



1991

PARLIAMENT OF TASMANIA

PARLIAMENTARY STANDING COMMITTEE OF PUBLIC ACCOUNTS

INDEPENDENT REVIEW OF THE TASMANIAN GOVERNMENT REDUNDANCY PROGRAM

Laid upon the Table of both Houses of Parliament

The Committee was appointed under the provision of section 2 of the *Public Accounts Committee Act 1970* (No. 54).

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1. GLOSSARY OF TERMS

CAS	Casual employment
CPE	Commissioner for Public Employment
DASCA	Department of Administrative Services and Consumer Affairs
DEIRT	Department of Employment, Industrial Relations and Training
DOTAF	Department of Treasury and Finance
DPAC	Department of Premier and Cabinet
DPI	Department of Primary Industry
FTE	Full Time Equivalent
LSL	Long Service Leave
LWOP	Leave without pay
MAIB	Motor Accidents Insurance Board
PAC	Public Accounts Committee
PF	Permanent full time employment
PP	Permanent part time employment
RBF	Retirement Benefits Fund
RTF	Redundancy Task Force
SAF	Superannuation Accumulation Fund
SES	Senior Executive Service
SESS	Sessional employment
TAFE	Technical and Further Education
TDA	Tasmanian Development Authority
TDIA	Tasmanian Dairy Industry Authority
TF	Temporary full time employment
TP	Temporary part time employment
TPSA	Tasmanian Public Service Association

2. EXECUTIVE SUMMARY

The following conclusions are based on the Committee's examination of the four largest Agencies plus preliminary examinations of other Agencies. All conclusions do not apply to every Agency.

The Committee recognises that the Budget will be met and the broad principle of a redundancy program appears to have been successful in reducing expenditure. At 30 June 1991, 2 171 redundancies had been made costing approximately \$87 million (excluding normal entitlements on termination). The program will save \$58 million in a full year. The following criticisms are made based on factual information obtained by the Committee. The Committee is of the view that the level of savings could have been increased by at least \$10 million per annum through the inclusion of payback as a selection criteria and a re-organisation of selection priorities.

Much of the inefficiency was caused by the fact that Agency re-structuring was allowed to take place in conjunction with the redundancy program. The Committee considers that Agency re-structuring should precede a redundancy program and then identification of redundant positions from which expressions of interest should be called.

Public Sector employee numbers published by the Commissioner for Public Employment in his annual report showed a considerable rise in the year preceding the redundancy program. This information is supported by other sources e.g. Treasury, Bureau of Statistics, Retirement Benefits Fund and Superannuation Contribution Fund contributor movements. Evidence was given to the Committee that the figures given to the Commissioner for Public Employment from Agencies are unreliable. The Committee feels this situation is intolerable and must be rectified.

Budget Imperative (Haste) (refer to sections 5 and 12)

- The implementation of the program was rushed, resulting in some inequities in the agreement and some inadequacies in its administration.
- Appropriate legislation was not in place at the implementation of the program. This necessitated:—
 - Ex-gratia payments to be made, equivalent to entitlements under the RBF Act
 - Retrospective legislation, which was passed 12 months later to legalise those RBF payments.
- From evidence supplied to the Committee, an evaluation of other alternatives such as natural attrition did not appear to extend to an examination of historical and factual data.
- Guidelines were not clearly understood by some Agencies.
- Where offers were made to non-targeted positions, details of an equivalent position abolished was not in all cases adequately documented. Monitoring of abolished positions was also inadequate.
- The program does not adequately cover re-deployment. Agencies opted for redundancy in preference to pursuing re-deployment opportunities.
- Acceptances were based on calculations made at the expression of interest stage which were not always accurate.

The Agreement (refer to section 5.2)

- The agreement did not define a position to be abolished as a funded and occupied position.
- The exclusion from re-employment provisions are generous and although comparable to other redundancy packages, the adequacy or necessity of such provisions should be addressed.
- The calculation of entitlements was complicated by the inclusion of components such as pro-rata annual leave loading and LSL which hindered the payment process.
- The redundancy program was generally a voluntary program but a minority of cases existed where employees accepted redundancy as the only other option given to them was a transfer.

Devolution of Responsibility (refer to section 6)

- By devolving the responsibility for the administration of the program to the Agencies, the program was used to pursue Agency goals in preference to the Government's overall objective of a reduction in recurrent expenditure. Payback did not rate as an important selection criterion and in some cases was not even considered. Cases exist where employees were selected for non-performance and personal reasons.

- The program was used to more effectively carry out Departmental re-structuring by abolishing existing positions and re-creating new positions. In some cases little difference existed between the old and new positions.

Disregard for Objectives (refer to section 7)

- A number of redundancies were made that are considered to be a waste of redundancy funds. Agencies selected employees that did not contribute to the Government's objective of a saving within 3 years.
- Vacant positions (pre redundancy) were abolished against redundancies. Instead of abolishing the redundant employee's position as surplus, the redundant employee was offset against the vacant position to receive a redundancy payment and their position re-filled.
- Positions were abolished but in some areas due to staff shortages, new appointments were made, (refer to section 9).
- Inappropriate selection criteria were applied in some cases. A payback analysis was not considered as an important selection criteria, despite the Government's objective for a reduction in recurrent expenditure.
- Payments were made to *low priority* employees, e.g. employees on extended leave without pay, employees leaving to take up another job, employees who could have left naturally due to personal reasons.

General (refer to sections 8 and 10)

- Generally, employees were targeted by inconsistently applying secondary selection criteria, so that Agencies retained the flexibility to choose who would receive a redundancy and who wouldn't.
- Some Agencies did not target actual positions to be abolished until they had reviewed the expressions of interest.
- Considering the reason for implementing a redundancy program was to achieve a maximum level of savings, it is concluded that the measurement of savings that is generated by the redundancy program is inadequate, both on an Agency level and by the Government.
- A sense of insecurity was generated by the program across the State Service.
- The redundancy program has contributed to a lower level of staff morale across the remainder of the State Service.
- Some payments were made to employees, with qualifications that Agencies could not afford to lose.

Redundancy Funds Exploited (refer to section 11)

The Committee disagreed with the reasons for some payments e.g. Commissioner for Review and many other payments that were contrary to the spirit of the redundancy program. (Some questionable payments are detailed in section 11).

3. SUMMARY OF RECOMMENDATIONS

The Committee considers that any future redundancy program can be managed more efficiently and will be more effective if the recommendations outlined below are taken into consideration.

Further positions can be shed in some Agencies which will further reduce expenditure and the size of the State Service and it is understood that a smaller program may be run in the future, in which case the Committee recommends the following:

- 3.1 A formal and conclusive evaluation of natural attrition undertaken and supported by historical and factual data, prior to the implementation of any future redundancy program. Other alternatives should also be re-assessed such as position re-classifications to lower levels, recruitment freezes and retrenchments.
- 3.2 The development of adequate policy and an appropriate infrastructure prior to the commencement of any redundancy program.
- 3.3 Establishment of appropriate legislation prior to the commencement of the program.
- 3.4 Allocation of responsibilities to Agencies clearly defined before implementation of any future program.

- 3.5 Agencies should be fully briefed on the reasons for the redundancy program and guidelines should be fully communicated prior to the commencement of the program. This is of paramount importance, when Agencies are to be given full responsibility for the implementation of a redundancy program within their own Agencies.
- 3.6 The restructure of an Agency division or Centre should precede any redundancy program so that only employees in superseded positions that have not been successfully allotted into the new structure are offered redundancy.
- 3.7 A central control should be established to document abolished positions. This control should be used to prevent future increases in the size of the workforce and to ensure that any abolished position is not later created or re-established under another title with a varied position description and to ensure the possibility for re-deployment across Agencies is exhausted and the position being abolished is not one that could have been shed by natural attrition.
- 3.8 Programs or Sections should be identified for redundancy prior to expressions of interest. The expressions of interest should be sought from these categories of employees only.
- 3.9 Appropriate selection criteria in line with the Government's objective should be developed and an order of priority for their application approved by the Department of Premier and Cabinet.
- 3.10 Payback should rate as an important selection criteria and where redundancies are made to employees with a poor payback result, the reasons for selection should be clearly shown.
- 3.11 Abolished positions and corresponding redundancies including transfers should be clearly documented.
- 3.12 A position should be defined as an occupied and funded position to avoid the abolition of vacant positions against redundancies.
- 3.13 Where Agencies have abolished long standing vacant, unfunded and non-equivalent positions in lieu of redundancies, their Budget should be reduced by an appropriate amount or other positions abolished.
- 3.14 The savings generated by the program should be accurately measured and compared against the total cost. All costs should be included in the calculations such as the redundancy agreement components, the interest cost of borrowed funds, administration costs of the program and any other relevant costs.
- 3.15 More involvement of financial expertise from within the Agencies may improve the overall Agency control and measurement of the redundancy program.
- 3.16 Employee entitlements be thoroughly checked and it is clearly indicated to the employee at the expression of interest and offer stages, that figures are indicative only.
- 3.17 Certain categories of employees that do not directly impact on a reduction in recurrent expenditure should be excluded from the redundancy program, e.g. employees on extended leave without pay and extended maternity leave.
- 3.18 Lists should be circulated to the Agencies showing the correct periods for exclusion from re-employment.
- 3.19 The re-employment exclusion periods should be lengthened.
- 3.20 Pro-rata annual leave loading and pro-rata long service leave should be excluded from redundancy entitlements and replaced by a component that is easier to calculate and does not hinder the payment process.
- 3.21 Inequities between the categories should be addressed in any future redundancy agreement, e.g. between categories 3A and 4.
- 3.22 Consideration should be given to changing the relevant Act to provide statutory authority to the Commissioner for Public Employment for the collection of accurate employee records to support the Budgetary process and to provide a statistical database to facilitate Government and management decisions.
- 3.23 Payments to employees over and above that provided for in the redundancy agreement should be fully funded by the Agency.

4. INTRODUCTION

Following expressions of concern during debate of the Consolidated Fund Appropriation Bill of 1990 and a Legislative Council request to the House of Assembly for amendments to the Bill, the Managers on behalf of the Legislative Council met with Managers on behalf of the House of Assembly to resolve a deadlock over the amendments. One of these amendments was to reduce the funds allocated for the redundancy program by \$20 million.

The Managers agreed among other things that a mechanism be put in place independent of the Public Service to report on the implementation of the present redundancy program and to oversee future programs. The Managers therefore requested that the Public Accounts Committee (PAC):—

1. Review the manner of implementation of the present redundancy program.
2. Monitor the existing redundancy program.
3. Recommend future action regarding redundancies.
4. Assess redundancy programs against natural attrition.

Upon receipt of the referral, the Public Accounts Committee determined the following terms of reference to meet these objectives:—

- 1.1 Determine the Government's rationale for the program,
- 1.2 Determine the implementation procedures, together with targets for the number of employees to be made redundant and time frames for achieving those redundancies,
- 1.3 Consider the suitability of the administrative structure put in place to implement the Program,
- 1.4 Identify any shortcomings in the actual implementation of the Program,
- 2.1 Seek any relevant information from the State Service employees involved in the implementation of the Program,
- 2.2 Seek comments from heads of agencies on the effect of the Program on the productivity and service delivery of their Departments, together with the consequential impact on staff morale,
- 2.3 Provide an opportunity for persons who have been made redundant to comment on the Program,
- 2.4 Establish a database of all relevant statistical data,
- 2.5 Provide to the Parliament at the earliest practicable opportunity, but by no later than 31 March 1991, a report comparing actual results of the Program to targets, together with any other matters arising from the review,
- 2.6 Provide subsequent reports to Parliament on the progress of the review, on no less than a quarterly basis,
- 3.1 Assess the economy of the Program compared to other public sector redundancy schemes by an appropriate methodology, e.g. comparing the ratio of redundancy payments to savings in annual salaries of persons made redundant,
- 3.2 Determine the efficiency of the Program, having regard to the actual financial and numerical achievements as compared with targets and time frames, together with the cost of its administration,
- 3.3 Make specific recommendations as to terms and conditions which, having regard to all the findings of the review, should apply to any future redundancy programs,
- 3.1 Make an assessment, based on historical data, on the positions which would probably have been vacated through natural attrition during 1990-91 had the Program not been implemented,
- 3.2 Consider the cost and likely productivity effects on the State Service of a hypothetical 'freeze' during 1990-91 in filling positions vacated through natural attrition,
- 3.3 Consider and compare the various effects of achieving reductions in State Service employee numbers through natural attrition, combined with a 'freeze' on filling positions, and a redundancy program.

In the course of the review, the Committee may deem it appropriate to pursue various matters which, although not specified in these Terms of Reference, are germane to the four basic issues referred to it by the Free Conference of Managers.

The assessment of issues brought to the attention of the Committee were prioritised to cover those issues of most concern.

The Committee determined that most of the responsibility for the administration and management of the program rested with each State Service Agency. It was therefore decided to examine the program on an Agency basis and arrive at conclusions that would relate to each Agency specifically and to the overall management of the program by the Department of Premier and Cabinet. All Agencies that participated in the program were examined to some degree whilst the following four Agencies were examined in some detail:

- Department of Construction
- Department of Police and Emergency Services
- Department of Education and the Arts
- Department of Health

These four Agencies alone accounted for approximately \$71 million or 82% of the redundancy funds expended at the completion of this review.

The Committee heard evidence from a variety of sources and obtained a number of submissions from State Service employees, redundancy recipients and other interested parties. Those called before the Committee were:

- Manager (Redundancy Program)
- Manager (Redundancy Task Force)
- Manager (State Superannuation office)
- Commissioner for Public Employment
- Opposition Spokesman for Public Administration
- Officers from the Department of Construction
- Officers from the Department of Police and Emergency Services
- Officers from the Department of Education and the Arts
- Officers from the Department of Health

The Committee would like to acknowledge the high level of assistance provided by Agencies, particularly the Departments of Health, (Personnel Officer E. Drodz) Premier and Cabinet (Redundancy Task Force) and Construction, during the course of this Review.

The Review was hindered, however, by a lack of documentation by certain Agencies and it was obvious that some information had not been filed on official redundancy files. The official redundancy file at the Department of Premier and Cabinet was incomplete and a number of folios were missing. The Department of Treasury and Finance regarded certain information relating to the Budget as privileged and not available to the Committee.

Included as appendices are extracts from a submission by the Liberal spokesman on Public Administration, Mr John Barker and extracts from a report prepared by the Department of Premier and Cabinet on the administration of the redundancy program.

5. DEVELOPMENT OF THE REDUNDANCY PROGRAM

The program was developed with a great deal of haste to implement it quickly and ensure a maximum affect on the current years Budget. This caused numerous administrative problems throughout the operation of the program. One of these related to the payment of benefits to redundant employees not authorised by the RBF Act. The Premier granted indemnity in December 1990 for RBF Board actions until retrospective legislation was enacted. The legislation was passed in June 1991 when the program was virtually finished. There is some argument that payments made before the legislation was passed were illegal and this should be referred to the Solicitor-General for a legal opinion.

5.1 GOVERNMENT'S RATIONALE FOR THE PROGRAM

Cabinet Decision No. 485 of 10 July 1990 approved the current redundancy program in the Tasmanian Public Sector as one of the Government's 3 year economic and Budget strategies to address the serious imbalances that existed in the Consolidated Fund. As approximately 50% of the Budget is wages and salaries, the redundancy program is a key strategy in reducing recurrent expenditure.

In addition, the program would assist the State Service to become a more efficient organisation.

The program was to be implemented by reducing the level of services to the public by scaling down or abolishing targeted programs and sub-programs and re-allocating resources to priority and revenue generating areas.

The program was jointly funded, by the Commonwealth contributing \$40 million, the Consolidated Fund contributing \$20 million and the remaining \$40 million borrowed from internal State funds over 5 years.

As part of the funding arrangement, the Premier and Treasurer provided an undertaking to the Commonwealth Government to restrain outlays growth (excluding the cost of the redundancy program) to no more than 2.5 per cent in nominal terms, and to set a net financing requirement of \$120 million as the first step towards achieving a sustainable target of \$30 million by 1992-93. The 1990-91. Budget requires savings in expenditure of \$70 million to meet the net financing requirement of \$120 million.

The 1990-91 savings generated by the redundancy program are estimated to be approximately \$30 million, therefore, other strategies employed by the Government to reduce expenditure must total \$40 million in savings. It should be noted that some savings in administrative and SAF costs will ensue, estimated to be approximately \$9.1 million in a full year.

As part of the Budget process, Agencies identified the number of positions they could abolish in targeted areas to achieve a reduced Budget allocation. The number of positions totalled 2 114.

The estimated completion date for the Program was initially the end of January 1991.

5.2 FORMULATION OF THE REDUNDANCY AGREEMENT

5.2.1 Australian Taxation Office

The compilation of the program was based on Commonwealth Government criteria to attract funding and Tax Office guidelines for approval as an early retirement scheme. The Australian Tax Office requires three criteria to be met before payments under the scheme can qualify for concessional tax treatment under section 27A-J.

- Offers must be made to employees in general and not to a select few.
- The purpose of the scheme must be to rationalise or re-organise the workforce and should remain open only for a specific period.
- The scheme must be voluntary and approved by the Tax Commissioner prior to implementation.

The Premier stated that as with all redundancy programs, because it is selective, many people who would like to go cannot.

The Committee cannot accept that the first criteria has been met. The program involved the targeting of specific positions, and Agencies ultimately decided where the offers would be made. According to Income Tax Ruling 2286, Agencies are allowed a right of veto on acceptance of applications for redundancy. The veto should be applied consistently to retain the Commissioner's approval. This assumes the consistent application of selection criterion, so that those not selected have also been refused on a consistent basis. It is quite clear to the Committee that selection criterion has been applied inconsistently by the Agencies to achieve their objectives.

Advice received from the Australian Tax Office revealed that provided the intention of the scheme is to reduce the size of the workforce and not to target specific individuals, the scheme would be eligible. It was stated that if evidence was produced where specific individuals were targeted and removed where no corresponding position was abolished or because that employee was regarded as inefficient, then the concessional tax treatment on that payment could be denied. If the number of such cases was found to be significant, then the classification of the scheme as an approved early retirement scheme could no longer apply.

The Committee does not consider that sufficient evidence exists for the Taxation Office to revoke its approval of the redundancy program in general.

Where an agreement has been made for a redundant employee to be re-employed, the payment will not receive concessional or special tax treatment.

The application of inappropriate selection criterion may cause the Tax Office approval for the program in a particular Agency to be withdrawn.

RECOMMENDATIONS

- 3.9 Appropriate selection criterion in line with the Government's objective, should be developed and an order of priority for their application approved by the Department of Premier and Cabinet.**

5.2.2 Agreement

Clause 5 of the redundancy agreement details the responsibility of the Agency to consult with the Unions and provide them with all relevant information and arrange discussions relating to redundant positions. The Union must be advised of employees regarded as excess to Agency requirements and they may make representation to the employer where the employee expresses concern to the Union.

Clause 6.08 of the redundancy agreement sets out the guidelines for future employment within the State Service for redundant employees:—

Less than \$25 000	1 year
\$25 000–\$49 999	2 years
\$50 000–\$74 999	3 years
\$75 000–\$99 999	4 years
Greater than \$100 000	5 years

It is considered that these terms are overly generous and should be extended for future programs.

These provisions do not extend to the Hydro-Electric Commission, University and Tasmanian State Institute of Technology, as years of service with these entities is not considered when calculating redundancy entitlements. For future programs, consideration should be given to at least including the Hydro-Electric Commission for years of service calculations and re-employment exclusion.

Clause 7 of the redundancy agreement in effect forces a redundancy in cases where an employee occupies a targeted position, does not wish to take a redundancy and no transfer option is available. An alternative would be to restrict the Agency from abolishing a position that is occupied by an employee that cannot be transferred and does not wish to terminate employment. This policy would be more characteristic of a voluntary program.

Some of the components of the redundancy package such as pro-rata annual leave loading and long service leave complicated the calculation of redundancy packages and hindered the payment process. Consideration should be given to a simpler form of package, based on years of service and RBF contributions only. Consideration should also be given to a package based on the employee's salary regardless of years of service.

At least a dozen cases were found by the Committee that involved Category 3A employees, whose ages were 59 years at termination but were about to turn 60, some the very next day, in which case they would become a category 4 redundancy. As an example, one case had a total from the Trust Account amounting to \$76 653. Had this person terminated on their 60th birthday, (four days later) the redundancy payment would fall under Category 4 thereby substantially reducing the cost to the Trust Account to \$24 504. This is an inequity in the agreement that should be addressed.

Some officers responsible for the administration of the program used the fact that, the agreement did not define a position, as a defence for their actions (i.e. abolishing vacant and unfunded positions). To avoid future occurrences it is recommended that any future agreement define a position to be abolished as an occupied and funded position.

RECOMMENDATIONS

- 3.2 The development of adequate policy and an appropriate infrastructure, should be performed and tested, prior to the commencement of any redundancy program.
- 3.12 A position should be defined as an occupied and funded position to avoid the abolition of vacant positions against redundancies.
- 3.19 The re-employment exclusion periods should be lengthened.
- 3.20 Pro-rata annual leave loading and pro-rata long service leave should be excluded from redundancy entitlements and replaced by a component that is easier to calculate and does not hinder the payment process.
- 3.21 Inequities between the categories should be addressed in any future redundancy agreement, e.g. between categories 3A and 4.

6. IMPLEMENTATION OF THE REDUNDANCY PROGRAM

6.1 Administration

A redundancy Task Force was established and staffed by employees from within the State Service plus a number of temporary staff employed specifically for this purpose. The Task Force was managed by the Department of Premier and Cabinet and was responsible for the administration of the redundancy program. The total expenses relating to the Redundancy Task Force were approximately \$430 000.

The State Superannuation Office was involved in the initial discussions regarding the program and also provided to the Task Force, team leaders with a knowledge of superannuation benefits. The Office was also responsible for providing comprehensive advisory information to employees over 55 years of age considering accepting a redundancy package and for the payment of pension entitlements.

The Department of Treasury and Finance was responsible for overall financial management and developed a data base of redundancy payments that was reconciled at RBF to the Mapper data base.

Hindrances to the day to day processing were caused by constant paper flows between Treasury, the State Superannuation Office and the Redundancy Task Force. Location of the Task Force either in Treasury or the State Superannuation Office would have enhanced the efficiency of payments.

Some duplication appears to exist between the database developed at Treasury and the Mapper database used by the Task Force.

A common complaint was the delay in receiving redundancy payments. It appears that the main cause was the extra workload in processing RBF pensions and delays by Agencies in returning documents to the Task Force. No instances of unreasonable delays in processing entitlements by the Task Force were found. It should be stressed in future that payment of entitlements will be forthcoming within the time frames quoted but starting from when the Task Force receives all necessary documentation from the Agencies.

A major task of the redundancy program was the processing of over 8 000 expressions of interest. Many of these either were not seriously interested in a redundancy package or the Agency was not seriously interested in offering them one. The task would be far less onerous if in future this stage was by-passed and replaced by an invitation to express interest directed to certain categories of employees rather than the State Service as a whole.

The formal offer to employees was accepted on the basis of the indicative amount shown on the expression of interest returned to the employee. At this stage the redundancy entitlement should have been re-calculated and confirmed to the employee, so they could make an informed decision based on an accurate figure that they could expect to receive on termination. This is supported by the case of an employee who had been employed at the Launceston General Hospital for 41 years and accepted a redundancy based on the amount quoted in his offer, as calculated by the Redundancy Task Force. However on his termination day (the day of his retirement dinner) he was advised that the amount he expected to receive was overstated by \$22 464. He subsequently remained at work and the case was examined by the Disputes Committee. A similar case existed at the Royal Hobart Hospital.

RECOMMENDATIONS

- 3.2 The development of adequate policy and an appropriate infrastructure, should be performed and tested, prior to the commencement of any redundancy program.
- 3.8 Programs or sections should be identified for redundancy prior to expressions of interest. The expressions of interest should be sought from these categories of employees only.
- 3.16 Employee entitlements be thoroughly checked and it is clearly indicated to the employee at the expression of interest and offer stages, that figures are indicative only.

6.2 RESPONSIBILITIES

The Department of Premier and Cabinet was commissioned to co-ordinate the program from a central control point and in particular:

- liaison with Agency Heads.
- acceptance of expressions of interest.
- verification of Agency selection.
- preparation of all documentation.
- payment of benefits.
- settlement of disputes.

The responsibility for administration of the redundancy program was delegated to the Agencies after it was found to be more practical for each Agency to control its own program within the time-frame set by the Government. This was the main source of the program's inefficiency. More emphasis was placed on Agency restructuring that in some cases did not contribute to the Government's overall Budget strategy. To quote from the Department of Police and Emergency Services, "the redundancy program did not exist in isolation from the proper management of the Department Within the Budget framework, there was a requirement to develop a restructuring process which achieved appropriate organisational outcomes sensitive to the continuing efficiency of the Force and responsive to the real needs of the Community."

It is apparent from each Agencies' handling of the program and from correspondence within the Agencies that the Government's guidelines were not clearly understood by some officers. This became apparent when the Committee commenced its enquiries. The Department of Premier and Cabinet attempted to educate each Agency on the selection process and ensure that they gave evidence to the Committee that was consistent with guidelines they had developed.

As can be expected, some Agencies' handling of the program was better than others. The opposition hot-line received more complaints regarding the administration of the program in the Royal Hobart Hospital than in any other single area. The Department of Health instigated an internal audit review of its redundancy program as a result of concerns expressed within the Agency and by the Minister.

The Committee concludes that although the Government's primary objective for the redundancy program was a reduction in recurrent expenditure, Agencies considered that other factors such as the profile of the Agency, were regarded as more important. The Committee accepts the fact that the resulting profile of the Agency is important to deliver quality services, but considers that the redundancy program was used to improve this profile over and above the need to reduce expenditure.

It is understood that a reduced program may be run next year, in which case, allocation of responsibilities should be more clearly defined before implementation and each Agency should be fully briefed and accountable for its use of redundancy funds.

RECOMMENDATIONS

- 3.4 Allocation of responsibilities to Agencies should be clearly defined before implementation of any future program.
- 3.5 Agencies should be fully briefed on the reasons for the redundancy program and guidelines should be fully communicated prior to the commencement of the program. This is of paramount importance, when Agencies are to be given full responsibility for the implementation of a redundancy program within their own Agencies.

7. AGENCY MANAGEMENT OF THE PROGRAM

7.1 Agency Restructuring

Redundancies were based on a position declared surplus to Agency requirements. Under section 47 (2) of the Tasmanian State Service Act, 'An employee shall not be declared surplus to the requirements of an Agency unless the Head of Agency is unable to transfer the employee to another position in that Agency having a similar classification or salary the duties of which position the Head of Agency considers that the employee is competent to perform and can reasonably be required to perform.' New positions created by Agency restructures illustrates that some positions abolished were not in reality, surplus to requirements and provision 47 (2) has been conveniently circumvented.

As the redundancy program was inter-twined with Agency restructuring required as a result of the Budget process, this allowed a loop-hole where the Agencies were also able to circumvent the controls of the redundancy program. Agencies were able to create new positions under the banner of a restructure and abolish positions under the redundancy program. The net effect in the case of a number of redundancies was therefore nil. Agencies argued that new positions created were entirely different and bore no relation to the redundant positions. However an examination of the position descriptions will reveal marked similarities in most cases. The following quote is from a Minute to the Minister from the Department of Construction on their proposed structure;

'It is proposed that new position descriptions be created for all positions within the Division with the exception of SES and trainee positions.'

Attached to the Minute was a table identifying positions on proposed structure and positions to be abolished.

Many instances of restructuring occurred at senior management levels. The following case in the State Fire Service is cited as an example; Three Chief Fire Officers and a Director (Country Brigades) were made redundant. Advertisements later appeared for Chief Fire Officer, Assistant Chief Fire Officers, Two Regional Fire Officers and Two Brigade Chiefs. This restructure eventuated as a part of a consultant's review by the Department of Premier and Cabinet to adopt a new and more efficient management structure. The Committee could find no evidence that the Agencies assessed the possibility of retraining staff whose positions were redundant due to a restructure.

To quote a memo from the Department of Health, 'Post of Director Administration to be redundant at a date to be determined. Role of position to be changed to one of General Services Manager.' A number of senior positions in the Department of Education and the Arts were abolished and a number of new positions were created with different titles and altered position descriptions. Some of these position descriptions could not be supplied to the Committee when requested.

The Department of Premier and Cabinet paid four senior officers a total of \$710 000 in redundancies and immediately re-advertised one position which incorporated these four positions. The Committee considers that only three redundancies were necessary, as one officer could have been transferred or appointed to the restructured position.

The Department of Police and Emergency Services paid a redundancy to the Deputy Commissioner and created a new position called State Commander/Assistant Secretary at the same rank as Deputy Commissioner. Marked similarities exist between the two positions.

The Department of Tourism, Sport and Recreation identified eleven redundancies that did not relate specifically to Budget initiatives but rather to Agency restructuring.

Agencies argued that to look at individual cases in isolation to the overall program within an Agency was not valid as generally each Agency achieved the targeted redundancies. This is acknowledged, but should not be used as an excuse to use redundancy funds inefficiently. Agencies could certainly have achieved much more with the funds' allocated.

RECOMMENDATIONS

- 3.6 The restructure of an Agency division or Centre should precede any redundancy program so that only employees in superseded positions that have not been successfully allotted into the new structure are offered redundancy.

7.2 REDEPLOYMENT

Cabinet Submission number 348 outlines the responsibility of the Task Force and the Agency in relation to redeployment to another Agency prior to the offer of a redundancy. One of the principles underlying the program is 'that redeployment of employees will occur whenever possible so as to minimize the number of existing staff to which redundancy/retirement offers will be made.'

Clause 6.01 of the Agreement states that:

'Where the employing authority concludes that suitable alternative employment is not available the employing authority may, with the approval of the Secretary, Department of Premier and Cabinet, invite employees to elect to be made redundant in accordance with the procedures outlined in this clause'.

Stage 6 of the redundancy process requires that opportunities for redeployment be examined prior to approval of a redundancy package. DPAC considered that as all Agencies were down-sizing these opportunities would be minimal and stage 6 was generally not adhered to. From the Committee's analysis of redundancies it would appear that some opportunities for redeployment across Agencies did exist, e.g. Clerical Assistants, Clerks, Computer Systems Officers and Research Officers.

It was stated by the Department of Premier and Cabinet that in the end this responsibility was left up to the Agencies. Agencies in turn left the onus up to employees to work out their own redeployment alternatives. The TPSA reported that:

'A lack of overall co-ordination has meant that most Departments are failing to look on a wider scale for redeployment opportunities for staff. It has also resulted in little co-operation between Departments in having alternatives collated for the consideration of members.'

'There was little evidence of any genuine attempts by management to look outside their own Departments for alternative employment options for those employees who do not want to leave . . . nor have they attempted to seek volunteers for redundancy from other Departments.'

The Committee agrees with this observation and is of the opinion that Agencies took the easy way out by offering redundancies in preference to redeployment. This resulted in redundancies in one Agency and recruitment to a similar position in another Agency. In a Cabinet memo issued in August 1990 the following was stated, 'To offer one employee a redundancy package in the State Service (whatever the location) and then recruit another employee at the same level and position would negate the whole redundancy strategy, in particular the requirement to reduce recurrent expenditure.' Such events could lead to the Australian Tax Office withdrawal of concessional tax for the redundancy program.

Approval from the CPE should have been sought for all elections for redundancy prior to the offer being made to the employee. This would ensure the possibility of redeployment across Agencies was exhausted before the payment of a redundancy.

Cases also exist where due to the inadequacy of other options, employees accepted redundancy. A circular to employees ('Answers to questions commonly asked') states that if employees do not accept the offer of redundancy they will not be discriminated against in any way. Some employees had a choice between placement on the unattached list, transfer, or redundancy and it is not considered purely voluntary to accept a redundancy under these circumstances.

The most common response to a questionnaire circulated by the Committee to redundancy recipients was that requests for re-training or opportunities for redeployment were not discussed.

RECOMMENDATIONS

- 3.7 A central control should be established to document abolished positions. This control should be used to prevent future increases in the size of the workforce and to ensure that any abolished position is not later created or re-established under another title with a varied position description and to ensure the possibility for redeployment across Agencies is exhausted and the position being abolished is not one that could have been shed by natural attrition.**

7.3 PRIMARY AND SECONDARY SELECTION CRITERIA

Once redeployment options are exhausted clause 4.03 of the redundancy agreement defines the identification of selected employees to which a redundancy offer can be made. These offers are to be made to those employees occupying targeted positions who have submitted an expression of interest.

Clause 6.07 of the Redundancy Agreement permits the Agency to identify other positions where occupants of targeted positions can be transferred to, if they do not want to accept a redundancy. In this case the Agency can make further offers to those occupants and if accepted, can effect a transfer.

In many cases secondary criteria were applied to other employees where the Agency did not want to lose the employee occupying a targeted position. This involved selecting another employee and effecting a transfer with the employee occupying the targeted position. In other cases where it was not possible to identify a particular position for abolition, employees were selected purely on the secondary selection criteria. Such cases consisted of construction and building workforce employees, teachers and police officers.

The Department of Premier and Cabinet issued guidelines for selecting employees in which they quoted,

'There is a potential for concern in that application of inappropriate selection criteria for determining an employee's eligibility to participate may lead to approval of the scheme being withdrawn for a particular Agency or Agencies.'

Appropriate selection criteria was developed based on the guidelines for Tax Office approval which consisted of the following:

- Abolition of position that employee is occupying
- Reduction or cessation of a service to maximise reduction in recurrent expenditure.
- over 55 years of age
- surplus skills
- retraining not practical
- length of service
- cost

In addition Agencies applied other criteria such as inefficiency, health, gender, poor performance, experience, qualifications, potential and freeing up of promotional positions. Some selections made on these bases are not in accordance with Tax Office guidelines as quoted from Income Tax Ruling 2286—'The concession does not extend to employees who have been dismissed for personal or disciplinary reasons or because of their inefficiency.... or if the scheme is directed mainly at ensuring the retirement of employees who are inefficient.'

The following quote is taken from a report prepared by the Department of Premier and Cabinet on the redundancy program: 'It became patently obvious that there is a general reluctance for Agencies to use present provisions in relation to inability and inefficiency'.

The following quotes are from the Secretary of the Department of Construction on how they selected employees from that Agency;

'The first criterion we applied was to identify the level of skills and functions which the Department needed to meet its charter and to meet the Budget objectives; so the critical issue was the skills we needed to operate.'

'The issues that were considered were skills, experience, efficiency, qualifications, potential, the age and health of the employee, and finally, termination costs if all other factors were equal. In fact I do not believe there were any cases at all where termination costs were a deciding element in making that judgement.'

'We put cost as the last issue. We believe that the weighting of other factors, which would have a bearing on efficiency and productivity, was more important.'

'It is fairly obvious that the people who are younger and fitter are better performers in the sort of work we are doing than those who might be somewhat older and perhaps suffering some lack of fitness or infirmity. So in fact, for the best operations and performance of the Agency, as a rule they were the appropriate people to go.'

'We were looking for a more efficient workforce.'

'It is best to retain the workforce that is the most effective.'

The Department of Construction specifically targeted its aged and infirm employees to be made redundant.

The following quotes are from the Department of Police and Emergency Services on how they applied their selection criteria:

'the Police Force was able to structure its redundancy process to achieve an outcome that kept the most productive officers within the force.'

'Although young officers may be cheaper, it is not necessarily true that this would lead to the best outcome for the force and therefore for the State, because we are talking here about the ability of officers to carry out their duties efficiently over an extended period of time . . . as they progress in years they have a decreasing ability to undertake some of the physical activities associated with being a Police Officer.'

'It adopted a new and more efficient management structure.'

'We offered it to a person who was not able to offer the same degree of skill contribution to the Ambulance Service as some other officer may well have been able to . . . those who were least able to provide the skills.'

The payback period was not considered an important selection criteria by any of the Agencies examined, neither was it listed by DPAC as a valid selection criteria, despite the fact that DPAC constantly reminded Agencies that the primary consideration was a resultant savings in recurrent expenditure. The neglect of this particular criteria was the main source of the program's inefficiency and resulted in payments to approximately 280 employees that do not contribute to the attainment of the Government's primary objective.

In a report prepared by DPAC to the Government on the redundancy program, it was stated that the application of secondary selection criteria by Agencies became one of the greatest issues for resentment and Agencies should be required to identify reasons, criteria used and alternatives explored. The Committee agrees with this statement and considers that the application of secondary criteria inconsistently is the main cause for such resentment. To minimise this the Committee considers that an order of priority for the application of approved selection criteria should be included in any future redundancy program.

Allegations were received from redundant employees that the inadequacy of other options e.g. unsuitable transfer forced them to accept a redundancy package. It became evident to the Committee that Agencies were selecting employees on the basis of inefficiency, poor health, poor performance and other factors and effecting transfers from employees in targeted positions. This contravenes the guidelines that form the basis of the Tax Office approval of the program (quoted from DPAC—'key persons held against particular positions have to be offered redundancy.').

In the Department of Health two Medical Scientists were made redundant when the Agency admitted there was a continued need for their services. These positions were obviously not targeted positions and the Committee did not receive a satisfactory answer as to why these employees were made redundant. This also applies to a number of positions in the Department of Education and the Arts.

Ample opportunity existed to select individuals and claims by Agencies that they targeted positions rather than people are not accepted by the Committee. To justify their selections of individuals Agencies stated that they applied a certain criteria (either primary or one of the secondary criteria). However the flexibility was in the fact that different criteria were applied in certain cases to suit the Agency's needs. The inconsistent application of selection criteria is one of the biggest failures in the administration of the redundancy program.

The Committee considers that suitable selection criteria should have been applied that would enable the redundancy to contribute to the Government's objective for the program. The former Minister for Education endorsed the selection of redundancies that would free up promotional positions within that Agency and stated that, 'saving money is only one criteria.' The Committee cannot accept that freeing up promotional positions contributes more to the Government's rationale for implementing the redundancy program than obtaining a saving in recurrent expenditure.

Agencies also argued that the basis for selection of redundancies was to increase the efficiency of a particular Section and therefore the payment of some redundancies that were not cost efficient were made. In these cases the Agency should provide financial details of the increase in efficiency that will justify the payment of a 'low return' redundancy.

RECOMMENDATIONS

- 3.9 **Appropriate selection criteria in line with the Government's objective, should be developed and an order of priority for their application approved by the Department of Premier and Cabinet.**
- 3.10 **Payback should rate as an important selection criteria and where redundancies are made to employees with a poor payback result, the reasons for selection should be clearly shown.**

7.4 ABOLITION OF A POSITION

As part of the redundancy process, Agencies were supposed to identify those positions that they intended to make redundant, independently of the expressions of interest. Each Agency was required to submit these details to DPAC by 20 July 1990 in accordance with stage 4 of the redundancy process developed by DPAC. Many Agencies commenced the redundancy process after they had reviewed the expressions of interest, which gave the Agency the flexibility to choose individuals and to simply state that it was the position they intended to abolish.

The following is quoted from the Department of Health; 'we waited until we had expressions of interest from our staff and we started the process from there . . . we worked it up from the receipt of the expressions of interest and determined priorities then.' and by the then Minister for Education regarding selection criteria, 'It is difficult to establish the criteria until such time as we know exactly who wishes to take the redundancy package.'

The Department of Education and the Arts stated that it was not in a position to identify positions prior to the review of expressions of interest. This was a breakdown in the objectivity of selecting redundancies in that Agency.

In other cases where positions were targeted prior to the redundancy process, the final outcome did not match up to the desired position.

If no control exists to prevent an Agency from recreating a redundant position, the size of the workforce could increase to an unacceptable level once again. It has been stated by DOTAF that the size (number of employees) of the State Service is irrelevant to the Budget process and the important factor is that Agencies meet their Budget allocations. As the two are inextricably linked it is considered that tight Budgetary control will ensure that employee numbers in the State Service are unable to reach an unacceptable level. However the Committee does not agree that this control alone is sufficient.

A control should have been more stringently adhered to, whereby offers for voluntary redundancy were matched to targeted positions that could be matched to the Budget submissions. Where offers are made to non-targeted positions, details of a corresponding position abolished should have been documented prior to payment, in accordance with the redundancy agreement. This would have provided evidence of the Agency's adherence to a formal and objective selection process that could be used against criticisms of favourable treatment and the targeting of individuals for other reasons. In some cases the Committee suspects that this documentation was only completed due to requests by the Committee.

The Department of Premier and Cabinet was responsible for the monitoring of abolished positions to ensure that a bonafide position was abolished for each redundancy. From the Committee's enquiries it is apparent that this monitoring was inadequate. Examples of vacant and non-equivalent positions abolished, were found. The responsibility for this also rests with the Agencies, as DPAC's monitoring role was reliant on the information provided by each Agency. In most cases, only a position number was quoted and DPAC assumed it was a bonafide position that fell within the guidelines of the program with an affect on recurrent expenditure when in some instances this was not the case.

In relation to the Education Department, the Committee concludes that the only way the Agency can prove an abolished position exists for redundancies, is by a reduction in teaching numbers. The Committee also concludes that due to this process, (where for example, Principals were paid-redundancies and their positions subsequently refilled with a teaching position abolished elsewhere in lieu), that non-equivalent positions were abolished in lieu of redundancies. The Agency has not been able to demonstrate the level of control that existed regarding redundancies and resulting staff transfers, by providing details of an actual teaching position that was abolished and the associated transfer or promotion to a position vacated by a redundancy recipient, e.g. Principal.

The payment of higher or extra duties allowances to employees taking on the duties of redundant officers is an indication that the position abolished is not one where the duties can be dispensed with. It is also difficult to accept that the position was a targeted position in these cases.

Overtime payments and payments for excess hours as a consequence of employees taking a redundancy also suggest that the abolition of some positions was done, when the duties of that position were still required.

RECOMMENDATIONS

- 3.7 A central control should be established to document abolished positions. This control should be used to prevent future increases in the size of the workforce and to ensure that any abolished position is not later created or re-established under another title with a varied position description and to ensure the possibility for redeployment across Agencies is exhausted and the position being abolished is not one that could have been shed by natural attrition.
- 3.8 Programs or sections should be identified for redundancy prior to expressions of interest. The expressions of interest should be sought from these categories of employees only.
- 3.11 Abolished positions and corresponding redundancies (including transfers) should be clearly documented.
- 3.12 A position should be defined as an occupied and funded position to avoid the abolition of vacant positions against redundancies.
- 3.13 Where Agencies have abolished long standing vacant, unfunded and non-equivalent positions in lieu of redundancies, their Budget should be reduced by an appropriate amount or other positions abolished.

7.4.1 Vacant Positions Abolished

The following vacant positions were abolished in lieu of redundancies as follows:—

Department of Health	56
Department of Police and Emergency Services	4
Department of Tourism, Sport and Recreation	12
Forestry Commission	2
Justice	2
Tasmanian Development Authority	7
	<u>83</u>

The total amount associated with these redundancies is in the vicinity of \$3.4 million (excluding Forestry).

It was quite clear to the Committee that certain Officers within the Department of Health either did not understand the Government's requirement of an abolished position, were incorrectly advised, or made a deliberate attempt to circumvent this requirement. From the information supplied to the Committee, this Agency made redundancies but did not abolish the position, (some were subsequently refilled). The Agency quoted position numbers that it abolished in lieu of redundancies, however some of these were unfunded (approximately thirty-two at the Royal Hobart Hospital and nineteen at the Launceston General Hospital) i.e. did not form a part of the 1990-91 Budgeted staffing establishment. Other positions quoted as abolished were vacant positions anyway, resulting in no reduction in expenditure. In addition to this, other positions abolished in lieu of redundancy were non-equivalent positions. The Committee recommends that those Agencies (Health) that abolished vacant unfunded positions in lieu of redundancies should have their Budget reduced by an appropriate amount. The same should apply to Agencies that abolished non-equivalent positions in lieu of redundancies. The Department of Health has stated that it will instigate remedial action and abolish a further thirty-two positions over the next six months. This should also include another twenty positions for the Launceston General Hospital and should be monitored by DPAC.

Other vacant positions abolished in lieu of redundancies have no effect in reducing recurrent expenditure. Agencies could be requested to abolish further positions that will impact on recurrent expenditure from the next financial year and have their Budgets adjusted accordingly. However, the Department of Premier and Cabinet apparently advised Agencies that they could abolish vacant positions in lieu of a redundancy and refill the redundant employee's position. The following is quoted by the Department of Health;

'When the redundancy program was introduced, a special meeting was held on 2 August 1990 of all Chief Executive Officers around the State and attended by Mr F. Ogle and Mr G. Owen from the Department of Premier and Cabinet, to discuss a consistent approach toward implementation of the redundancy process through the Health Agency.

At that meeting it was stressed by Officers of the Department of Premier and Cabinet, that for each redundancy approved the Agency would need to identify a funded vacancy, from recurrent expenditure, to be abolished.'

The Committee takes the view that to use redundancy funds to abolish positions that have been vacated through natural attrition is unnecessary and a waste of money.

In a reply to the Minister for Health the Agency confirmed that at least three Medical Scientists at the Royal Hobart Hospital had been given redundancies and their positions re-advertised and re-filled from outside the State Service. It then detailed three positions abolished in lieu, however one of these had been vacant since April 1990.

The Committee has evidence of redundancies made in the Department of Police and Emergency Services where non-active and non-equivalent positions were abolished. The Acting Secretary stated that, 'clearly we were not going to make additional people redundant where those positions were made vacant by natural attrition.' However in the information they supplied to the Committee, at least four redundancies were made against positions vacated through natural attrition.

RECOMMENDATIONS

- 3.13 Where Agencies have abolished long standing vacant, unfunded and non-equivalent positions in lieu of redundancies, their budget should be reduced by an appropriate amount or other positions abolished.**

7.5 RE-EMPLOYMENT

Two issues exist in relation to re-employment. Firstly, that the redundant employee is not re-employed without penalty before the exclusion period. Secondly and more importantly, that a new appointment is not made to an abolished position, otherwise this would negate the whole rationale for the redundancy. This second reason demonstrates the importance of the abolished position actually being a targeted position previously identified in the Budget process. If it is not, it could be concluded that those duties are still required and a new appointment will most likely be made at some future date as happened in the Department of Health.

The ability of the Agency to re-employ more staff after redundancies is restricted by the Agencies' need to meet Budget requirements which in most cases have been reduced by up to 10 per cent.

The Department of Premier and Cabinet can waive the re-employment exclusion clause for special circumstances. A number of waivers were made for temporary re-employment. One case of temporary re-employment was discovered in the Department of Health for a period of two weeks, that had not been approved by the Department of Premier and Cabinet.

The definition of re-employment has been a subject for debate between Agencies and DPAC which has resulted in the production of guidelines in an attempt to define the area better. The re-employment exclusion clause relates to all employees who wish to enter into a direct relationship with the employing authorities named in the redundancy agreement. This includes Sole Traders, Partners, Consultancies and perhaps small Businesses.

Taxation Ruling number 2286 states the following when defining a bona fide redundancy:

'Where a dismissed employee is soon replaced by another employee with a similar occupational skill or of a similar age, the conclusion might reasonably be reached, in the absence of information to the contrary, that the employee was not dismissed for reasons of bonafide redundancy but for other reasons.'

The Committee has evidence that indicates redundant Officers have been replaced by new appointments in the same job category in nearly all Agencies.

In February 1991, the Department of Premier and Cabinet circulated a list to every Agency of all redundancy payments with the associated exclusion period for re-employment. A check of this list by the Committee revealed that 67 per cent of names listed had an incorrect exclusion period. The exclusion periods bore no relationship to payments made from the Redundancy Trust Account and the list could not be relied upon. This was brought to the attention of the Department in May 1991.

Redundant temporary teachers employed between one and three years are permitted to be re-employed as relief teachers. The rationale for this is not clear.

RECOMMENDATIONS

- 3.18 Lists should be circulated to the Agencies showing the correct periods for exclusion from re-employment.

8. FINANCIAL CONSIDERATIONS

8.1 THREE YEAR IMPACT

It was initially estimated that the program would save \$30 to \$40 million this financial year and \$70 million in a full year which would be reflected in a lower level of debt. The savings in salary payments alone will be in the vicinity of \$58 million per annum. Other savings in administrative expenses will also ensue, estimated to be approximately \$9 million in a full year.

RECOMMENDATIONS

- 3.14 The savings generated by the program should be accurately measured and compared against the total cost. All costs should be included in the calculations such as the redundancy agreement components, the interest cost of borrowed funds, administration costs of the program and any other relevant costs.

8.2 FINANCIAL MANAGEMENT

Although the Department of Premier and Cabinet was responsible for the management of the program, the Department of Treasury and Finance was responsible for assisting with overall financial management.

Whilst the Committee believes the redundancy program to be effective in assisting Agencies to meet their Budgets in most cases, the administration of the program and use of redundancy funds has not been financially efficient.

As described earlier, the reason for this review was because the Legislative Council desired the 1990-91 Budget be reduced by \$20 million i.e. the Consolidated Fund contribution to the redundancy program. The Committee is of the view that had redundancy funds been reduced by \$20 million, a similar level of savings could have been attained through a re-organisation of selection priorities and more effective financial management of the program.

It should be stressed that the *Primary* objective of the redundancy program was to achieve the greatest possible savings in recurrent expenditure to bring the Budget back to a sustainable level within the shortest possible time-frame. It would therefore seem logical that redundancies should have been designed to maximise the savings to the Consolidated Fund. The Committee believes that selection of employees based on the shortest payback period would have been more in line with the Government's primary objective. It should therefore have been the most important secondary selection criteria applied.

The Committee expected a payback analysis to be performed for each redundancy made, or the reasons noted where redundancies were selected that were not cost efficient. In all Agencies examined by the Committee, payback was not considered as an important selection criteria. The Committee also found that the notion of a payback analysis varied between Agencies and it was obvious that there was little financial or accounting involvement in the redundancy program in some Agencies.

Approximately 137 (6%) of redundancies made have a payback period greater than 2.5 years and approximately 141 (6%) have a payback period in excess of 3 years, as follows:—

	2.5-3 years	3 years	Redundancy Cost
Department of Education and the Arts	65	69	\$6.3 million
Department of Employment, Industrial Relations and Training	14	27	\$2.7 million
Department of Health	28	16	\$1.4 million
Department of Construction	10	8	\$946 000
Department of Premier and Cabinet		3	\$527 000
Department of Primary Industry	6	5	\$469 000
Forestry Commission		4	\$402 000
Tasmanian Development Authority	2	1	\$145 000
Department of Resources and Energy	1	1	\$133 000
Department of Roads and Transport		1	\$129 000
Department of Police and Emergency Services	4	2	\$120 000
Department of Tourism, Sport and Recreation		1	\$92 000
Department of Administrative Services and Consumer Affairs	1	1	\$78 000
Department of Community Services	1	1	\$63 000
Department of Environment and Planning	1	1	\$44 000
Department of Treasury and Finance	1		
Department of Justice	3		
Total	137	141	\$13.7 million

Had redundancies where no impact will be made on the Consolidated Fund within three years been excluded then the above \$13.7 million could have been re-directed to other redundancies that would have impacted on the Consolidated Fund. An opportunity cost of this can be calculated as follows:

340 average redundancy payments of \$40 187 could have been made for \$13.7 million. An average salary saved of \$26 000 could have ensued from each redundancy totalling \$26 520 000 over 3 years. A total of only \$11 825 000 was saved in salaries associated with the above redundancies. This calculates an opportunity cost of \$14.7 million as follows:—

	\$
Department of Education and the Arts	6.9 million
Department of Employment, Industrial Relations and Training ..	3 million
Department of Health	1.46 million
Department of Construction	1.06 million
Department of Premier and Cabinet	557 000
Department of Primary Industry	467 000
Forestry Commission	401 000
Tasmanian Development Authority	145 000
Department of Police and Emergency Services	137 000
Department of Resources and Energy	131 000
Department of Roads and Transport	123 000
Department of Tourism, Sport and Recreation	96 000
Department of Administrative Services and Consumer Affairs....	90 000
Department of Community Services	73 000
Department of Environment and Planning	42 000

This analysis does not include redundancy payments in excess of \$100 000 where the payback period falls within 3 years. It can be argued that a better return could have ensued from the payment of less expensive redundancies.

Agencies argued that the reason they paid redundancies to employees where the payback period was greater than 3 years was because it contributed to the restructuring of the Agency. The Committee accepts that this applies in some cases, however it considers that with more efficient management of staff transfers and redeployment that in most cases a redundancy with a better return on savings could have been selected. It also considers that restructuring should precede a redundancy program. The redundancy funds were allocated to each Agency based on targeted positions to be abolished as identified in their Budget submissions. Rather than the achievement of a maximum level of savings, Agencies sought only to achieve the required number of redundancies to use up the allocation. In all Agencies examined, notwithstanding other factors, more redundancies could have been made within the same allocation which would have resulted in a higher level of savings.

The Department of Health stated that financial over-runs in both the North and North West regions will be met by utilising improved cash management procedures and by extending the payment cycle for accounts payable. This latter procedure represents poor financial control. A loan of \$6.5 million was approved for financial over-runs in the Southern Region.

Due to the lack of clear guidance in relation to the application and definition of secondary selection criteria, each Agency was able to apply the criteria in any way that it saw fit and in some cases even made up their own criteria. In some Agencies (e.g. Education) no order of priority was adhered to and secondary criteria was simply re-arranged for each redundancy to suit the Agency's purpose. This provided a convenient justification for selecting employees that the Agency most wanted to take a redundancy. In many cases such a selection did not provide adequate cost savings and did not contribute to the Government's primary objective. The redundancy payment to the former Commissioner of Review is a clear example of this.

The termination package to Mr Dean was a combination of amounts under the redundancy agreement and his employment contract. The total cost of this package was \$358 500, this included \$10 000 for the value of an overseas trip and \$17 000 for the transfer of ownership of his Government vehicle. His payback period was in excess of 3 years, (in other words there will be no cost saving as a result of this redundancy until 3 years later assuming the position is abolished). However, as this position was not abolished but was involved in a Departmental restructure with the Ombudsman's office, the actual cost saving that can be attributed to this redundancy is unclear. It should be noted that under the terms of his contract a termination clause existed that allowed for one week's pay for every six weeks remaining period of employment. This would have amounted to a payment of \$45 000 plus any other accrued entitlements.

A similar arrangement has since been entered into for the Commissioner for Public Employment.

RECOMMENDATIONS

- 3.10 Payback should rate as an import selection criteria and where redundancies made to employees with a poor payback result, the reasons for selection should be clearly shown.
- 3.15 More involvement of financial expertise from within the Agencies may improve the overall Agency control and measurement of the redundancy program.
- 3.23 Payments to employees over and above that provided for in the the redundancy agreement should be fully funded by the Agency.

8.2.1 Examples of Inefficiency

- Abolition of vacant positions in lieu of redundancy (\$3.4 million)
- Abolition of non-equivalent positions in lieu of redundancy.
- Payments to employees on extended leave without pay should be low priority and even excluded from the program due to the chances of them not returning to work. The following statistics of redundancy payments made to employees on leave without pay are taken from the Department of Education and the Arts:
 - 7 employees on lwop since 1987
 - 4 employees on lwop since 1988
 - 7 employees on lwop since 1989
 - 12 employees on lwop for all or nearly all of 1990
 - 7 employees were not due to return until late 1991 or the beginning of 1992.
- Payments to employees on extended maternity leave.
- Payments to employees that would have left or were considering leaving the State Service regardless of any redundancy package, e.g. Some employees in the Department of Education and the Arts stated they would take leave without pay if not given a redundancy.
- The abolition of positions and recreation of similar positions with different titles and altered position descriptions under the banner of a Departmental restructure.
- Payment of redundancies when a transfer could have been effected. The most obvious cases of this appeared in the Departments of Health and Construction. The Department of Construction stated 'We have not at this stage tried to force the issue with construction people to transfer to maintenance.' Approximately 180 Construction workforce employees were made redundant.

- Recruitment of new staff as a consequence of redundancies, e.g Maths/Science Teachers and a number of positions in the Department of Health.
- Overpayments to employees as a consequence of redundancies. The largest case the Committee encountered was a \$28 000 overpayment in the Department of Police and Emergency Services. Two cases existed in the Department of Education and the Arts totalling \$8 000 plus an ex gratia payment of \$7 000 due to errors made by the Agency. In addition the Department of Education and the Arts made fifteen other redundancies to employees that had outstanding salary overpayment debts that were not recovered at the time of redundancy totalling a further \$13 000. The Royal Hobart Hospital made a calculation error in a redundancy which cost the Trust Account an extra \$5 000. It could be argued that where an error has been caused by the Agency then the Agency bear the cost of the overpayment rather than the Redundancy Trust Account.

RECOMMENDATIONS

- 3.12 A position should be defined as an occupied and funded position to avoid the abolition of vacant positions against redundancies.
- 3.13 Where Agencies have abolished long standing vacant, unfunded and non-equivalent positions in lieu of redundancies, their Budget should be reduced by an appropriate amount or other positions abolished.
- 3.15 More involvement of financial expertise from within the Agencies may improve the overall Agency control and measurement of the redundancy program.
- 3.17 Certain categories of employees that do not directly impact on a reduction in recurrent expenditure should be excluded from the redundancy program, e.g. employees on extended leave without pay and extended maternity leave.
- 3.6 The restructure of an Agency Division or Centre should precede any redundancy program so that only employees in superseded positions that have not been successfully allotted into the new structure are offered redundancy.

8.3 MONITORING AND PERFORMANCE MEASUREMENT

8.3.1 Financial Measurement

The Committee is concerned that the measurement of savings generated by the redundancy program has been inadequate.

The Committee has analysed the Redundancy data base and arrived at the following measures.

	<i>Estimated full year salary savings \$</i>	<i>Redundancy Cost \$</i>	<i>Payback \$</i>	<i>Average payment</i>
Department of Education and the Arts	26.9 million	41.2 million	1.53 years	43 011
Department of Health	12.61 million	17 million	1.35 years	32 182
Department of Construction	6.08 million	9 million	1.47 years	37 992
Department of Employment, Industrial Relations and Training	3.3 million	6.1 million	1.82 years	53 993
Department of Police and Emergency Services	2.77 million	4.1 million	1.49 years	45 429
Department of Primary Industry	1.5 million	2.4 million	1.58 years	44 359
Tasmanian Development Authority	740 000	827 000	1.12 years	37 612
Forestry Commission	661 000	1.2 million	1.82 years	30 821
Department of Community Services ...	654 000	685 000	1.05 years	27 407
Department of Roads and Transport ..	582 000	800 000	1.37 years	36 339
Department of Premier and Cabinet ..	494 000	1 million	2.05 years	78 115
Department of Environment and Planning	473 000	599 000	1.27 years	33 281
Department of Justice	429 000	766 000	1.79 years	54 726
Department of Administrative Services and Consumer Affairs	323 000	468 000	1.45 years	33 422
Department of Resources and Energy .	299 000	559 000	1.84 years	61 209
Department of Tourism, Sport and Recreation	182 000	232 000	1.27 years	46 342
Department of Treasury and Finance ..	106 000	148 000	1.39 years	36 967
Department of Parks, Wildlife and Heritage	84 000	53 000	0.64 years	17 725
Total	58 million	87 million	1.5 years	40 188

Included in the payback calculations is all of the long service leave and Retiring and Death Allowance as it was not possible for the Committee to separate the Government's contribution over and above the individual's normal entitlements.

It should be noted that other savings will also ensue as a result of the redundancy program.

It is considered that the utilisation of \$100 million for such a purpose should have been more closely controlled and monitored by the calculation of payback periods in accordance with Government objectives. All costs should be included in the calculations such as the interest cost of borrowed funds.

RECOMMENDATIONS

- 3.14 The savings generated by the program should be accurately measured and compared against the total cost. All costs should be included in the calculations such as the redundancy agreement components, the interest cost of borrowed funds, administration costs of the program and any other relevant costs.

8.3.1.1 Payback Analysis

The Government's primary objective of the redundancy program was to achieve a level of savings that would reduce Budget outlays and therefore extend to a lower level of borrowings within 3 years.

Fundamental to this objective is the attainment of a maximum level of savings that can be achieved by expending \$100 million.

The purpose of a payback analysis is to determine how effective an investment of funds has been and it is used commercially to discriminate between investment alternatives. Other factors being equal, an investor will invest in the shortest possible payback period. After that period has expired, the financial returns are profit or savings. Such an analysis requires the identification of all costs and all income or savings. The purpose of a redundancy program is to achieve a level of savings over and above that program, otherwise there is no financial reason to run the program.

The only way to determine whether the redundancy payment has been financially worthwhile and contributing to a reduction in expenditure in the three year period is to determine whether the cost of the redundancy program will be recovered in terms of savings within three years, e.g. salary. This is a payback analysis.

Because of the change in focus from savings to redundancy Budget achievement, a payback analysis became less important to the Administrators, than redundancy cost. This resulted in redundancies that although met the redundancy Budget and resulted in a reduction of the Agencies outlays, did nothing for the Government's three year objective of a reduction in recurrent expenditure.

A payback analysis could be performed on an individual redundancy basis and on the program as a whole and for each Agency. The following examples illustrate this:—

EXAMPLE ONE—Individual Payback Calculation

F. M. Broadby—Department of Education and the Arts

Total separation cost:—

LSL	\$2 950
Years of Service	\$31 471
RBF	\$101 973
SAF	\$1 324
	<u>\$108 584</u>

In addition F. M. Broadby would be paid any outstanding salary entitlements and any entitlements in respect of annual leave and leave loading.

F. M. Broadby was a part-time Teacher at Howrah and was therefore on a salary of \$19 861.

To perform a payback analysis the identification of all costs and all savings is necessary.

Costs

LSL (in this case)* should be excluded because it is a cost that the Government is bound to, regardless of the redundancy payment.

*It should be included in cases where a pro-rata payment was made that the employee would not normally be entitled to. This also applies to annual leave loading.

Years of Service payment is a payment solely attributable to the redundancy package and should be included as a cost, \$31 471.

3.5 times RBF and interest is a combination of normal employee entitlements and a redundancy payment. 2.5 times RBF is the redundancy package component and should be included as a cost, \$72 838.

SAF is a normal employee entitlement and should therefore be excluded as a cost.

The direct and identifiable costs therefore are:—

Years of service.....	\$31 471
2.5 times RBF.....	\$72 838
Total direct costs	\$104 309

Other costs which could be included are:—

- (i) The cost of interest on money borrowed from internal sources, calculated as follows; 40% of redundancy (borrowed component) multiplied by a commercial rate of interest over the period that the 40% component is recovered in terms of salary and other costs avoided.
- (ii) A proportion of administrative costs of running the program e.g. task force costs, Agency costs.

It is considered unnecessary to apply these other costs for an individual payback analysis. The point of an individual payback analysis is to use the calculation as a selection criteria. The inclusion of these other costs will have little effect and therefore no bearing on a decision to pay or exclude a redundancy based on payback.

Savings

Salary is a saving because the employee has now terminated. Therefore \$19 861 per annum would be included.

Other savings which could be included are:—

- (i) Provision for long service leave, annual leave loading and sick leave relative to the employee.
- (ii) The future cost the Government has avoided by terminating an employee now rather than at retirement. This saving is somewhat intangible and is based on various assumptions. It would also be necessary to convert the future cost avoided into present day values to compare it to money expended today.

It is unnecessary to include these intangible savings on an individual basis.

The payback calculation for F. M. Broadby is therefore:—

Cost	\$104 309
Savings.....	\$19 861
	per annum

\$104 309 divided by \$19 861 per annum equals 5.25 years (5 years 3 months) from termination.

EXAMPLE TWO—Total Payback Calculation

For a total payback calculation all the direct costs and direct savings as outlined above should be included.

COSTS

Total direct and easily identifiable costs to be included:—

Total years of service payments were.....	\$39 395 444
Total RBF (2.5 times) payments were	\$27 626 075
Total Pro rata leave loading payments	\$252 309
Total Retiring and Death Allowances*	\$7 621 476
Long Service Leave*	\$12 352 460
	<u>\$87 247 844</u>

Other direct costs:—

* A number of payments for long service leave and retiring and death allowance should be included as some were over and above normal employee entitlements have been included in our calculations.

Indirect and not easily identifiable costs:—

Administration costs of the program by the Task Force, Central Agencies and Agencies involved in the program

Interest costs on borrowed funds

Opportunity cost of funds contributed by the Consolidated Fund.

SAVINGS

Total direct and easily identifiable savings:—

Total salaries saved per annum \$58 278 102

Payback to this point is \$87 247 844 divided by \$58 278 102 which equals 1.5 years.

Other direct savings:—

annual leave loading

annual leave

provision for long service leave and sick leave

SAF

Indirect savings:—

Savings in administration and management costs relating to a reduction in employees.

A present value judgement of the future cost the Government has avoided by reducing the number of employees in the State Service and therefore its future liability for RBF payments when those employees retired.

RECOMMENDATIONS

- 3.10 Payback should rate as an important selection criteria and where redundancies are made to employees with a poor payback result, the reasons for selection should be clearly shown.

9. NUMERICAL MEASUREMENT

It became obvious to the Committee that the Government could not easily identify the number of people it employed at any particular time. This is due to the inadequacy and incompatibility of the State's personnel management systems. Also, as State Service employee numbers fluctuate continuously through natural attrition and hiring of casual employment due to seasonal variations, e.g. School Holidays, a quoted figure at a particular date may not be reliable a month later and is no indication of average employment over a year. The measurement of a reduction in employee numbers was generally not attempted by the Government for these reasons. The adequacy of the redundancy program in achieving an overall reduction in employee numbers across the State Service is therefore only assumed to have occurred by the fact that approximately 2 000 employees were made redundant and an existing occupied position was supposedly abolished. The Government considers that numerical measurement is not important as the over-riding consideration is meeting the Budget. However, this provides no indication of the contribution by the redundancy program to the Budget result.

It should be noted that in a briefing note to the Minister from DPAC, it would appear that in the period July 1989–May 1990, employee numbers increased by 1 364.

Treasury figures for FTE's in the same briefing note indicate a reduction of 273 from June 1989 to May 1990 when the Labor Government was in power. The corresponding period for the previous year when the Liberal Government was in power indicates a reduction in FTE's of 222.

The following figures are quoted which also indicate that employment numbers rose in the year preceding the redundancy program:—

Commissioner for Public Employment

In the 1989–90 financial year employee numbers increased by 3 056 (535 FTE's). This figure excludes some casual and part-time employees in the Departments of Education, Health, Forestry, Community Services and Roads and Transport. It should also be noted that the Commissioner for Public Employment warns that these figures may not be accurate.

Retirement Benefits Fund

In the 1989–90 financial year the number of contributors increased by 296.

June 1985.....	18 437	
June 1986.....	18 682	+245
June 1987.....	19 052	+370
June 1988.....	19 462	+410
June 1989.....	19 330	—132
June 1990.....	19 626	+296

It should be noted that not all State Service employees are required to contribute to RBF.

Superannuation Accumulation Fund

In the 1989-90 financial year the number of State Service employees covered by this scheme increased by 1 633. It should be noted that any employee who has been employed in any capacity is included in this scheme. These numbers only include 'live' contributors and not those who have ceased contributions.

There were 508 more appointments than separations over the period September 1989 to September 1990 as reported in the State Service Gazette.

The above figures all indicate that employee numbers within the State Service increased in the 1989-90 financial year.

The Committee requested figures relating to new appointments over the period 1 October 1990 to February 1991 and these are detailed below as supplied by each Agency:—

<i>New Appointments</i>	<i>PF</i>	<i>TF</i>	<i>PP</i>	<i>TP</i>	<i>CAS</i>	<i>SESS</i>	<i>Total</i>
Department of Health	228	244	147	133	96	12	860
Department of Construction ....	....	10	....	....	....	....	10
Department of Education and the Arts	4	114	....	....	....	....	118
Department of Police and Emergency Services	3	22	....	....	....	....	25
Department of Primary Industry	8	38	....	4	....	....	50
Department of Employment, Industrial Relations and Training	9	17	....	....	....	....	26
Department of Community Services	68	....	2	....	20	....	90
Department of Resources and Energy .....	....	3	....	2	....	....	5
Audit Department	1	....	....	....	....	....	1
Department of Treasury and Finance	7	14	....	....	....	....	21
Department of Tourism, Sport and Recreation	7	21	....	....	....	....	28
Department of Environment and Planning	5	14	....	....	....	....	19
Department of Parks, Wildlife and Heritage	2	15	....	....	....	....	17
Department of Roads and Transport	25	7	....	1	2	....	35
Department of Administrative Services and Consumer Affairs	14	13	1	1	....	....	29
Department of Justice	31	25	....	....	....	....	56
Tasmanian Development Authority (no figures supplied) .....	....	....	....	....	....	....	....
Department of Premier and Cabinet	5	11	....	....	....	....	16
Total	417	568	150	141	108	12	1 406

Figures from the Australian Bureau of Statistics indicate that total State Public Servants employed in both Budget and non-Budget sectors fluctuated since 1983 as follows:—

August 1983	39 500	
August 1984	39 600	+ 100
September 1985	40 400	+ 800
September 1986	40 100	—300
September 1987	40 000	—100
September 1988	39 500	—500
August 1989	40 600	+ 1100

The Committee obtained employee figures from Agencies as at 31 December 1990 and a comparison to CPE figures as at 30 June 1990 is shown below:—

	30-6-90	31-12-90	variation
Department of Administrative Services and Consumer Affairs.	408	415	+7
Department of Community Services	934	1 163	+ 229*
Department of Construction	1 825	1 751	74**
Department of Environment and Planning	497	462	—35
Department of Treasury and Finance	256	205	—51
Forestry Commission	320	311	—9
Department of Health	11 050	10 549	—501*
Department of Justice	351	317	—34
Department of Parks, Wildlife and Heritage	291	335	+44
Department of Police and Emergency Services	906	894	—12
Department of Premier and Cabinet	209	192	—17
Department of Primary Industry	763	696	—67
Department of Resources and Energy	274	262	—12
Department of Roads and Transport	1 197	1 289	+92
Department of Tourism, Sport and Recreation	439	376	—63
Audit Department	66	63	—3
Motor Accidents Insurance Board	17	18	+1
Tasmanian Development Authority	20	23	+3
Total	19 823	19 321	—502

* Variation is partly due to some functions transferred from the Department of Health to Community Services. Figures for Health do not include casuals.

** Decrease would be higher as staff transferred from the Department of Education and the Arts.

— Figures are head counts.

The above figures indicate a reduction in employee numbers of 502, excluding the Departments of Education and the Arts and Employment, Industrial Relations and Training, however, some doubt is cast on the validity of comparing employee numbers at two different dates to determine a change in the level of employment. By 31 December 1990 approximately 1 000 redundancies had been made plus a further 500 in the Departments of Education and the Arts and Employment, Industrial Relations and Training.

The Departments of Education and the Arts and Employment, Industrial Relations and Training were excluded as the information supplied by the Department of Education and the Arts was incompatible to the CPE figures and TAFE employees were not separately identified. However the following analysis is done to indicate the variance in employment numbers of these two Departments:—

	30 June 1990	31 December 1990	Variance
Education (FTE)	8 924	6 630	—2 294*
DEIRT (Head Count)	224	1 374	+ 1 150*

* TAFE employees transferred to DEIRT from Education.

Any increase in the number of excess hours paid to teachers should also be taken into account when assessing the change in employee numbers in these two Departments.

Other areas, e.g. the Royal Hobart Hospital reported an increase in FTE's from 31 August 1990–28 February 1991 despite the redundancy program. The Southern region had an increase of seven staff over the period July 1990–March 1991. According to figures produced by the Agency, the remainder of Health Services experienced a reduction in employee numbers comparable to the number of redundancies over this period.

RECOMMENDATIONS

- 3.1 A formal and conclusive evaluation of natural attrition should be undertaken and supported by historical and factual data, prior to the implementation of any future redundancy program. Other alternatives should also be reassessed such as position re-classifications to lower levels, recruitment freezes and retrenchments.

9.1 COMMISSIONER FOR PUBLIC EMPLOYMENT

Under the current philosophies of global budgeting and risk management, the importance placed on the Commissioner for Public Employment to produce reliable employee figures to support the Budget process is less significant. The figures produced in his annual report are a snapshot as at 30 June and are subject to a number of qualifications due to unreliable, incomplete and incompatible data supplied by Agencies.

The Commissioner has certain statutory obligations in relation to ratios of temporary to permanent employees and so on. Apart from this the information compiled by the Commissioner is indicative only, and provides little benefit to the State. Section 10 of the Tasmanian State Service Act requires the Commissioner to keep records of all permanent State Service employees detailing for each employee, the age, date of appointment, position held, classification and salary. The Commissioner acknowledges the difficulties in meeting this requirement.

RECOMMENDATIONS

- 3.22 Consideration should be given to changing the relevant Act to provide statutory authority to the Commissioner for Public Employment for the collection of accurate employee records to support the Budgetary process and to provide a statistical database to facilitate Government and management decisions.**

10. OTHER MATTERS

There was a sense of insecurity generated by the program.

The level of morale and service delivery has fallen within the Agencies as a consequence of the redundancy program. Although Agencies maintain that morale and quality of service is as good as it ever was, if not better, the Committee has difficulty accepting this due to the submissions it has received from Staff Associations, School Principals and employees.

The Government included in the redundancy program, groups of employees where their redundancy either did not have a direct effect on the Consolidated Fund or under normal circumstances could have been shed under less costly alternatives. Such employees include temporary teachers, construction workforce employees, and some contract employees.

Construction workforce employees are funded from a Trust Account outside of the Consolidated Fund. Costs are recovered from contracted clients, which are generally other Agencies. The Department of Construction required only thirty-eight redundancies to meet its Consolidated Fund Budget requirements. Approximately 250 redundancies were made despite the Commonwealth Government's stipulation that redundancies should have an impact on recurrent expenditure.

The Government felt it had a moral obligation to include these employees in the program or to adopt some other suitable arrangement.

In relation to temporary teachers employed between one and three years on a specific contract basis, the Department of Premier and Cabinet wrote to the Department of Education and the Arts and stated the following:

'As these teachers were employed for specific periods to replace other teachers on leave, technically, it could be argued that they do not satisfy the requirements to be treated as category 2, i.e. there was no expectation of continued employment. However it has been decided within the spirit of the agreement the entitlements under the redundancy agreement are to be applied. In addition the re-employment conditions will be waived where these employees are re-employed as relief teachers.'

In the Department's of Education and Health, some of the most qualified employees with valuable skills and experience were paid redundancies. Employees were made redundant when there was a continued need for their services.

Confidentiality of expressions of interest, offers and acceptances could be improved. There were numerous complaints regarding breaches of confidentiality from redundancy recipients.

Employees were notified that if they had already lodged an intention to resign or retire they could withdraw, provided it had not been formally accepted by the Head of Agency. One of the criticisms of the program has been that employees who would have resigned for other reasons are receiving a redundancy payment. This could be seen as an unnecessary use of redundancy funds.

RECOMMENDATIONS

- 3.2 The development of adequate policy and an appropriate infrastructure prior to the commencement of any redundancy program.**

11. PROGRAM EXPLOITATIONS

Department of Justice

The former Commissioner for Review was made redundant and his position combined with that of Deputy Ombudsman. His redundancy was approximately \$385 000 and included a payment of \$10 000 for an overseas trip which he hadn't taken whilst he was employed and which did not form part of his Instrument of Appointment. He was also provided with a motor car.

Department of Premier and Cabinet

The Commissioner for Public Employment was paid a redundancy of \$190 000 which was more generous than the redundancy agreement and included the cost of a motor car. The funding for the motor car was inconsistent to that made for the Commissioner for Review which was funded by the Agency. The Department of Premier and Cabinet should fund part of this redundancy that is over and above that provided under the redundancy agreement. The duties were incorporated into a restructured position that was later advertised as vacant.

The Department of Education and the Arts

Due to a withdrawal of State funding from the North-West Education Centre, an employee seconded to the Centre was re-employed in the same position. His redundancy payment was one of the most expensive (\$174 570 + annual leave entitlements) and no savings would result from his redundancy for nearly 4 years (1995). The Committee regards this redundancy payment as an unnecessary use of redundancy funds.

An employee seconded to the University of Tasmania was re-employed by the University in the same position that she was occupying at the time of her redundancy.

The position of Deputy Secretary (Education) was refilled. Other senior positions were created which contained marked similarities to abolished positions held by redundant senior officers.

Senior officers were paid expensive redundancies and yet other employees were denied a redundancy package because theirs was considered too expensive.

An employee was mistakenly advised by the Agency in 1987 that she could continue working and receive a pension from the RBF at the same time. In October 1990 it was discovered that this employee was receiving a retirement pension and was still employed. The Agency then retrospectively retired the employee and changed her employment status to temporary to cover the period from March 1988. The employee was then paid a redundancy under category 2 of the redundancy agreement as from March 1977 which included a payment of \$18 400 for an amount equivalent to a benefit under the 1925 Retiring and Death Allowance Act.

The termination date of a teacher was changed due to promotion to a higher classification, and the higher salary was included in the redundancy payout.

Maths/science teachers were made redundant and new ones recruited due to underestimated enrolment predictions in Senior Secondary Colleges.

A Senior Master with extensive skills and experience, qualifying for a Bachelor of Education, Master of Educational Studies, Graduate Diploma of Special Education and Doctor of Philosophy was made redundant. This teacher had been in receipt of a travelling scholarship and had recently completed a term of leave without pay to further his experience overseas. No savings would ensue to the Government for at least 4½ years from his redundancy payment of \$165 289 (+ annual leave entitlements).

In May 1990 an employee in the Personnel Section wrote to the Director (Personnel) and stated that he had successfully managed to open a freight operation business. He was made redundant.

An employee had just returned from the U.K. on a travelling scholarship and although bound to the Agency for a further two years was paid a redundancy.

An officer wrote to the Agency stating that he had another job and would therefore like to accept a redundancy package. He was made redundant and terminated on 2 January 1991.

A teacher requested retraining in a different teaching area or as a Teacher-Librarian. The employee had a poor performance record and the Agency expressed concerns about her ability. She took a redundancy because the Agency did not provide any other employment opportunities.

Five employees were listed by a Regional Director as candidates for redundancy for the following reasons:—

- Major personal and family reasons
- Alcoholic
- Poor Health

Department of Police and Emergency Services

Two Police Officers were on extended sick leave in 1990 up to their date of termination, one since January.

An Ambulance Officer made redundant was unsuitable for Ambulance work and it was recommended that he no longer be permitted to undertake the duties of an Ambulance Officer.

A redundant Police Officer had been convicted on charges relating to deer. His position was subsequently filled and although a position was abolished for this redundancy, it was a vacant position that resulted in no savings to the Government.

A number of Police Officers were made redundant against the abolition of previously vacant positions. Positions held at the time of redundancy were subsequently refilled.

The Deputy Commissioner was made redundant and received approximately \$80 000 plus normal entitlements. A new position of Assistant Secretary/State Commander was created.

An officer made redundant by the Department of Primary Industry was hired on a consultancy basis by the Department of Police and Emergency Services.

Two officers within the Ambulance Service were given more responsible duties allowances as a result of redundancies.

Department of Health

The Royal Hobart Hospital and the Launceston General Hospital abolished vacant and unfunded positions in lieu of redundancy, which have no effect in reducing recurrent expenditure. Redundant positions were subsequently refilled or listed as vacant.

Two Hospital Scientists were made redundant when their services were still required.

A Senior Radiographer at the Royal Hobart Hospital received a redundancy, his position was re-advertised the next day. The position abolished in lieu was his Secretary's position who had already resigned of her own accord anyway and whose salary was well below his. His position is one that is difficult to fill due to the need for specialist skills.

An employee retired in 1987 due to ill health and received a pension. She was immediately re-employed on a permanent part-time basis after her retirement. She was paid a redundancy based on her years of service to 1973, despite a legal opinion to the contrary.

Department of Primary Industry

A restructure at Director level enabled redundancies for three Directors which cost approximately \$230 000 plus normal entitlements and two new positions were created.

Other

Officers co-ordinating the redundancy program in the Department's of Health, Police, Primary Industry, Education and the Tasmanian Development Authority all took redundancy packages.

Vacant positions were abolished in the Tasmanian Development Authority and the Departments of Tourism, Sport and Recreation, Health, Police and Emergency Services and Forestry.

Non equivalent positions were abolished in lieu of redundancies.

12. ALTERNATIVE STRATEGIES

One of the steps of decision making is the evaluation of all possible alternatives. It is considered that such an evaluation should have been performed prior to the decision to undertake a redundancy program. From requests for documentation relating to the evaluation of other alternatives it would appear that other alternatives were not formally evaluated to any great extent. Longer term and less costly alternatives may have proven more effective such as natural attrition, recruitment freezes, reclassifications and retrenchments. The method chosen to reduce the size of the workforce needs to be socially, politically and financially acceptable.

Without factual or historical data to indicate that the objectives of the program could not have been achieved through natural attrition, it should not be concluded that this program was the most cost-efficient alternative.

According to DPAC the process of natural attrition has led to imbalances in employment groups because of its indiscriminate nature causing a shortfall in skills in areas of high turnover while not addressing areas of low turnover. This ignores the fact that imbalances can be corrected by transfers and redeployment as has happened to correct such imbalances and shortfalls that have occurred as a result of this redundancy program.

According to DPAC, strategies in place to reduce the size of the workforce over this period, natural attrition, staff ceilings and other employment restrictions have failed to have any substantial impact on the numbers of employees.

The advantage of natural attrition is that savings are immediate whereas savings under a redundancy program will not commence until nearly two years from date of payment. The skills needed to effectively manage a natural attrition policy are considered to be greater than those needed to run a redundancy program and will generally cover a longer term. Natural attrition will avoid the need to make large payments to employees which are perceived by the public to be a bonus for those employees. Natural attrition is better received by the public and by State Service employees than a redundancy program, which causes resentment by those who were not involved or were excluded from the program.

A portion of the public consider that redundancy programs are either a sham or a waste of taxpayers money. This controversy does not surround a natural attrition policy.

Redundancy programs are a more convenient way to restructure an organisation but if managed poorly can have an adverse effect on staff morale. Events such as the following which occurred in the Department of Primary Industry and similar events that occurred in other Agencies especially the Departments of Education and Police adversely affected staff morale in those Departments:

In the Department of Primary Industry (DPI), a review at Director level was undertaken by one of the Directors. The Director recommended that his own position plus that of one of his colleagues be combined and the position advertised. This allowed the two Directors to take a redundancy package. Another Director who took a redundancy package apparently had just previously had his contract renewed for a further three years. In January 1991, DPAC wrote the following in a minute to the Premier regarding DPI; 'one large redundancy requiring reallocation of funds from the Department of Education and the Arts DPI have indicated that they require at least another forty redundancies to achieve Budget'.

Redundancy programs are selected over natural attrition by many large organisations and Governments, e.g. State and Federal. The Committee did not have the time or resources to examine other redundancy programs. However, it could be an advantage to obtain information as to why a redundancy program was selected in other State Governments and how it was implemented, before this Government embarks on another program. It may also provide a list of controls which ensure the Government's objectives for a redundancy program are achieved.

Experience in other Services has shown that where a voluntary redundancy package has been offered, it has tended to attract the type of employees that Agencies would least want to lose.

It is considered that this program would have been more effective if it was combined with natural attrition.

The Committee obtained the number of natural terminations from Agencies over the period 1 July 1989 to 31 December 1990 as follows:—

Department of Health	2893
Department of Education and the Arts	152....(July 1990-30 January 1991)
Department of Employment, Industrial Relations and Training	164
Tasmanian Development Authority	42
Forestry Commission	56
Department of Tourism, Sport and Recreation	80
Department of Administrative Services and Consumer Affairs	49
Department of Police and Emergency Services	364
Department of Roads and Transport	150
Department of Premier and Cabinet	45
Department of Resources and Energy	46
Department of Parks, Wildlife and Heritage	196
Department of Construction	160
Department of Primary Industry	211
Department of Community Services	312
Department of Environment and Planning	131
Department of Treasury and Finance	68
Audit Department	13
Department of Justice	25
Total	5 157

Figures relate to all classes of employees.

It should be noted that some resignations may have been inter-agency promotions and transfers. The CPE reports that 1 017 inter-agency promotions occurred in 1989-90 excluding senior executive appointments.

Having reduced the recurrent expenditure allocation to Agencies for 1990-91, the primary consideration is that Agencies use the redundancy program to achieve their Budget. A favourable Budget result is largely dependant on the efficient administration of the redundancy program. It should be noted that Agencies may meet their Budget requirement and not achieve a reduction in employee numbers. This may happen by redundancies at senior levels and new appointments at junior levels, thereby changing the mix of salaries and reducing the overall wages bill.

Fewer senior employees and greater recruitment at lower levels will provide the same level of employment for the same wages cost. This could be achieved by a reclassification of positions to a lower level when they become vacant. Information supplied to the Committee suggests that the Police Force has one Commissioned officer to every fifteen or sixteen junior officers, which is very much the highest in Australia. Apparently Queensland has one commissioned officer for fifty-two junior officers and the Australian average is approximately one Commissioned officer for thirty junior officers. If this information is correct, then aligning the Tasmanian Police Force with the Australian average will provide significant salary reductions.

An assessment of State Service age profiles could suggest a feasible reduction in staff would be possible by simply removing the years of service penalties, targeting a specific age group (allowed by the Tax Office) and placing a freeze on new appointments.

RECOMMENDATIONS

- 3.1 A formal and conclusive evaluation of natural attrition should be undertaken and supported by historical and factual data, prior to the implementation of any future redundancy program. Other alternatives should also be reassessed such as position reclassifications to lower levels, recruitment freezes and retrenchments.

13. APPENDICES

Appendix I

Selection Criteria

Appendix II

Extracts from a report prepared by the Department of Premier and Cabinet on the redundancy program.

Appendix III

Summary of hot-line calls received by the Opposition spokesman on Public Administration.

Appendix IV

Example of redundancy payments to employees in each category.

APPENDIX I**GUIDELINES FOR DETERMINING WHICH EMPLOYEES ARE TO BE OFFERED
REDUNDANCY OR EARLY RETIREMENT****INTRODUCTION**

Approval of the Government's redundancy program as an early retirement scheme, and thereby qualifying for concessional tax treatment comes with a number of conditions in regard to the category of employees eligible to participate and the purpose for implementing the scheme.

There is a potential for concern in that application of inappropriate criteria for determining an employee's eligibility to participate may lead to approval of the scheme being withdrawn for a particular agency or agencies.

CRITERIA FOR DETERMINING WHICH EMPLOYEES ARE TO BE OFFERED REDUNDANCY—Based on Tax Office criteria

(1) The position in which the employee is substantively employed is to be abolished due to rationalising or reorganising the operations of the agency.

(2) A position at a similar level to which the employee is substantively employed is to be identified and abolished.

(3) To maximise the reduction in recurrent expenditure by the cessation or reduction of the whole or part of the agency's operations, or by the relocation of the whole or part of the agency's operations (this will involve a number of positions as in one or two above).

(4) The need to replace employees possessing a particular occupational skill with those possessing a different such skill.

(5) The replacement of employees of a particular age or ages (not less than 55 years) with younger employees.

In addition to the above priority may be given to employees, when considering making an offer of redundancy, on the following basis:—

- length of service;
- cost of the redundancy package;
- redeployment or retraining is not practical or cost effective;
- occupational skill possessed by the employee is no longer needed.

NB: Concessional tax treatment of redundancy payments is not available where the redundancy program is directed mainly towards ensuring the retirement of employees who are *inefficient*, or *because of personal (e.g. health) or disciplinary reasons*.

Agencies have a right to limit the redundancy offers made to ensure the scheme does not result in the retirement of all employees in particular key areas, to the detriment of its operations. In other words, a Head of Agency has the right not to offer a redundancy to personnel who cannot readily be replaced and whose loss would impair the efficiency of the agency's operations.

13.1 APPENDIX II

EXTRACTS FROM A REPORT PREPARED BY THE DEPARTMENT OF PREMIER AND CABINET REGARDING
THE ADMINISTRATION OF THE REDUNDANCY PROGRAM

- (i) 'Preliminary discussions with DOTAF and the Premier's Office indicate that there will be a reduced program next year.'
- (ii) 'the extent of centralised control as opposed to greater autonomy for individual Agencies needs to be considered.'
- (iii) 'It is suggested that the expressions of interest process could be eliminated and replaced with an application for redundancy which in the first instance would be restricted to targeted positions and programs.'
- (iv) 'Agencies should be required to identify reasons, criteria used and alternatives explored.'
- (v) 'Entitlements and benefits were sufficient to attract more than enough interest in voluntary redundancy.'
- (vi) 'Certain issues to be addressed under any new redundancy agreement:
 - Leave without pay cases
 - Capacity to recover an overpayment
 - Clarification and tightening of re-employment provisions
 - Applicability of retrenchment to temporaries and availability of retrenchment provisions.'
- (vii) Recommendation 2 of the report states the following:—
 - 'A review and evaluation of this year's program be undertaken. The review should identify and recommend action on the following:—
 - (a) process including how positions are to be identified and prioritised in the future.
 - (b) selection criteria to be used and how positions will be targeted.
 - (c) roles and responsibilities for all parties involved in particular the extent of centralised control and processing.
 - (d) security arrangements to be applied.
 - (e) disputes resolution format.
 - (f) funding including the extent of Agency funded programs.
 - (g) the degree of union support for a future program.
 - (h) entitlement changes for purposes of negotiations including simplification of the package.
 - (i) desirability of an on-going early retirement program for those over 55 years.
 - (j) the issue of retrenchment process and entitlements with clarification on issues such as temporary employees.

APPENDIX III
SUMMARY HOT LINE CALLS

To 23 March 1991 I have received some 211 calls as follows:—

Delayed payments (particularly RBF)	34	(people cashless 12)
Complaints, 28 days exceeded	14	(6 want interest)
Were leaving anyway	13	
Refilling jobs	35	
Want redundancy, can't get it when others can	46	(including 13 complaints morale)
Jobs immediately re-advertised	7	(2 not confirmed)
Hierarchy receiving large payments	18	
Re-employed on consultancy	6	
Overpayment received	2	(1 confirmed)
Underpayment received	1	
Underpayment offered	4	(4 resolved)
Overpayment offered	3	(2 resolved)
Terms of contract changed	1	
Union representatives (confidential)	4	
No work, can't receive redundancy	1	
Delays in advice	9	
Department Primary Industry Implementation	5	
Outside scheme e.g. H.E.C.	8	
	<u>211</u>	

APPENDIX IV

EXAMPLES OF REDUNDANCY PAYMENTS WITHIN EACH CATEGORY

Category 1

To the Committee's knowledge no Category 1 redundancies have been paid.

Category 2

Example No 1: With a Retirement Benefits Fund (RBF) payment amounting to 3.5 times total contributions and interest.

Age	47	
Length of Service	16 years and 10 months	
Salary	\$54 153	
<i>Components of Redundancy Payout</i>		
		\$
Long Service Leave		5 728
Years of Service		39 230
Leave Bonus		78
RBF (3.5x)		135 641
Superannuation Accumulation Fund		3 250
Total		183 927
Total cost from the Trust Account		\$141 922

Category 2

Example No 2: Without RBF, but including a payment under the Retiring and Death Allowance Act.

Age	49	
Length of Service	33 years and 10 months	
Salary	\$23 551	
<i>Components of Redundancy Payout</i>		
		\$
Long Service Leave		2 400
Years of Service		21 739
Retiring and Death Allowance		21 739
Leave Bonus		226
Superannuation Accumulation Fund		1 481
Total		41 181
Total cost from the Trust Account		\$39 700

Category 3A

Example No 3: This person elected to have penalty removal from their Retirement Benefits pension, therefore reducing the years of service payment by 50 per cent.

Age	57	
Length of Service	29 years and 1 month	
Salary	\$42 400	
<i>Components of Redundancy Payout</i>		
		\$
Long Service Leave		11 415
Years of Service		19 569
(100% Years of Service = \$39 138)		
Leave Bonus		81
Superannuation Accumulation Fund		2 784
Total		33 849
Total cost from the Trust Account		\$31 065

Category 3a

Example No 4:

Age	58
Length of Service	33 years and 7 months
Salary	\$37 953
<i>Components of Redundancy Payout</i>	
Long Service Leave	\$ 8 102
Years of Service	20 348
Leave Bonus	47
Superannuation Accumulation Fund	2 502
Total	30 999
Total cost from the Trust Account	\$28 497

Category 4

Example No 5:

Age	63
Length of Service	35 years and 3 months
Salary	\$44 527
<i>Components of Redundancy Payout</i>	
Long Service Leave	\$ 19 009
Years of Service (20%)	8 220
Leave Bonus	47
Superannuation Accumulation Fund	2 627
Total	29 903
Total cost from the Trust Account	\$27 276

One case that has come to the Committee's notice involves a Category 3A, whose age is 59 years and 361 days as at termination, with the total from the Trust Account amounting to \$76 653. Had this person terminated on their 60th birthday, the redundancy payment would fall under Category 4, thereby substantially reducing the cost to the Trust Account to \$24 504.