



David Crean MLC

Legislative Council

Date: 21 July 1992

Electorate: Elwick

OVERDRAWING OF GOVERNMENT TRUST ACCOUNTS

Mr WILSON (Monmouth) - Mr President, I move -

That the Legislative Council and the ... condemn the former Treasurer of Tasmania, the Honourable M.W. Field, MHA, for his totally inappropriate and irresponsible actions in permitting the Special Deposits and Trust Fund (SDTF) established under section 13 of the Public Account Act 1986 - namely, T738, Tasmanian Redundancy Agreement Program and T775, Rosetta Landslip Account - to be overdrawn without the specific authority of the Parliament of Tasmania.

Dr CREAN (Buckingham) - Mr President, first I would like to join other members in congratulating you on your elevation to the high office of President. I am sure you will serve that position with distinction and I would like to congratulate the former President, the honourable member for Macquarie, on the service he gave to this Council as President. I was not here of course but from all accounts he did an excellent job in that position.

I would also like to congratulate the member for South Esk on his recent election and on his excellent maiden speech. I hope he and I have a long and productive relationship together in this Council, as I hope I will also have with all other members of this Council and of course all staff members associated with the Council as well.

Mr President, with all due respect to the honourable member for Monmouth, if he wishes to make a motion to discuss a fundamental principle, I suggest the motion should be worded in that way. In my view this motion is quite specific - it is condemning the former Treasurer for actions he took in relation to specific areas and it deals with State indebtedness, and I want to address my comments to the specificity of the motion. I believe there are two important aspects to the motion: the aspect dealing with the legal and procedural areas, and the issues that flow from this motion in terms of an understanding of the State debt problem and the role of the redundancy scheme in coming to grips with that debt problem.

The issue of the overdrawing of these trust accounts was raised by the Solicitor-General and the Acting Auditor-General in their respective reports of September last year, and I would like to quote first of all from page 22 of the Acting Auditor-General's Report, and there is some overlap with what the member for Monmouth himself has quoted. The Acting Auditor-General says on page 22:

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'whenever the Government incurs expenditure from an account in the SDTF which results in that account having an overdrawn balance, that expenditure - to the extent it has caused the adverse balance - has also relied on the cash reserves of the SDTF.'

He goes on to say, on page 23:

'It has been estimated by Audit that borrowings for various purposes by significant reductions in cash reserves amounted to approximately \$60 million at 30 June 1991.

The majority of the reduction in cash reserves is directly attributable to the expenditure incurred by the State in relation to the Redundancy Program which was implemented in 1990-91.

Having regard to the materiality of the level of internal borrowings as at 30 June 1991 and the possibility of further reductions of up to \$30 million in cash reserves in the course of funding the proposed Public Sector Restructuring Program in 1991-92, I sought legal advice on this form of funding.'

So having made the statement that governments in the past have used the credit of the Special Deposits and Trust Fund to fund specific accounts which are overdrawn, he sought a legal opinion from the Solicitor-General as to its validity. The Acting Auditor-General included the whole report from the Solicitor-General, which appears on page 29 of his report, and I want to quote briefly from that. The Solicitor-General said:

'it is my opinion that the "overdrawing" of particular accounts within the Special Deposits and Trust Fund, the Fund itself always remaining in credit, is not prohibited by the provisions of the Public Account Act, so that the particular dealing which I have been asked to consider is lawful.'

He then went on to say:

'The authority for dealing with the accounts in the manner which occurred is to be found in S13 of the Act. S13(8) plainly implies that the Treasurer may expend monies standing to the credit of the Fund for the purposes of the Fund.'

That is the opinion of the Solicitor-General and in response to that the Acting Auditor-General said:

'On the basis of this advice the Treasurer has the ability under Section 13 of the Public Account Act to establish an account within the SDTF with the intention of the account becoming overdrawn.

Furthermore, there is no statutory limit, other than the balance available in the SDTF, on the amount which may be overdrawn provided that a mechanism for recoupment of the overdrawn amount is established and is unswervingly applied.'

So there is no question about the legality, the precedent or the procedure in the former Treasurer's overdrawn these accounts. In fact, on page 31 of budget paper 1 attached

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to the 1990-91 Budget the Treasurer made his intention perfectly clear in relation to the Tasmanian Redundancy Agreement Program. He said:

'The temporary use of cash reserves to fund the balance of the Program will be restored with interest over the next five years.'

The accompanying table indicated that it would be financed in part by a reduction in cash reserves to the tune of \$40 million. They are the clear facts in relation to this issue.

Let us look at this argument about whether future appropriations can be presumed in funding these sorts of arrangements. I submit that all future governments will have a responsibility for past financial decisions; they always have and always will have. Here we have an arrangement which was accepted practice, was legal, involved a scheme which was the only way to cope with our debt problem, and which involved a pay-back mechanism out of its savings - a stark contrast to the schemes of the previous seven years. How much more responsible do we want a treasurer to be. Mr President, it is quite clear that the actions of the former Treasurer were neither inappropriate nor should they be condemned.

In relation to the second aspect of this motion - matters relating to the understanding of the debt problem in this State and the role of the redundancy scheme in coming to grips with that problem - I want to put a perspective on budgetary debt in this State.

In 1982 the accumulated net debt serviced on behalf of the Consolidated Fund amounted to about \$400 million. Interest payments on that debt amounted to about \$42 million, and the percentage of our budgetary recurrent income going in debt servicing was just over 6 per cent. By June 1990 the accumulated debt of the Consolidated Fund had grown to about \$ 1.15 billion; interest payments were about \$132 million - a significant increase in real terms - and the percentage of the budgetary income going in debt servicing was over 10 per cent. If the same pattern of income and expenditure had continued, by 1997 some 20 per cent of our recurrent income would have been going in debt servicing. There is only 100 per cent of the cake and if more is going in debt servicing obviously there is less for government services.

It was clear that the rate of growth of debt had to be reduced to a long- term sustainable level. That level for the 1990-91 Budget was about \$120 million in new borrowings. When the calculations were done for the 1990- 91 Budget on the basis of a no-change policy and the same provision of government services as had occurred in the 1989-90 Budget, there was a difference of about \$280 million between income and expenditure. To achieve that \$120 million in borrowing an adjustment of roughly \$160 million had to be undertaken.

This was achieved by increasing revenue by about \$90 million and reducing expenditure by \$70 million - \$40 million of that in the recurrent area and about \$30 million in the capital area. It was on the expenditure side - where roughly 80 per cent of discretionary expenditure goes in wages and salaries for public servants - that the adjustments had to be made, and this amounted to about two thousand public service positions. A redundancy program was the only practical way to achieve this and that

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has now been belatedly acknowledged by the present Government. Natural attrition is no longer in the dictionary.

The full-year saving for every year and a day as a result of this program was \$60 million - that is \$300 million to \$400 million in savings at five years or \$300 million to \$400 million less in debt at five years. That was the relevance of the redundancy program - to achieve ongoing savings to avoid future State indebtedness, and that is why this motion is out of line.

Mr President, I believe there are two fundamental issues that will dominate politics in this State over the next decade - and in fact in every other State for that matter - and they are budgetary management and the restructuring of States' economies. Fundamental to both these important issues is our approach to both domestic and foreign debt and debt resolution.

Throughout Australia the 1980s was the decade of debt creation; the 1990s will be the decade of debt resolution. It will be how we approach the debt issue in the 1990s that will determine the standard of living and quality of life beyond the year 2000. The 1990s is going to be a very difficult decade indeed for Australia, one of important restructuring whichever government is in power. It is not a good time to be in politics but a prime responsibility rests with us as parliamentarians - more so than in the past - to be innovative and to look for new and effective approaches, and I will mention those in a moment.

We have a dual debt problem in Australia: domestic debt and foreign debt. As far as domestic debt is concerned, that component which is relevant to this State is of course debt held on behalf of the Consolidated Fund and debt held on behalf of statutory authorities. That combined debt in this State is about \$3.8 billion; in 1982 it was about \$1.7 billion. The primary aim of debt management in terms of the Budget is that the long-term borrowing level each year is reduced to \$30 million or less. The present thinking is that, in order to achieve this, significant structural adjustments need to be made over the next two budgets. My conservative estimation is that \$70 million structurally will need to be taken out of the next two budgets on this basis - this is separate from any other considerations relating to award restructuring payments and pay-parity cases. The bulk of this adjustment will be in the expenditure area and, as I said, as roughly 80 per cent of discretionary expenditure is in wages and salaries for public servants, this will be where the significant adjustments will occur. Several thousand more public servants are to be retrenched over the next two years - is that sensible; is it tolerable? Basically it means reduced services to Tasmanians.

What I proposed - and members received a copy of the letter I sent to the Premier several months ago - was a different way of looking at this problem. This type of approach, I believe, would enable sensible restructuring of the public service over a six-year period rather than a two-year period, still adhering to the basic bottom line of fundamental financial sustainability. I do not want to go into the details of this; I certainly will at budget time, but suffice to say that a six-year restructuring will enable sensible restructuring and will avoid the dislocating restructuring that would occur over a two-year period.

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I have had a productive meeting with Treasury officials about this proposal and I have written specifically to the Leader in this Chamber and I understand that the matters are being considered.

As far as foreign debt is concerned, the vast majority has been incurred through private enterprises, about 40 per cent of it by financial institutions. In 1983 our net foreign debt was about \$23 billion; with the advent of deregulation, eight years later that level has grown to about \$133 billion - in eight years, \$110 billion net borrowing from overseas. The problem was that too little of it was invested in productive enterprises; too much of it was consumed. The basic problem was that the economic structure in Australia was not there to absorb it in a productive way.

The only way a country can service that debt and repay the interest is through export income. That was our problem over these eight years; it is still Australia's problem now. The huge foreign debt over the past eight years is predominantly responsible for the high interest-rate induced recession and it is still the major limiting factor to growth in this economy: \$14 billion of our export income goes each year in simply servicing interest on existing debt - debt, basically, that has accrued over the past eight years.

This brings me to the punchline in relation to foreign debt. Governments will get desperate, and are desperate, to promote net export industries, otherwise growth is severely limited. So out of the gloom and doom there is one small light and that is that certain things will be favourable to the development of export industries over the next few years - in particular, low inflation; low interest rates; continued wage restraint and desperation on the part of any Federal government to want to promote this sort of direction.

Tasmania has an advantage here. It is more export orientated than Australia as a whole; it processes things more than Australia as a whole. These are comparative advantages in this particular climate. We must maximise the opportunity for export growth. All our energy should be focused over the next few years on promoting export industries in this State, aggressively building on what we have and expanding on it. If we do not, Tasmania is looking at a long-term structural unemployment of 10 per cent or more.

Mr President, I believe there are a number of fundamental principles that need to be pursued in this context. The occasion does not really allow me to go into those principles in great detail, although I intend to over the next few months as the opportunity arises. But I want to mention them briefly, for the sake mainly of perspective.

Firstly, industry development must still be in the context of environmental responsibility and sustainability; this is fundamentally important. I know I have drawn a longbow here; it is a very detailed subject but it is a very important principle.

Secondly, we must clearly identify and exploit demand areas for our products, particularly in the Asia-Pacific region. There must be an all-out assault on developing new marketing strategies and innovative techniques based on the successes we already have in this State.

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Thirdly, more needs to be done in the area of matching labour skills with this economic direction; we need to pursue more intensive skill training and skill portability.

Fourthly, we need to ensure adequate cheap power if we are going to pursue developments strategically. We have been appallingly slow to move in this area.

Finally, underpinning all this - and I believe this is critical; it has been talked about a lot but not much has been achieved - we have to have a constructive communicative mechanism between government, unions and business. All these groups have to be inextricably involved in the strategic approach and must all be moving in the same direction, otherwise any sort of strategy is significantly limited.

Mr President, having said all this, how can I as a member of the Legislative Council hope to influence the situation? The way things are structured at the moment, it seems in a very small way. The mechanism, as I see it, is not there to influence the situation in any significant way. The structure of this House allows us to be reactive - and from what I have seen over the past week, in a very effective and detailed way. But is that prime role adequate? Is it appropriate over the next decade, in view of the magnitude and complexity of the adjustments that need to be made?

In view of the seriousness of the problems that face us people are desperate that we contribute in an additional way. In view of the two dominating issues over the next decade - budgetary management and restructuring of the Tasmanian economy - in order to have more effective input and access to information, I believe we need an effective joint House committee system, which allows some input into budget deliberations and certainly allows direct scrutiny with departmental heads after the Budget has been delivered. But most importantly, we need a joint House economics committee with the power to call public servants, to call experts, to visit factories and workplaces, to talk to industry leaders and unions: a committee that will integrate information and make sure that certain broad strategic directions are being pursued in this State outside the arena of House politics.

I think we should demonstrate our bona fides and say to the Government, 'We are prepared to reform the structure of our House if you are prepared to guarantee this sort of process'. Obviously, central to that is the shedding of the power to reject money bills; there is no doubt that this power is potentially a mighty power, it is a world beater. But what is the relevance of it in this day and age; what is the logic of it? Its intent in 1856 was as a means by which the landowners had a check on the people's House; the power has remained as a vestige of the 1850s. But since then the bicameral system has undergone enormous changes and the people are demanding, now, change to cope with these enormously difficult problems ahead. Let us exchange the past for the future and respond to these demands.

Members - Hear, hear.