that is not realistic. That is why we went with the 3 per cent because it is realistic. If they thought we could not fulfil what we put forward in the Budget that would be the biggest overall risk.

Mr WILKINSON - Is there any possible circumstance where Tasmania could receive a credit rating downgrade as, you mentioned earlier, has occurred in other jurisdictions?

Mr AIRD - The last government to get a credit rating downgrade was Queensland and the circumstances surrounding that were exceptional in some ways. I do not think the credit rating agencies had much warning about what the Queensland Government was going to do and, as I understand it now, Queensland is busily repairing that situation so they can get a rating upgrade. Standard and Poor's have spoken already in terms of maintaining the credit rating and my expectation would be, given the comments so far from Moody's and we will making our presentation to them later on this year to indicate how we are travelling against the Budget, that we will be able to maintain a AAA credit rating.

Mr WILKINSON - If I take that into account, is a Treasury submission to credit rating agencies publicly available?

Mr AIRD - They have not been and I do not think it would be good public policy to put them into the public domain.

CHAIR - How many agencies do you actually send submissions to?

Mr AIRD - Two - Moody's and Standards and Poor's.

CHAIR - A question on PPPs, is there any more thought on using PPPs at all?

Mr AIRD - I have not been approached. PPPs would be considered on very large projects and where there could be a legitimate sharing of risk between the private and public sector. Other jurisdictions have been more attracted to them, mainly because of the scale of projects. The interesting thing about PPPs, which is usually about sharing of risk, is where there has been some failure of the project the public really has had to make some adjustments to deal with the risk that they were trying to share because if you have infrastructure in place, which is absolutely essential for transport or whatever, the Government of the day cannot afford to have those projects fall over

and not operate. What is supposed to be a sharing of risk actually becomes a public risk and so we have not been approached with any and I cannot envisage that occurring. At the moment we are able to manage our capital projects pretty well within our Budget and that is the way I would like to keep it.

CHAIR - You are confident that there are no economic storm clouds which could affect our GST payments. For example, in Europe at the moment Spain is coming under pressure. They have very low government debt but they have such a huge private debt, as has Australia, and they are tipping that house prices and everything else are going to diminish. If that happened in Europe, given Australia's high level of private debt, could it happen here? Do you think that is a possibility and therefore affect our budget eventually? That is what I am saying; it is not going to happen overnight.

[11.30 a.m.]

Mr AIRD - I have not had any formal advice and I will ask Mr Challen to make a comment in a minute. The G20 is talking about the sovereign debt issues which in Greece; there is an interesting argument going on about the level of debt; some are saying, will it reduce debt? The UK has taken very strong fiscal measures to deal with their problem, including increasing their taxes.

CHAIR - Yes, they are going to put their VAT up.

Mr AIRD - Yes, to 20 per cent. They are making adjustments. Some are arguing that you continue economic measures through fiscal strategy to keep stimulating the economy, and some are arguing for a reduction in debt and therefore an inevitable reduction in services. You can keep an eye on these things but who was to know the sub-prime crisis in the US would have a knock-on effect to China and then to us? You just do not know the consequences of these things and even economists are in dispute. There is a legitimate argument about what is going to happen here.

CHAIR - That is not unusual.

Mr AIRD - No, it is not unusual. So there is a range of opinions about what could happen. We have shown that we adapted during the GFC and that we put in strategies to deal with it. We have come through remarkably well. It is quite interesting that the commentary about this Budget, in some ways, has been no commentary at all. People have just accepted it as a document which has done the things that people wanted it to do and that we have managed to get through the GFC in pretty good condition.

Mr CHALLEN - I do not think there is a lot more I can add. You can conceive scenarios in which the Australian economy would grow at a much lower rate than the Commonwealth Treasury is currently predicting, and that, of course, will lead to lower GST receipts. The consensus of informed commentator opinion is that it is pretty unlikely that the recovery that is emerging in the US and the strength of China would simultaneously be affected by contagion from a European collapse of some sort, which I think is unlikely anyway. I think the Australian economy is probably more robust than any of us thought a year ago, and robust enough that we are not going to see a serious hit where GST would cease. It is always possible to conceive scenarios where horrible things happen and the global financial crisis was one of them. Nobody anticipated the strength of that scenario. As the Treasurer says, our Budget is in pretty good shape; we have shown that we can weather big events like the global financial crisis and we have come through that pretty well.

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Mr AIRD - We were one of the first jurisdictions to respond. I think it was September 2008 that we had our first meeting to make some adjustments. We were one of the first, and if we think that there is anything going awry we will be taking very prompt action.

Mr WILKINSON - Does the Government have a population policy in answer to the demographic change advisory council's -

Mr AIRD - We have a sustainable population policy.

Mr WILKINSON - Does it have a target?

Mr AIRD - No; the Prime Minister has just announced a sustainable population policy.

Ms FORREST - Changed the name.

Mr AIRD - And I think it makes sense to have a sustainable population advisor.

Mr WILKINSON - Does the Government have a target population for points in the future and what policy mechanisms are in place to achieve this?

Mr AIRD - If you go back to the first Bacon Government, our attitude has been to grow the economy and the population will follow. It has proved to be a prudent population policy. We create opportunities for economic growth and jobs. We have some natural advantages here that people are starting to identify with. If you are living in Melbourne or Sydney and you are not satisfied with the lifestyle there and you can work in Tasmania then that is going to be our biggest advantage in the future. The absolute requirement is to maintain growth in the economy and create jobs, and then people will follow. It is not about having targets.

Mr WILKINSON - So there are no real targets?

Mr AIRD - There are no particular targets. The population now is at 505 000 people. There are some good growth figures here in terms of population. The actual growth was 1.1 per cent in 2008-09 and about 1 per cent this year. We are getting growth.

Ms FORREST - You will probably see a drop in the birth rate this coming year, because of the impact of the global financial crisis. There is always a lag.

Ms FORREST - The fertility rate is okay but people make decisions about their fertility.

Mr AIRD - We cannot have much control over fertility rates.

Mr WILKINSON - The council has produced a number of reports. Has the government given any response to those reports?

Mr AIRD - There is a lot of information there. In terms of education participation rates, some of the information has been captured and some of the agencies have been using it. I notice the private sector has also used that information. When they are thinking about investing they have gone to the website and taken information from there. Tasmania Together has picked up

some of the information too. Agencies would have taken some notice of it but we have not developed a whole of government response.

Dr GOODWIN - How important is tourism to Tasmania's economy?

Mr AIRD - I think it is very important.

Dr GOODWIN - Can you elaborate on that?

Mr AIRD - It is a bit out of my portfolio area but I am happy to elaborate. The tourism sector is an important part of our economy. It is dependent upon some externalities. We have outperformed other jurisdictions remarkably well. The discount airlines have had a major effect on our tourism. Our marketing has been in a position to sell our state and our profile; some of the advertising has been really spot-on and it has been into niche markets. Promoting individual businesses such as Agrarian Kitchen in the well-known food magazines is an example. People are coming for our food and our beverages and that is the next big area of promotion for Tasmania. The more we promote food and beverages, the better we are going to be, because that is a niche market. I see that being linked in with our cultural development, with MONA opening in January. There are some other developments in the private sector, which are going to build the future development of TMAG. There are things happening which are going to pick up niche markets we otherwise have not had. I have gone far too far into an area which -

CHAIR - We have the minister on Wednesday.

Dr GOODWIN - I just wanted to make sure the Treasurer recognised the importance of tourism to the Tasmanian economy.

Mr AIRD - The reason the honourable member asked the question is that some people think that I do not believe that the tourism sector is important, but I do. From my perspective, the Government provides a great deal of assistance to the tourism sector. As Treasurer, I would like to see some leverage within the tourism sector. I have spoken to Simon Currant about this, and I am keen to meet with him again. To use the government allocation to encourage partnership with others, so we leverage greater support from the tourism sector itself. We can increase the level of involvement - you have the Commonwealth Government and the State Government and the private tourism sector, and the three should be working together to build capacity. I know the point you are making - it is not a secret that the private tourism sector think I am not fulsome in my support. I am fulsome in my support - the question is the level of government assistance, and how we can improve it. There has not been a reduction, and we have fulfilled all our commitment.

Mr WILKINSON - Is there any consideration by the Government of the change in the education plan? I am asking because there are a number of teachers in the Polytechnic who do not have not proper qualifications. My understanding is that the Government has said they will pay 25 per cent of the HECS for those people to go back to university and get their teaching qualification. If that is the case, there should be some recognition of it in the government papers, and I do not think there is.

CHAIR - That has put you on the spot.

Mr AIRD - I am not going to go into every portfolio area.

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Mr WILKINSON - No, but it is something the Budget would have had to look at in relation to -

Mr AIRD - I think you can address that question to the Minister for Education.

Mr WILKINSON - You are not aware of any section within the budget papers that allows for this new situation?

Mr AIRD - It would be about policy within the education portfolio, and I am not involved in the day-to-day management of that portfolio. If there is a particular issue relating to a particular portfolio, you can take it up with the minister.

CHAIR - We might send the question across to the committee.

Mr WILKINSON - Yes, we can. In relation to traffic fines, the 427 policy and parameter statement shows that new road safety policies would yield an incredible \$26.5 million between 2009-10 and 2013-14. This is quite an increase -

Mr AIRD - People break the law. It has kept you in business for a long period of time.

Mr WILKINSON - From time to time. That is quite a spike in revenues - are you aware of any new initiatives that are going to create that sum?

Mr AIRD - Again, you would have to ask the relevant minister. I was quite intrigued by the *Mercury* headline saying that the Budget was being propped up by speeding fines. The fact is, if people do not break the law they do not get fined. It is as simple as that.

Mr WILKINSON - But, you are saying that there are going to be people breaking the law to the extent of \$26.5 million extra.

Mr AIRD - In terms of compliance - if people think they are going to get booked for speeding, that is the best way of ensuring compliance with the law. People should be aware that if you do not break the law then you do not get fined. If people think they are going to get booked, hopefully it might save some lives somewhere, somehow.

[11.45 a.m.]

Mr WILKINSON - That is the important thing, is it not, the saving of lives? Funding for road safety policy initiatives in that same time has increased by \$5.1million, and fines are expected to increase by \$26.5 million. If that is the case, I would argue that some of that money should be transferred across to the road safety initiatives.

Mr AIRD - We do that in any event. In terms of the levy, for instance - it is transferred across directly.

Ms FORREST - The levy is not the fines, though. The fines are separate to the levy.

Mr AIRD - I think Mr Wilkinson was going into another area, beyond fines. That is an argument that you should take up with the minister. There is some level of hypothecation with regard to some revenues that we receive going directly to road safety measures.

1.3 Shareholder advice on government businesses -

Dr GOODWIN - How many people, or FTEs, are employed in this particular branch?

Mr AIRD - In 2010-11 there are 16.74 FTEs.

Dr GOODWIN - Who do they report to?

Mr AIRD - Ultimately, to the secretary.

Mr CHALLEN - They have a branch head, who reports to Mr Ferrall, who in turn reports to me and I report to the Treasurer. The Treasurer reports to the Parliament.

Dr GOODWIN - What government businesses are you a shareholder in, Treasurer?

Mr AIRD - All of them, except TOTE. I play two roles - I am the shareholder minister for all businesses except TOTE, and I am the stakeholder minister for TOTE.

Dr GOODWIN - How often do you receive reports about the government businesses?

Mr AIRD - There are quarterly written reports.

Dr GOODWIN - What sort of information do the reports usually contain?

Mr AIRD - Generally, they address variations between one report and the next.

Dr GOODWIN - Do they have things like profit and loss figures, the debt situation, achievement of financial targets, et cetera?

Mr AIRD - They can relate to some of that, yes.

Dr GOODWIN - What action is normally taken if the government business indicates that it will not meet its targets or objectives?

Mr AIRD - If some action were to be taken in relation to any particular business, it would not necessarily relate to the quarterly reports. There would probably be a separate minute or advice relating to a specific enterprise.

Dr GOODWIN - Did you ask the government businesses to adopt similar budget management strategies to the state government departments?

Mr AIRD - I wrote to them indicating that this was government policy, and I would like them to take note of that policy but I did not instruct them. I did affect the board remuneration - put a freeze on that - but that was the only area within my jurisdiction that allowed me to do that.

Dr GOODWIN - Do you know if any of them took up the suggestion?

Mr AIRD - I do know that some organisations have made some cost savings across their operations.

CHAIR - In regard to the budget papers, talking about the transition from existing GBEs to State-owned companies, can you provide any further detail of what is happening now and what will be the practical difference between them, in respect of a GBE and a State-owned company?

Mr AIRD - If it was a new State-owned company then it should be that; not a GBE. I have received advice from Treasury relating to this. The conversion of GBEs to State-owned companies will ensure a consistent and contemporary corporate Government framework for all Government businesses. The transition will provide a commercially-orientated structure for existing GBEs that is consistent with private sector practices. The process will involve the preparation of new State-owned companies legislation to replace the Government Business Enterprises Act in the stage of transition from GBEs to State-owned companies. We will be consulting with the GBEs in the development of the legislation and the implementation of stages.

CHAIR - I ask why would you consider doing it?

Mr AIRD - The main advantages of State-owned companies are that it will be simpler for stakeholders to understand because all business will operate in accordance with the same legislation as their private sector counterparts and in a national framework that is understood by the business sector, that is, corporate law. The Corporations Act is continuously updated to ensure a best practice, up-to-date governance framework. The role or responsibility of the board of directors of companies is well known and all business will be independently regulated by the Australian Securities Investment Commission, ASIC.

CHAIR - And Parliament will still be able to scrutinise it -

Mr AIRD - Oh, yes, absolutely. None of that will change.

CHAIR - At a similar timing to the current GBEs?

Mr AIRD - It will be exactly the same except we will probably call it SOCs.

Ms FORREST - SOCs committees.

Mr AIRD - SOCs committees.

CHAIR - When would you expect a transition for all GBEs?

Mr AIRD - It is going to take a while.

CHAIR - Do you have any sort of time frame?

Mr AIRD - I expect it will be developed probably over years. I would say the legislation will take a while to develop. We have given a very clear intention here and we will have to develop the legislative framework. That always takes time. It always take longer than you would expect.

CHAIR - Will that be next year before we see legislation or maybe towards the end of this year?

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Mr AIRD - I have just been informed by Mr Challen that the project plan being developed with Treasury suggests that the legislative changes will be towards the end of the financial year.

CHAIR - Which ones might be the first cab of the rank?

Mr CHALLEN - The plan is to create an umbrella piece of legislation that would replace the GBE act, so it would be something like the State-owned corporations act. That would cover all entities so things like the corporate planning process, the reporting of Parliament, tax equivalence guarantees, fees, dividends and so on. Then there would be a series of consequential amendments to the existing portfolios. For instance, Aurora and Transend are created through a thing called the Electricity Companies Act. There is a special piece of legislation that allows Metro to come into existence; there is a special piece of legislation that brought the railway company into existence. Those portfolios at the moment all point to the GBE act, so that the big piece of work here is to actually create the new State-owned corporations umbrella act. That is a period of quite a few months work to develop that and go through a fairly detailed process of consultation in particular with the existing GBEs to make sure we get the mechanics right.

Mr AIRD - They will all be state-owned companies but there are different types of companies. Under the GBE act you have got Port Arthur Site Authority, you have got Metro, with a community service obligation factor, but the principles of operating them should be under corporations law so that the duties and undertakings of those running these organisations should be part of that law, but it has to be acknowledged that you have different types of organisations.

Some are producing profits and there is a distribution of profits. There are others that do not make profits and will never be profitable so there is always going to be a contribution from government to make them viable and that has to be factored in. That is why the legislation is going to have to be quite robust and there has to be a level of discussion with the various entities depending on how they sit in the spectrum of their commercial operations.

CHAIR - Just as a matter of interest what is a mix of GBEs and SOCs in other jurisdictions? Is it like we have had in other states?

Mr AIRD - I am not sure.

CHAIR - But you would have looked at models in other states of SOCs.

Mr CHALLEN - For State-owned corporations the model has become the standard nationally. We have not created a new GBE in a very long time so all of the new entities that have been created recently - Tas Racing, Tasmanian Railways, TasPorts, even TT-Line, have all been created as State-owned companies. There is enough variety of activity between our own State-owned companies for us to be pretty confident that the Corporations Law model will work fine, but entity by entity there are a few issues we have got to work our way through just to make sure we get it right.

Ms FORREST - Item 1.3 has the purpose of monitoring and provision of advice and performance of and governance arrangements for government businesses. If monthly meetings are held with government businesses and State-owned companies how could it be that a State-owned company could find itself with significant financial challenges to the point that significant equity may be required, and intervention by the Treasury and regulation, without coming to the attention of the Treasurer prior to this?

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Mr AIRD - I have explained this before. You are referring to Aurora of course?

Ms FORREST - In this particular case, but there have been other times when other entities have got into trouble.

Mr AIRD - Let us just deal with Aurora. We understood their general financial situation but it was not until April that we were made aware of the different set of circumstances. Do not forget the corporate plan was not signed off by the directors until, I think, 25 March. It was the corporate plan and when we came back into Government I met with the senior executives of Aurora on 21 April and they highlighted the seriousness of the situation beyond what I had been aware of prior to that occasion.

[12.00 p.m.]

Ms FORREST - In the monthly meetings between June 2009 and even back to April when there were the FCAS issues and then high pricing that Hydro was imposing on them in June, so the monthly meetings between April to June and then through to February - before Parliament was prorogued and you were still in charge - how many of those meetings did you attend? For those that you did not did you get feedback from the Energy minister if he attended at that time?

Mr AIRD - I do not have the list of which meetings I attended and which I did not. In the last budget, the expectations of Aurora's financial performance were indicated in the Budget. It was indicated in the mid-year report and at all times I have accepted advice from Treasury about the level of performance. There was no time that I was aware - and Mr Challen can speak for himself - when preparing the pre-election financial outcome statement and there was no adjustment made to Aurora's position even then. That was in February. There has been no indication.

Ms FORREST - How could it happen then? How could we get to this point and doesn't this not worry you about other government businesses? Forestry Tasmania is one that continues to have a lot of challenges, and Aurora clearly now. When you have monthly meetings that, as I understand them, are designed to address these issues, the financials and the challenges, there were clearly two markers - one in April last year and one in June last year - that clearly show financial strain and impact on Aurora. We are led to believe that Aurora provided information to PricewaterhouseCoopers; would they not provide that same information to you? How do we avoid a similar situation?

Mr WILKINSON - Some could argue that it is too late -

Ms FORREST - Yes.

Mr WILKINSON - and to me there has to be some circuit breaker.

Mr AIRD - You work on the best information you have in front of you.

Mr WILKINSON - I understand that, and how often does that information come?

Mr AIRD - There is always a discussion going on between Treasury and these companies. That goes on all the time. Treasury receive information from these organisations and they work on that information to make those adjustments. This whole issue is a bit of kite-flying in some

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ways because it is not as though we sit in splendid isolation here and not trying to understand how these organisations work. We apply rigour and that rigour is about the information you receive from these companies and put it into context. The indicators are there about their level of performance. If we had had a level of information to describe the situation faced in April then obviously we would have made different calls. I am sure Mr Challen can speak for himself because in his statutory position, had there been any information given to him, he could have made the adjustment then.

Mr WILKINSON - It must have been quite a nasty shock when you had that information in April which seemed to come out of the blue as a result of previous information you had been receiving. It seems to me that is what you are saying.

Mr AIRD - You could say that I was surprised to get that level of advice, yes.

Mr WILKINSON - As a result, has anything been put in train to ensure something like that does not happen again, because it does not just happen overnight, does it?

Mr AIRD - There are a couple of things to this. One, there are some things I think we can do and I will be discussing them with Treasury once we get through this process. We can only work on the information we are given. There is an obligation on these organisations, when they realise that they are in a position, to report that position.

Mr WILKINSON - Did they report?

Mr AIRD - Yes, well of course they did.

Mr WILKINSON - Did they report in time?

Mr AIRD - They have reported according to their fiduciary duty and they have reported in a manner which is appropriate.

Mr WILKINSON - But they have reported too late, haven't they?

Mr AIRD - In what sense have they reported too late?

Mr WILKINSON - Because you were making statements last year in relation to Aurora. You made statements in February in relation to Aurora, that you were capping prices at 5 per cent, which I doubt very much you would have agree to.

Mr AIRD - I did agree to that.

Mr WILKINSON - You would have argued against it, though, wouldn't you?

Mr AIRD - No, I agreed with it.

Mr WILKINSON - Well, that being the case, how could you have with the history of Aurora that you knew up until February?

Mr AIRD - If you go through the level of returns that you are expected to get out of Aurora at that particular time, the 5 per cent cap was to deal with a cost-of-living exercise and there was

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uncertainty within the CPRS and other factors so it seemed like a prudent thing to do at the time. It was a \$20 million position; that was going to be the cost of the 5 per cent cap for one year.

Mr HARRISS - How was that calculated?

Mr AIRD - Treasury provided advice to say this was the effect of putting in that provision. We accepted the Treasury advice that this is what will happen if you put in a 5 per cent cap; it will cost you \$20 million. This was on the expectation that Aurora were going to provide us with returns. Well, when we got to April they obviously were not going to provide returns and the Budget indicates they are not going to provide any returns. The potential cost was around \$27 million. Therefore obviously we had to abandon that policy position. We had an expectation they were going to provide a return.

Mr WILKINSON - You had that in February?

Mr AIRD - Yes.

Mr WILKINSON - And then in April you found that was not going to be the case.

Mr AIRD - That is right.

Mr WILKINSON - What happened in that two-month period?

Mr AIRD - We had been working with Aurora to deal with those issues which they had identified. Don't forget, the Tamar Valley Power Station only started operating in October. We were working with Aurora and all the public documents show that they were working with the shareholders to try to resolve some of their issues. If you go through any of the stuff that has been got under FOI you will see that we were actively engaged in working with Aurora to achieve some result for them. Every single step of the way we reacted to the advice that we were provided from Aurora to Treasury and from Treasury to Government. Can you make this policy decision? Is this the level of advice? Is this the cost, because when we made the announcement about the 5 per cent cap we said it was going to be \$20 million.

Mr WILKINSON - Did Aurora come back to you and say, 'Hey look, you cannot do this. We have a spot of bother here'?

Mr AIRD - No.

Mr WILKINSON - At no time did they say that to you?

Mr AIRD - If there had been any indication to that, then Mr Challen could have made an adjustment back into the paper.

Mr WILKINSON - So when you made that announcement of 5 per cent capping -

Mr AIRD - It was affordable.

Mr WILKINSON - You believed it was affordable?

Mr AIRD - Absolutely.

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Mr WILKINSON - And there had been no information to you from Aurora to say that it was not affordable?

Mr AIRD - No.

Mr WILKINSON - When did you last speak with Aurora, prior to February?

Mr AIRD - About what?

Mr WILKINSON - Well you would have said to them, 'Look, are you able to afford this 5 per cent capping?'. That would be the obvious thing to do.

Mr AIRD - We had a cabinet decision on the 5 per cent cap and that was based on the advice from Treasury.

Mr WILKINSON - What I am saying is did you -

Mr AIRD - And it was affordable.

Mr WILKINSON - Did you speak to Aurora before then, or can I ask when Treasury spoke with Aurora prior to you making that 5 per cent -

Mr AIRD - I do not know the day-to-day discussions between Treasury and Aurora. In terms of public policy, I can assure this committee that the decision was made on the best advice possible from Aurora to Treasury and Treasury to Government. The director signed off on their corporate plan in March. We were then presented - when we came back into government - with a corporate plan, and in that corporate plan there was a situation that had to be dealt with and we took action to deal with it.

Mr WILKINSON - I have got no problem with what you are saying. You make a call on the best advice you have, no argument with that. The question is when did you get that advice and if it was three or four months earlier. That is why I am wondering, firstly, how often the advice came to you prior to you making the call and secondly, did you make that call after contacting Aurora and saying, 'Look this is what we are going to do; are you able to cope with that?' To me that would be the way you would do business.

Mr AIRD - You make your judgment on the level of estimated returns. We had three indications of Aurora's position in terms of returns to Government.

Mr WILKINSON - When was the last one?

Mr AIRD - The last one would have been the PEFO issued by Mr Challen.

Mr WILKINSON - Which was when?

Mr CHALLEN - It was not issued by Mr Challen.

Mr AIRD - You did not issue one?

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Mr CHALLEN - No, I did not issue one, because I looked systematically at the numbers at the time as the Charter of Budget Responsibility Act required me to do, and made a judgment that there had not been any material changes since the mid-year report, which the Treasurer issued 10 days or so before the March election was called. I had seven days to make that judgment and then to issue a public notice to that effect. What that tells you is that the information available to me as at mid-February was no different - in terms of Aurora's potential returns to government - than it had been when the Treasurer signed off on the mid-year report a fortnight earlier.

Mr WILKINSON - When was that information provided to you, for you to make that assessment?

Mr CHALLEN - It was being provided continuously through ongoing liaison between our officers and Aurora's officers. There was nothing in the information available to us that suggested that we needed to modify the expected returns from Aurora that were shown in the forward estimates. If you look at budget time last year and at the mid-year report the numbers are very similar, and because of that, I did not conclude I needed to do a PEFO at PEFO time as well. It is on the public record. There is a very different set of returns from Aurora shown in the budget papers that are before you now, which tells you that between the day I made my judgment on the PEFO and some day subsequently, which we now know to be the day when we received Aurora's 2010-11 corporate plan, there was a very significant change in those judgments.

Mr WILKINSON - I accept what you say. There would appear to me, prima facie without being able to speak with Aurora, that Aurora was not supplying you with the proper information prior to you being able to -

Mr CHALLEN - No I do not think you can draw that conclusion. I think what this tells you is that there is a gradual emergence of a view about what the future looks like. The corporate planning process of government businesses is designed to do exactly that, once a year, to systematically bring together the best view there is about what the future looks like.

[12.15 a.m.]

I think the Aurora senior management and board did exactly what they are expected to do. They showed to their shareholders, through their corporate plan, their best view of the world going forward. It just happens to be quite a different view than the one they showed us a year earlier and that had been updated through the continuance interaction between Treasury officers and Aurora in the intervening period.

CHAIR - And there was a PricewaterhouseCoopers report, too, just to butt in there.

Mr CHALLEN - The PricewaterhouseCoopers report has nothing to do with this whatever, with respect.

Ms FORREST - Just on that point, do you then agree or disagree that the reporting process in place now are adequate, and are they in line with what a private company reporting would be required to their stakeholders?

Mr AIRD - There was a briefing note, which is on public record, to the incoming Treasurer and Minister for Energy. It says, 'Prior to calling the election, no long-term resolution had been reached, that is in terms of the problem facing Aurora'. It also says, 'Further concerns have been raised as a consequence of the preparation of Aurora's 2010-15 corporate plan'. It also says,

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'However, not all the information is available at this stage to enable clear solutions for Aurora's financial issues to be identified'. That is the incoming briefing note. If you take all this discussion in context, the Government made a decision to apply a 5 per cent cap, and following getting this information in April had to reverse that decision. If you wash that out of the decision-making and information-sharing process, the information would have been put into the budget process as it has. Do you see my point?

Ms FORREST - Yes. I wanted to drill down to that point.

Mr AIRD - The normal processes of working through a resolution of the matters was in hand, with Aurora. In the end Aurora prepared and presented their corporate plan, and when you saw the corporate plan you would make adjustments as we have. That is the issue.

Ms FORREST I would like to take a slightly different direction. We know that the election took out a couple of months and we have established the problem did not arise over those two months; it had been going on for quite some time. The election was incidental to that. It became more of an issue because of the price cap that was promised and subsequently removed. In spite of that - whether an election had been in the mix or not - we still have a government business that goes from seemingly okay and not causing any problem to almost a disaster, a basket case, in April; in a period of time when there were no warnings, at least prior to the February meeting. How could this happen? Where were the reporting responsibilities? Do we have to wait for a five-yearly corporate plan to give an indication? How can you, as Treasurer, assure us that in July or August this year we are not going to be facing another government business coming to grief?

Mr AIRD - You have to be very clear here. You work with these companies in trying to get a resolution to the issues in front of you. As the briefing note to the incoming Government indicates, there had been no long-term resolution to the issues, even at the stage of coming into Government.

Ms FORREST - That is my point; is that not worrying?

Mr AIRD - But you are working on them. There is no epiphany here - it is an emerging problem, and you are trying to deal with it, trying to find an appropriate response - you cannot wash out the election. You might want to -

Ms FORREST - But, it was happening anyway.

Mr AIRD - There is this hiatus - the interregnum between going into the election and finally coming back into government means that the directors developing the corporate plan - the five year plan - did not sign off on this until 25 March. They have done exactly what they were required to do. They have identified the issues, they have worked their way through, and come up with a corporate plan to address them. That is what corporate plans do. That is what any prudent, responsible board would do.

Ms FORREST - Will the Government be tipping in money to assist them, in view of their corporate plan?

Mr AIRD - We have now responded appropriately to their problem.

Ms FORREST - So, are you going to tip any money in?

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Mr AIRD - There is no intention to provide any equity injection. We think our response is a responsible approach to their problem. We have worked our way through the issue - we have indicated in the budget papers what Aurora's position is. The directors have done the right thing - they have put a corporate plan in place, and presented it to the Government and we have responded appropriately.

Dr GOODWIN - When, and how did Aurora become aware of the problems. Was it through the corporate planning process? Did they sit down, work through everything, and think, 'Oh, dear, we have a problem'? Is that when it happened, that they came to the realisation that there was this problem?

Mr AIRD - I am not responsible for the inner workings of Aurora. Once I receive that information, I have to work out an appropriate response. I do not know all the information that was involved in developing Aurora's corporate plan, but I do know that receiving information about its problems required some action to be taken by the government.

Dr GOODWIN - I thought that might be what Mr Challen was saying a few moments ago - that this problem emerged when they sat down to work through their corporate planning process. They did not know about it in February, but in April, after the corporate planning process had taken place, they became aware there was a problem.

Mr CHALLEN - The corporate planning process is a way of bringing together a lot of information to form a particular view of the future, and then communicating it to your shareholders. I can only speculate about the mental processes that the Aurora directors went through, but having been on a few boards myself over the years, these things accumulate over a period of time - you form a view that things are going in a particular direction and the corporate planning process is a way of giving formal expression to those things. It would be very unusual if there were, as the Treasurer said, a sudden epiphany, where the sky opens and the world looks terrible. Rather, these things are an accumulation of formation and view over a period of time, and the corporate plan is the vehicle by which you communicate that to shareholders.

Dr GOODWIN - If that is the case, and you are having these ongoing discussions between Treasury and Aurora, surely there must have been a gradual build up - they must have started to think Aurora might be in a bit of trouble, then, it might be in a bit more trouble. If it is not an epiphany, there must have been some indicators along the way, surely.

Mr AIRD - The other factor that needs to be considered is that the Tamar Valley Power Station only started operation in October. It had not been working, as a generator, for very long. You need to see how that will operate in the future. The board and Aurora need to understand the efficiency of operating that particular power station. If you took out the election and if you took out our commitment, we would have worked our way through all of this over a period of time and arrived at a conclusion. We deal with a number of different companies that report various issues, from time to time, about their particular positions. This is what you are supposed to do as shareholders. Companies find themselves in a spot of bother every now and then. You have to develop strategies - that is what you are there for. Do we demand information from them? Yes we do. Do we seek all the information? Yes. If that is available and they provide it to us, then we make some judgment calls. If they do not give us the information - and there is no evidence at all that the directors have not dealt with the issues in an appropriate way in accordance with their duties as directors.

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Ms FORREST - Are you satisfied with the reporting processes they have used?

Mr AIRD - I am. In the circumstances that have led to this particular position, the election delay obviously has not helped.

Dr GOODWIN - I do not really understand the relevance to the election, because if Treasury and Aurora are having ongoing discussions -

Mr AIRD - We were in caretaker mode.

Dr GOODWIN - Yes, but they are still having the ongoing discussions, so surely the problems would have been flagged.

Mr AIRD - Mr Challen can speak for Treasury, but in terms of Government taking action, we cannot take action in caretaker mode. There was no level of advice given to us.

Ms FORREST - But someone still keeps a hand on the wheel, surely, because if the State were invaded by a foreign nation, surely someone would take charge. It does not all stop because there is an election going on.

Dr GOODWIN - Surely the discussions between Aurora and Treasury do not stop because there is an election.

Mr AIRD - The directors are building a corporate plan. They are addressing the issues. The incoming brief indicates that they are addressing the issues, but there is no resolution. When I had a meeting with the senior executives on 21 April, obviously we had to address this issue.

Mr WILKINSON - You said that the board was addressing the issues. How were they addressing the issues?

Mr AIRD - I do not know the inner working of the -

Mr WILKINSON - So, you do not know whether they were addressing the issues?

Mr AIRD - The incoming brief says that they were addressing the issues, but there is no resolution.

Mr WILKINSON - You had some concern that you did not know how the Tamar Valley Power Station was going to work - that came into operation in October last year. Surely you would have wanted to see how that worked out, prior to saying you were going to cap power prices at 5 per cent.

Mr AIRD - All the evidence - from the Budget, from the mid-year report, from PEFO and the advice from Treasury - allowed us to make a decision to put on the cap, and that is on the public record.

Mr WILKINSON - So, with the information that you had in February, you realised that there were problems?

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Mr AIRD - Well.

Mr WILKINSON - Not to the extent that you knew in April, from what you are saying, but you realised that there were problems, one of those problems being you did not know how Tamar Valley Power Station was going.

[12.30 p.m.]

Mr AIRD - This is the issue that the directors were dealing with.

Mr WILKINSON - About the power station?

Mr AIRD - I answered that question on the basis of the director's consideration about what information they put forward in trying to find a resolution. They were obviously dealing with a body of information from October about the Tamar Valley Power Station. What we were dealing with, as a government, is the information that showed the returns from Aurora were to be maintained in the mid-year report. There was nothing issued by Mr Challen which could indicate that this was not achievable. It was only in April, with the development of the corporate plan, that there were going to be no returns to the Government and therefore a severe deterioration in terms of the performance of Aurora.

Mr WILKINSON - What could be said is that Hydro could be in the same position, Transend could be in the same position and there is no way we are going to know about it.

Mr AIRD - Why?

Mr WILKINSON - Because we did not know about it up until the stage in February, it would seem, and then suddenly between February and April, even though there might not have been an epiphany, but there was something there which caused the brakes to suddenly be pulled on at 100 miles an hour.

Mr AIRD - The fact is that we deal with the information, and by the way your scenario cannot be sustained in terms of those examples -

Mr WILKINSON - What I am looking for is some comfort to say that other State-owned companies are not in the same position. At this stage we do not know about it but in a month's time we might suddenly know about it.

Mr AIRD - Think about the logic of that.

Mr WILKINSON - Yes.

Mr AIRD - What is the logic of that? You do not know until you are informed that there is a particular set of circumstances -

Mr WILKINSON - Accepted.

Mr AIRD - and that is the logic, is it not? Until you are informed you do not know.

Mr WILKINSON - Do we learn anything out of it then?

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Mr AIRD - There is no doubt that in terms of the information in front of the board they have acted appropriately, in my opinion, and the Government has acted appropriately in terms of their response to the information provided.

Mr WILKINSON - Are there going to be any changes at all as a result of what we have just gone through to ensure that this may not happen again?

Mr AIRD - Obviously you want to make sure that your government businesses are working in the best possible way and providing the optimum efficiency in terms of delivering a service. Companies find themselves faced with a whole lot of circumstances, some beyond their control and some within their control. We are always seeking information from organisations to make sure that they are operating - this is not a regular occurrence, is it?

Mr WILKINSON - Do I take it then that there are going to be no extra safeguards or extra measures to be put in place as a result what has just happened?

Mr AIRD - You are assuming, though, that the information gathering has not been 100 per cent. If you wash out the hiatus between going into caretaker and coming into government, and that is probably eight or nine weeks or a couple of months, there might have been other things for further discussion. I think this is pretty exceptional circumstances and that the election and that hiatus did not allow for discussions to go on at a government level. I do not know if they would have provided any further information to their shareholders prior to 21 April. I cannot see any major fault in the decision making process. Do not forget the directors have obligations under Corporations Law here. They have a fiduciary duty, they know that, they understand that, and I am sure that they have adhered to it.

CHAIR - Because they know that and adhered to all of that, and because they saw the emerging difficulty as early as February, and the possibility of insolvently trading -

Mr CHALLEN - I do not think it has ever been suggested that was a possibility.

CHAIR - I am just visiting whether that was a possibility given the balance sheet challenges -

Mr CHALLEN - It is the first time I have ever heard that suggestion. I have never heard that suggested.

CHAIR - Okay but if it was possibility or even if it was not, and they are fulfilling all of their fiduciary obligations, one of those is to report to the shareholders. Did they or did they not in February report to the shareholders?

Mr AIRD - They reported what they had to when we were in Government. When we go into caretaker mode -

CHAIR - Which was when? When they reported what they had to?

Mr AIRD - I do not know the exact date but the other -

CHAIR - I think we should be provided with that. Can you get that?

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Mr AIRD - Well virtually the date the election was called and I cannot recall the date.

CHAIR - Let us get it on the record because with your sanction Lin Thorpe made the announcement that you were going to cap prices, by Government intervention, at no more than a 5 per cent increase.

Mr AIRD - Correct.

Mr CHAIRMAN - So the dates are important as to when Lin made that announcement.

Mr AIRD - Yes she made that announcement in February.

CHAIR - Yes?

Mr AIRD - February 15.

CHAIR - So the date when you were advised, while in Government, is important in that context.

Mr AIRD - From the time we made a decision to put on a five per cent cap and an announcement, I can guarantee if we had received any advice from anyone - from Mr Challen, from Treasury or from Aurora via Treasury - that this could not be achieved we would not have announced it. If that is the point of the question. Do you honestly think that we would make an announcement like that knowing what the consequences of what was going to appear in April? Do you think we like being in this position? Seriously? Does anyone think you like to make an announcement like that and then not be able to fulfil it? You have got to be joking.

Ms FORREST - So Aurora was consulted on the decision?

Mr AIRD - You do not want to do it.

CHAIR - Let us get the dates then.

Mr AIRD - It does not make any difference - the dates.

CHAIR - Yes it does.

Mr AIRD - The important thing here is: did we make a decision on the best information we had available to us? The answer is yes we did. If we had received any contrary advice that this was not going to be achieved then we would not have made it. If people want to score political points out of this they can do all they like, but that is the reality. We made that decision on the best possible advice at that time and we did not receive any contrary advice until 21 April.

The committee suspended from 12.41 p.m. to 1.30 p.m.