

UNCORRECTED PROOF ISSUE

Monday 22 June 2009 - Estimates Committee A (Aird) - Part 1

LEGISLATIVE COUNCIL

ESTIMATES COMMITTEE A

Monday 22 June 2009

MEMBERS

Mr Hall (Chair)
Mr Harriss
Mr Martin
Mr Wilkinson
Ms Forrest

IN ATTENDANCE

Hon. Michael Aird MLC, Treasurer; Minister for Economic Development; Minister for Racing

Department of Treasury and Finance

Don Challen, Secretary
Tony Ferrall, Deputy Secretary, Budget and Finance
Rob Nicholl, Deputy Secretary, Economic and Financial Policy
Craig Jeffery, Director, Government Finance and Accounting
Wendy Sawford, Director, Revenue, Gaming and Licensing
Jonathon Root, Director, Corporate Support
Chris Lock, Director, Economic Policy Branch
Blackwell, Rebecca, Senior Treasury Adviser

Department of Economic Development, Tourism and the Arts

Mark Kelleher, Secretary
Craig Watson, Executive Director, Corporate Support

Tasmanian Audit Office

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

Department of Infrastructure, Energy and Resources

Tony Murray, General Manager, Racing Services Tasmania

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Steve Long, Manager, Resource Management

Ministerial Office

David Bailey, Head of Office

Sarah Hazell, Adviser

The committee met at 9.30 a.m.

DIVISION 11

(Department of Treasury and Finance)

CHAIR (Mr Hall) - Welcome Treasurer. Before we get going, let me say that on 17 June the secretary wrote to the Deputy Secretary of the department, Tony Ferrall, requesting a breakdown of the State and Federal inputs - the moneys - that have come into the budget. So far we have had no response. Is that information available soon? Obviously with the way things have gone, with the inflow of Federal moneys across into the Budget, we would like to have some access to that.

Mr AIRD - I have raised this issue with the President, but I think there needs to be some established protocols. Basically I saw the President about trying to establish some protocols between the committee and agencies and I understand that that is now occurring. I understand that committees will require information from time to time and quite legitimately, but I think we need to establish some protocols on that. I think the request should go from the Clerk of the House to the head of the agency and I understood there was some action to be taken in that regard.

CHAIR - The secretary did write and that was the reason I asked the question.

Mr HARRISS - But that doesn't address the issue that you are on about.

CHAIR - No.

Mr AIRD - As I understand it, there was a request to the Deputy Secretary of Treasury and we were concerned that if we just had ad hoc requests like that, a lot of other work would not get done. I wanted to make sure that there was a proper procedure. It is not as though the information will not be available.

CHAIR - Could you give me any indication of when it will be available?

Mr AIRD - We will get the information to the committee as soon as possible.

Mr FORREST - So that information is not available currently. Thus the amount that has been provided by the Federal Government in certain areas as opposed to State -

Mr AIRD - No, we will get the information to the committee - I just wanted to make sure first that it came through the right channels.

Ms FORREST - So that information is available now?

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Mr AIRD - I will endeavour to get it to you as soon as I can. It will be this morning.

Mr WILKINSON - To me it would be a fair question to say, 'Well, look, x amount is being spent on, say, infrastructure, over the next x number of years, how much of that is from the Federal Government, as opposed to the State?' That is the type of thing. I imagine you would have those figures pretty well at your fingertips, wouldn't you?

Mr AIRD - They'll be down here some time this morning.

CHAIR - Okay. If I could just open the batting then and ask the first question to the Treasurer. It is of a general nature. The Budget is dependent on freezing government expenditure over the next four years. Is this achievable, given that State expenditure grew by some 24 per cent between 2004-05 and 2008-09? Following on from that, has any recent Tasmanian government been able to achieve the spending restraint to which your Government has committed in this year's Budget?

Mr AIRD - When we released the mid-year report we indicated levels of savings and those are on track. There is reverberation in this room - I don't know whether we are going through the whole morning with it, but it is causing me some problems.

Ms FORREST - I am having real trouble with it. I can hardly hear what you are saying.

CHAIR - We will soldier on. I am hearing you perfectly.

Mr AIRD - Anyway, we had set a level of savings for this financial year and we are on track to achieve those. I think what we have put in place is achievable. The reality is that we have to achieve it. In fact, I have already started engaging the agencies to present their plans over the next few months as to how they intend to implement the changes. I intend to ensure that the agencies are reporting in on the level of savings on a fairly regular basis.

There is always this type of discussion at budget time about the assumptions you make, about the allocations you make - whether they are achievable. I think they are. I believe that our record as financial managers has stood the test of time and I believe that we will be able to get the fiscal rigour that we need.

CHAIR - I put to you that this is a somewhat different scenario to previous budgets.

Mr AIRD - Oh yes, I agree with that.

CHAIR - It is totally different and 24 per cent is a pretty big ask. It will be very challenging.

Mr AIRD - It is challenging. Notwithstanding their general acceptance of and support for the Budget, commentators have said that a lot will be seen in implementation in trying to achieve the level of savings that we have set out to achieve. That is what we will be endeavouring to do.

Mr WILKINSON - A matter that I dwelt on for a short time in the budget debate was in relation to the redundancies. As I understand it, you are saying that there will be no forced redundancies. How are you working that program? Are you saying that in relation to these 800 employees that will -

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Mr AIRD - Well, it is 800 positions, actually.

Mr WILKINSON - Okay. So they are 800 FTEs - is that what you are saying?

Mr AIRD - We are saying 800 positions.

Mr WILKINSON - But does that amount to 800 FTEs? There is a difference. A position could be two hours a day if you are talking just about 'positions'. Does this equate to 800 FTEs or does it equate to less than that?

Mr AIRD - Perhaps another way of putting it is this: across the agencies there have to be savings, and in trying to achieve those savings there is a range of measures to be put in place. Various agencies will make judgments about what is best. In Treasury I do not think there will be a redundancy program at all. In other agencies - in Health and Education - there will be. Again, you will have to talk about the details to the agencies concerned, but they will see areas of activity where they will say, 'We can perform the same level of function by reducing the number of positions by, say, 11.' There is a dollar amount associated with those positions -

Mr WILKINSON - That was what I was going to ask next. Some employees would be on a significant sum of money - let us say \$200 000 a year - while others would be on \$50 000 or \$60 000 a year. What figure has the Government set for those positions in relation to setting the Budget? Is it an average of \$60 000, therefore you multiply 800 by \$60 000? Is that what you are looking at?

Mr AIRD - The average was, I think, \$66 000 per position.

Mr WILKINSON - Right. And would it be fair to say that you have earmarked the agencies that you are going to look at to find those efficiencies?

Mr AIRD - Agencies will be asked to find dollar savings associated with those positions, yes.

Mr WILKINSON - But in order to get your 800, you would have already spoken to -

Mr AIRD - Let me just say that we do not have to get to 800. It is not a target; it is an estimate of the level of savings and the number of positions needed to achieve that level of savings. If there is another way of achieving the same level of savings without losing those positions, then that is what we will be doing. One of the central issues with this is that some agencies might identify areas where they feel as though they no longer need to provide that level of service. Some other agencies might want to actually increase their capacity. It is probably dangerous to go into various sections, but one example of this might be that if there is a level of activity that needs to be increased in some government agencies, there may be some crossover between agencies. If, say, one agency has identified 10 positions to achieve that level of savings, there may be a capacity in another agency to employ those people. So there could be cross-agency transfers -

Mr WILKINSON - That is mentioned within the Budget.

Mr AIRD - Yes, that is right. That is the type of activity that essentially we need to understand and make sure that we optimise it. We want as many people as possible to be

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employed, but we have to achieve a level of savings. What we are saying is that to achieve that it is quite possible that 800 positions will have to go.

Mr WILKINSON - In relation to that then are you saying, 'I am just using it as an example.' Let us say that in relation to Health, you are looking at a dollar figure reduction in the Health budget which is then equivalent to, say, 10 people. You then look at 10 multiplied by \$66 000 and therefore the budget to that agency is less that amount of money. Is that right?

Mr AIRD - What we will be saying to the agencies is that they have to achieve a level of savings to the bottom line and they have a multifaceted way of trying to achieve that level of savings. They might want to have different work pattern and the savings might be employee-initiated - people might take leave of absence for two years; they might want to be seconded to the private sector; they might want to change their work hours - or, alternatively, the agency might identify a number of positions that have to go. As long as they achieve the level of savings, they can use a multifaceted approach to doing so.

Mr WILKINSON - But how did you arrive at 800? Did you just multiply 800 by \$66 000 -

Mr AIRD - That is it - that number of positions is the equivalent of the level of savings.

Mr WILKINSON - Yes, but to get to those positions, as you call them, did you just multiply that number of positions by \$66 000 or equivalent amount to the 800 positions? I just don't know how you could suddenly have picked 800 out of the air.

Mr AIRD - It wasn't 'picked out of the air' per se. These are the levels of savings that are required. If you go through the whole repertoire that is available to agencies, one way of achieving the necessary level of savings is to identify positions that lead to savings x . If to achieve that level of savings they have to get rid of those positions, then they can do that. It is not a hard and fast rule - that 800 positions are to go; but it is the level of savings associated with those positions.

Mr WILKINSON - It seems to me that what you are doing is saying that these agencies are to reduce their budget by x amount and they are to do it however they can. If there is not one redundancy, it doesn't really matter on your information because they have still achieved the savings by doing different things. Is that correct?

Mr AIRD - Yes. But the realistic view is that to achieve those levels of savings, particularly in larger agencies, positions will have to go.

Mr MARTIN - Did that realistic figure come from Treasury?

Mr AIRD - Yes, we worked our way through the whole issue in terms of levels of savings.

Mr MARTIN - So is it the modelling from Treasury that comes up with that 800 figure?

Mr AIRD - Yes. On the basis of \$66 000 per position - that is the level of savings.

[9.45 a.m.]

Mr WILKINSON - Can I ask what a position is? To me, my position at the moment is as a member of the Legislative Council. To you, you are a member of the Legislative Council and the

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Treasurer. So what is a position? Is a position two hours a day, five hours a day or eight hours a day? I just don't understand the word 'position', if it is not people.

Mr AIRD - You can have positions which are not filled at present, which go and which, in the normal course of events, would be filled. It would still be a savings by abolishing the position, even if there were not someone in it at that particular time. In the normal course of events there would have been an allocation of funds against that position. That is what would have happened. It would be an allocation to that position as if someone were occupying it.

Mr WILKINSON - In summary, 800 people could still remain there this time next year and you could still have achieved your savings because what you have done is reduce the output to that agency to a certain number of positions, as has been modelled by Treasury.

Mr AIRD - The budgeted FTEs is the Treasury way of explaining it. Because there is an allocation made to that position, that position goes and therefore the budget allocation to that position goes as well, so there is the saving achieved.

Mr WILKINSON - So really it is not 800 positions, is it? It is a saving that is equivalent to 800 positions. So rather than saying that there will be 800 voluntary redundancies, we are really saying that there will be a reduction of moneys to that agency to the tune of however many positions -

Mr AIRD - Eight hundred positions.

Mr WILKINSON - over mainly, it would seem, from what you are saying, Education and Health.

Mr AIRD - Well, I haven't seen all the plans for all the agencies, but obviously they are the two biggest ones and therefore they have the greatest capacity to achieve those levels of savings.

Mr WILKINSON - So therefore the pressure will be applied to the heads of agency in order to find those savings, will it not?

Mr AIRD - The pressure is on us all. The pressure is on me, it is on the ministers, and it is on the heads of agencies to achieve those levels of savings.

CHAIR - I have some other questions of a general nature, which I am sure other members also have. Are there more questions on this particular matter that you want to finish off first?

Mr MARTIN - You mentioned that Treasury, for example, is one department that will not need to shed one job to achieve the savings.

Mr AIRD - No, there will not be any redundancies.

Mr MARTIN - There will not be any redundancies. Could we hear an explanation as to how Treasury will achieve the savings without redundancies?

Mr CHALLEN - We are going to do it with vacancy management and natural attrition. We do have a reasonable amount of turnover. Because our staffing is more homogeneous than it is for other agencies, we have more capacity to move people around different areas of the

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department. So we are reasonably confident - we cannot be absolutely confident - that we will be able to do it just by managing the vacancies that we fill and moving people around.

Mr MARTIN - How many other departments do you expect will be able to achieve the same thing?

Mr CHALLEN - I could not say. I do not know.

Mr WILKINSON - Looking at your budget management strategy savings, and I have here middle management review -

Mr AIRD - That is part of it.

Mr WILKINSON - We have 13.161 increasing to 17.544 over the next three years. Does that form part of those 800 positions or is it over and above?

Mr AIRD - No, it is part of it.

Mr WILKINSON - So that is part of it?

Mr AIRD - Yes.

Mr WILKINSON - So in these outputs in table 1.1, when we are looking at the 800 positions do I take it we are looking at the whole employment management strategies which include agency cost reduction requirement, middle management review and senior executive service, SES, reduction; is that correct?

Mr AIRD - Yes.

Mr WILKINSON - Is that the total of the 800 positions or should I be looking elsewhere?

Mr AIRD - No, that is the 800. Basically there are 600 positions allocated to the agency cost reduction requirement, there are 25 SES and the balance is about 170 middle management - 172, I have just been told.

Mr WILKINSON - So we are looking at 772 with agency cost reduction and middle management - we are looking at just short of 800 positions; is that right?

Mr AIRD - Yes.

Mr WILKINSON - In 2004-05 the public sector grew by 969 FTEs; in 2005-06 it grew by another 873; and in 2006-07 it grew by 234. In four years there was an increase in public sector employment by 2 392 FTEs. Can you tell me how much it grew over the immediate preceding 12 months, because that did not take into account the immediate preceding 12 months?

Mr AIRD - I have not got that figure with me. I do not know whether that it would be available yet.

Mr WILKINSON - It certainly would have grown, I would imagine. We are probably looking at very roughly 2 500 positions. The actual increase in output for those positions in a

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general broad statement must have been exorbitant. Are we able to get any approximate figures for that?

Mr AIRD - I will have to take that on notice. One of the reasons there has been an increase - and I can get further detail on this - is the major single area of Health, and that is due to demand pressure. But I will endeavour to get some figures for you, if they are available.

Mr WILKINSON - Against that we have to look at outputs and the obvious question is: do you get your bang for your buck? Does the Government believe they have got just that as a result of that quite significant increase in public sector employees since 2004?

Mr AIRD - I have not got that data in front of me in terms of the actual increase. But as I indicated, the majority of the increase has been in response to demand pressure in Health. Once I can clarify that in terms of percentage then you can make your assessments, but obviously the demands are increasing exponentially in Health.

Mr WILKINSON - So we are looking at mainly Health and Education to reduce the positions which you believe is probably the best way of achieving the savings. Are you able to give us an indication as to approximately how many people in Health will be asked not to be there - or not asked not to be there but will be taking voluntary redundancies - or alternatively how many positions within Health are involved with the modelling that you have done?

Mr AIRD - You would have to ask the Minister for Health and the Secretary of the Department of Health the detail on that. I do not have the actual detail. I think they put out a press release identifying a number. They identified 250 positions in their release. What has happened here in terms of health is that we have said we are going to protect frontline services, core services such as nursing, doctors, police and so on, and to do that obviously we have to make savings in other areas. These will be areas which have been deemed administrative or behind-the-counter services.

Mr WILKINSON - That being the case, are we giving on the one hand and taking away on the other? In other words, the influx of the employment over the last X amount of years comes mainly in Health and now what we are saying is 'Look, probably we overfilled the boat and now that has to come out?'

Mr AIRD - No, what I will be saying - and again we need the data to go through this - is that we have been providing frontline nurses. There are 600 nurses who have been put back on and we are going to protect those frontline services. That was a demand pressure, so you had to meet that and that is going to be maintained. Therefore, to achieve the level of savings because we are in a different fiscal position, we are going to have to achieve them in other areas of the agency.

Mr MARTIN - In relation to the same issue: You said before that Treasury provided modelling advice that came up with the 800 redundancy figure being the expected outcome of departments trying to make the savings. I find it hard to believe therefore that there is not a figure for what is likely to come out of Health. I would have thought that for modelling assumptions to come up with the 800 figure there would be applicable figures per department, especially one as big as Health.

Mr AIRD - You can go through the Health Estimates with the Minister for Health.

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Mr MARTIN - But this is Treasury advice on the overall -

Mr AIRD - What we would say when setting a budget is to say: 'These are the level of savings that need to be achieved, they are put into the forward Estimates and you have to work within the forward Estimates.'

Mr MARTIN - But Treasury came up with the figure of 800 over the whole of government, so I am sure there must be a Treasury figure for what is likely to come out of Health because the assumptions would be the same.

Mr AIRD - Notionally, let us go back to the basics here: Basically we have said that in the Budget and the forward Estimates there has to be a level of savings; those savings have to be achieved; it is up to the agency to achieve those levels of savings in any way they see.

Mr MARTIN - I understand that.

Mr AIRD - Some agencies will say they do not need redundancies; some will say they do.

Mr MARTIN - I understand that perfectly. But you still came up with an overall figure of a likely loss of 800 jobs. You must have the figure for Health.

[10.00 a.m.]

Mr AIRD - It is the other way around in one sense to say you need to achieve these levels of savings and you have a multifaceted way of trying to achieve it.

Look, I do not know - I will be meeting with Health in the next week or so to go through the actual plan. I would think that they would have an overall plan about how they are going to deal with that whole issue, and you can ask them questions about that. I am not trying to avoid the question; I am just saying you need to talk to the agencies and the ministers about trying to achieve this. What we have indicated in terms of my job is to say, 'Look, these are the financial parameters we have to work with. These are the fiscal outcomes we are after,' and we all have to work to achieve it. My job again is to get the plans back from the agencies to say how they are going to achieve it. Some agencies this financial year have been undertaking re-organisation and ways of trying to achieve savings this year which are going to flow on to other years, as they do. So it is not all just based on this Budget and the forward Estimates. I would expect that the agencies would be able to explain how they intend to go in the future.

Mr MARTIN - That is what every department is going to do, but the economic modelling from Treasury is that the predicted outcome is that there will probably be 800 redundancies.

Mr AIRD - There could be.

Mr MARTIN - Could be 800 redundancies. But that is obviously the prediction -

Mr AIRD - It is not a target.

Mr MARTIN - No, I know it is not a target.

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Mr AIRD - If we can achieve the level of savings without one redundancy, good. But the reality is you will not be able to achieve the level of savings, as good as all the multifaceted areas of savings are, they will not deliver in my opinion savings without some level of redundancies.

Mr MARTIN - I understand that. I am not arguing with the 800 people at the moment. But given that every department is going to be using everything they can to achieve the savings, Treasury's advice on the best professional economic modelling is that there will be 800 positions -

Mr AIRD - It will be financial modelling more than economic modelling.

Mr MARTIN - Financial modelling - there will be 800 redundancies. Is there a piece of paper - it is probably not a piece of paper any more - that shows what Treasury's best financial modelling is for where those 800 positions will come from amongst the various government departments?

Mr AIRD - I have not seen anything relating to the number of positions per department. Mr Challen, I am happy for you -

Mr CHALLEN - The answer is no.

Mr WILKINSON - Am I right in saying that if we were drawing a diagram of it, you would have Treasury on top and then you would have Health and Education? You are saying to Health, 'We are going you X amount of dollars which is less than what would otherwise be the case'. You are saying to Education, 'We are giving you \$1 billion, which was less than what would otherwise have been the case. It is up to you how you run it but that is all you are getting; you are not getting any more.' Is that the scenario?

Mr AIRD - That is pretty much it.

Mr CHALLEN - I would not draw the diagram that way though.

Mr WILKINSON - You would not? How would you draw the diagram?

Mr CHALLEN - I would have all the agencies on the same level because we are all in this together. Treasury is not on top.

Mr WILKINSON - Look, I hear that, but Treasury is one that does the financial modelling and I would have thought is the one that is giving the moneys, even if they do not want to be on top.

Mr CHALLEN - The Treasurer gives the money.

Mr WILKINSON - Yes, the Treasurer. I hear that. I accept what you say.

Mr AIRD - Just to clarify that: The fact is the Budget is set with all the agencies and all the ministers. Cabinet ticks off. So it is just a process-type thing.

Mr MARTIN - If someone were to draw the diagram they would miss out one box.

Mr AIRD - Which box would that be?

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Mr MARTIN - DEPHA.

Mr AIRD - What is wrong? I do not understand the point.

Mr MARTIN - Can we go on to that?

CHAIR - It is a very important topic that we are considering at the moment and it is central to the core of what the Government are trying to do with the Budget. If there are any more questions on this issue before we move to other overview issues.

Mr WILKINSON - My last question as to that is: somebody must have said, 'This is all you are getting, Education; this is all you are getting, Health' -

Mr AIRD - Yes, Cabinet said that.

Mr WILKINSON - And that was as a result of modelling that was done? It would have had to be.

Mr MARTIN - You would hope so.

Mr AIRD - It was after a lot of consideration by the Budget committee, the Expenditure Review Committee, a lot of discussion with ministers and with heads of agencies. It is a process which needs to be understood in that sense but in the end Cabinet signs off.

Mr WILKINSON - So the main thing we are looking at here then is money as opposed to outputs; is it not?

Mr AIRD - It is about achieving a financial result and then providing the means to achieve it, and that is what we have done. We have provided a multifaceted avenue for the agencies to achieve the level of savings that they have to do across the Budget forward Estimates.

Mr WILKINSON - And you have done that without modelling?

Mr AIRD - No, we have done -

Mr WILKINSON - Forgive me if I am thick, but I just do not understand: If you have not done any modelling, I cannot understand how you can properly come to the decision that this department is getting *X* and that department is getting *Y*.

Mr AIRD - We do it every budget. That is how budgets are set. It is year in, year out.

Mr WILKINSON - We are all arguing though that this Budget is different because of the GFC. That is not the Geelong footy club. We know what we are talking about hopefully. So that being the case, I would have thought the modelling in relation to this scenario should have been extremely finite because of what we are trying to do, because a slight change in the figures could mean a vast difference to the budgetary outcome.

Mr AIRD - The Budget is put together with all agencies involved, all the ministers involved and all heads of agencies involved. The final decision is made by Cabinet. Yes, there have to be

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levels of savings. That is what the Budget is. What you have in front of you now is an indication of the savings we want to achieve.

CHAIR - Whilst we are considering this very important subject, more questions, Mr Harriss or Ms Forrest?

Mr HARRISS - The areas we have been investigating clearly is one of the major linchpins to your whole budget strategy here - the budget management strategies which you have identified. Mr Martin and Mr Wilkinson have been systematically working through those matters identified on page 1.5 of budget paper 1. We talk about the budget management strategies and then we go to agency cost reduction requirements, which you have spoken about, the middle management review, the Senior Executive Service reduction and the efficiency dividends. Where in that list or in the whole shooting match here do the targeted voluntary redundancies sit if you went down that path with the 800 FTEs as an identification? If it is possible, can you provide not just those bald dollar figures set out in the budget papers as your targets for savings in those areas but also how they apply agency to agency?

Mr AIRD - The agencies will have to identify that for you. And to be quite frank, in one sense at the conclusion of achieving these financial targets you will then be able to actually pinpoint the areas where the redundancies have been. If you can achieve the level of savings by other means, well and good, but the idea of the voluntary redundancies, that is up to the agencies to try to achieve it. They might find other ways of achieving savings that otherwise they would not have been able to achieve - they would find ways of achieving those savings by other means.

Mr HARRISS - Because about half of your projected \$750 million efficiency measure in the forward Estimates comes from efficiency dividends. I would have thought that sat outside voluntary redundancies and all the other measures you have put in place - vacancy control, middle management reviews, SES reductions and so on. So can we just focus for a moment - and then we can go to the other issues I suspect somewhat systematically - on the targeted voluntary redundancies. Treasurer, you indicated earlier an average salary of about \$66 000, and if you use that against 800 FTEs it's a significant plank of your management strategy for cost savings going forward.

Mr AIRD - It seems to me that the nature of the discussion you want to have is about what happens if we don't get the 800 redundancies. Is that the argument?

Mr HARRISS - Yes, that's a component of it.

Mr AIRD - The view I have is that the agencies have to work with their budgets and the forward Estimates; they have to achieve those financial targets.

Ms FORREST - So they could cut programs to achieve them? They could cut services?

Mr AIRD - Well, no. What we are endeavouring to do is protect our level of services to the community as much as we can. We have indicated our key priority areas in terms of Health, Education and Police, and so the agencies will have to find answers within that framework.

Ms FORREST - In that case, if there is a situation where in a particular area no voluntary redundancies are forthcoming, for whatever reason, or the vacancy control is not such an issue

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because you don't have the number of vacancies in that particular area, decisions regarding services may need to be made, so we could see services cut and programs axed, all sorts of things.

Mr AIRD - Well, we haven't identified any levels of services that are going to be cut. If some agencies come forward with a proposition that they think is not core to their function they can put that forward but we are guaranteeing here that we want to ensure that our core services in Education, Health and Police are maintained.

Ms FORREST - So is there a risk, then, that you put the pressure on the people on higher salaries to consider voluntary redundancy? In Health, for example, you might look at a situation where some assistant director of nursing positions may become redundant voluntarily and are no longer filled and so you lose some of your leadership and management skills there. Whilst you don't actually take the services away at the coalface and you still have the same number of nurses on the wards, the management could be decimated.

Mr AIRD - What we have to understand there is that there are going to be some difficult decisions made within agencies. I don't think anyone is arguing about the overall objective of what we're trying to achieve in the Budget as it has been put forward -

Mr MARTIN - Maybe one person.

Mr AIRD - Yes, maybe one. In fact, I think you'd probably agree that the financial objective is worthwhile except you would prefer to go into debt -

Mr MARTIN - Yes, that's right.

Mr AIRD - which I think is untenable - there you go. I would think that agencies are going to have to use some judgment and skill in how they go about achieving their levels of savings. They will have to work their way through. I think a review of middle management positions, if done in a way that is structurally sound, needn't affect the level of service at all and can take a level of decision-making which won't be required in terms of others making decisions further down the line.

[10.15 a.m.]

Ms FORREST - It begs the question why they've had that for so long if that is the case.

Mr AIRD - Well, people can pose that question but in fact the opportunity is here because of circumstances to achieve some structural changes, then let's achieve them and ensure that we still get the same level of service.

Mr MARTIN - But Treasurer, you can't seriously think you can make these savings and not affect the level of services. The only way that is achievable is if you had the equivalent of 800 public servants sitting around doing nothing. That's just logical.

Mr AIRD - Well, no. Look, I think various agencies, particularly larger ones, may be able to achieve savings which don't affect the level of service.

Mr MARTIN - Only if there are people sitting around doing nothing.

Mr AIRD - No, that's not right.

Mr MARTIN - Well, there's no logic otherwise.

Mr AIRD - The logic is this: they have been performing their jobs according to the job description and what was required of them. It's not about the person. You see, you're trying to target the person rather than the position. I prefer to look at the position and whether we can achieve some structural changes within agencies which lead to the same level of service being delivered to the community. That's what we are; we're a State service, we're there to provide services to the community, so let's do that.

Mr WILKINSON - But shouldn't you have been doing that for the last four or five years? It's easy to say, I know, but one could argue strongly that you should have been doing that for years.

Mr AIRD - Agencies have done it, but -

Ms FORREST - How could they do it when we've seen such a blow-out in the number of employees in the agencies?

Mr AIRD - Perhaps one question at a time -

Mr WILKINSON - I thought it might have been worthwhile at the time.

Mr AIRD - What was it?

Mr WILKINSON - What I said was that surely one could argue - and I am testing you in relation to this - that people have been asleep at the wheel, because if you can find the efficiencies now and not affect the services, why hasn't it occurred in the previous times?

Mr AIRD - There have been a number of management changes over the years.

Mr WILKINSON - Some 2 500 extra public sector employees have come into the system.

Mr AIRD - I'll get the data for you, but most of those positions have been related to direct service provision in Health. I do note that there are 600 nurses back in the service who weren't there before, and doctors as well, so we have responded to the demand pressures, if you like. Any agency, the same as any other organisation, is dynamic; it is not a static, status quo organisation just because it's there. In fact, some complain that there have been too many changes in trying to get the right administrative and management mix in terms of service delivery, and there are a lot of different models about that.

Mr WILKINSON - It's a hard argument to sell, isn't it?

Mr AIRD - No. Look, the State sector is the same as any other sector, always being challenged to produce efficient services, but I know over the past three years I have been doing this job that we have been pushing the agencies to say, 'Is this the best way of delivering services?', and some have made some changes. I think this exercise probably focuses the mind more sharply.

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CHAIR - It certainly will be interesting to get those figures when you provide them as soon as you can because, as you know, I have been a critic of some of what I call exponential growth within the sector.

Mr AIRD - Yes, but historically I have provided similar kinds of responses to you and I have had some data at stages to let you know where the level of growth had been.

Mr MARTIN - Following on from that, I asked you this rhetorical question last week. What happens if a departmental secretary comes back to a ministry and says, 'I've looked everywhere and the only way we can make these savings is to cut this program', and they start cutting programs? What happens then?

Mr AIRD - I haven't seen any evidence of that yet. If it happens we will make a judgment call about whether it is a core service of government and could be carried on in another area by an equivalent. We will be making judgment calls about levels of services that need to be provided but we will not compromise on Health, Education and Police.

Mr MARTIN - So when you say core services, what's your definition of 'core'?

Mr AIRD - It would depend on the agencies and what they put forward as being part of what they believe is an ongoing thing. See, agencies need to respond to the outside context as to the level of service they're delivering back to the community and there may be some historic programs that have been delivered the State sector which are now better produced and delivered by the non-government or private sectors. We have seen a transition in terms of, say, disability services. That was a government activity and now it is a non-government activity, and generally that has been accepted as a better way of providing that level of service.

Mr MARTIN - Then you get some that go from government to private and then back to government - like the railway.

Mr AIRD - Yes, that's true.

Mr HARRISS - Mr Chairman, as a means of being strategic about our assessment of this significant matter of budget management strategy savings, can I just suggest that we try to work through each of those identified measure on page 1.5 of budget paper 2? We have had a bit of an overview and we have been shooting at all sorts of targets, so is it a productive suggestion that we have a look first of all at the Agency Cost Reduction Requirement of \$16.5 million then expanding to \$39.6 million going forward? If that is reasonable, I will ask the first question about that and then go to a couple of others specifically looking at the various identified savings areas under the Agency Cost Reduction Requirement.

Treasurer, there is \$16.5 million for next year, then expanding to \$39.6 million in the years after. Do I presume that the \$16.5 million is as such because it's not a full-year saving whereas the other years will be?

Mr AIRD - Yes, that's exactly it.

Mr HARRISS - Okay. Based on that, then, can we have a look at, first of all, vacancy control. I suppose my first question there is what assessments have you made about the likely number of vacancies which arise across government each year? To come to your part-year saving

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of \$16.5 million and then the out-years of \$39.6 million, you must have made some assessment of the numbers of vacancies arising each year.

Mr AIRD - I think the approach you're trying to take is not going to work in the sense that each agency is going to be a case-by-case example. What we have said here is that under the Employment Management Strategies there are three subsections. If you wanted to you could have just amalgamated those into one figure. In terms of vacancy control or the other employee-initiated kinds of savings, it is going to be up to the agencies to identify that.

Mr HARRISS - Okay, but Treasurer, your argument falls down when we go immediately to Middle Management Review, which says:

'A middle management savings target has been allocated to each agency' -

so you have made the allocations to each agency on Middle Management Review.

Mr AIRD - Yes.

Mr HARRISS - You said you could have lumped the three of those subsets together, but you wouldn't have, because you have specific targets for Senior Executive Service Reduction. Therefore I can only presume from the words in the paper that you've also got a specific target for Middle Management Review. You don't just come up with these sorts of numbers on a whim without having done some modelling across the agencies. You said earlier that this is part of the budget process every year.

Mr AIRD - I gave a response to that earlier on.

Mr HARRISS - So remind me of it, please.

Mr AIRD - It was 25 SES positions, 172 middle management positions and 600 under the Agency Cost Reduction Requirement.

Mr HARRISS - Am I to presume, then, that in the Middle Management Review there is - well, you've given us a number, but it says here 'allocated to each agency'. Can you provide the breakdown that has been allocated to each agency in addition to the numbers you have just given us?

Mr AIRD - I don't have the agency breakdown. All these figures have been put into the forward Estimates of the agencies. In arriving at these levels of savings, if the agencies find other ways of achieving them, that's okay. Identifying these numbers of positions doesn't mean they're targets, but the financial result of the methodology is really important for the agencies if they are to achieve that level of savings. They don't have to achieve these targets if they don't want to. I would expect, however, that 25 SES positions will go -

Mr HARRISS - You'd expect it or are you going to mandate?

Mr AIRD - I do expect that. But in terms of the other savings either identified as Agency Cost Reduction Requirement or Middle Management Review, the important thing from my perspective is to achieve that level of savings. It's not a target, they don't have to find that number

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of people within their agency but they do have to find a way of working within their budget allocations.

Mr HARRISS - But in addition to that, we come further down that list to Efficiency Dividends and as I've said earlier, that's probably about half of the total \$750 million savings, so it's the whole mix. You've just said that if they don't achieve it through middle management processes - you've indicated that the SES reductions will happen; you'd expect it, were your words.

Mr AIRD - That is my expectation, yes.

Mr HARRISS - Well, it should be more than expectation; there's been a pronouncement in the past that that will be the severance application. The agency cost reduction goes across vacancy control, phased-in or early retirement, leave without pay, and targeted voluntary redundancies, and then in addition to that we come to Efficiency Dividends in this first year of \$61 million out of \$117 million. I fail to see how there are too many other areas of making these savings, because you've got these massive efficiency dividend requirements in addition to specific employee management issues.

Let us have a look at first of all the vacancy control. I have asked the question about what sorts of vacancies arise in the sector across all agencies every year. You must have those numbers somewhere in Treasury's modelling to have done your Budget year after year and to have identified vacancies arising. That being the case, you then have a look at early or phased-in retirement and what indications there have been about take-up. So let us take them one at a time. Can you provide for this committee the vacancies which arise or which are likely to arise based on history in the coming financial year and the out-years to give you your \$40 million of savings in the out-years as one component? There is vacancy control, early or phased-in retirement, leave without pay and target voluntary redundancies. I've heard you talk about the mix but this is a specific question.

Mr AIRD - Each agency will have a different perspective on this; each will be a case-by-case basis. Already under the efficiency dividend process which we announced in the mid-year report, we've already achieved around about that - the estimated saving will be about \$37 million.

Mr HARRISS - This financial year?

Mr AIRD - Yes - I think it was \$36 million from recollection. My recollection was \$36 million. But it is pretty well on target.

Mr HARRISS - Okay.

Mr MARTIN - Just while Paul is looking at that, I just take up a point to make clear. You said you are not micromanaging, which, I agree, it should not be your job, but you are in some degrees. The pronouncement about the 25 middle management positions, is that not micromanaging?

Mr AIRD - No, it is not micromanaging.

Mr MARTIN - Things about mobile phones. That is micromanaging.

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Mr AIRD - No, what we are saying is that these are the target reductions we expect to achieve. There is a direction back to the agencies to go and achieve it.

Mr MARTIN - Yes, but why people on mobile phones?

Mr AIRD - It is a cost saving against mobile phones.

Mr MARTIN - Yes, but it is micromanaging to the nth degree. I mean, you are talking about mobile phones.

Mr AIRD - It all adds up.

Mr MARTIN - It is really because it is populist, isn't it?

Mr AIRD - No, it is not populist at all. It all adds up. People say 'Oh, don't do this.' If you take the things that we have announced over a period of time, if we had not done those things, we would not have achieved the level of savings that we have already achieved this year.

Mr MARTIN - So why the 25 middle management positions? Where is the magic in the figure of 25?

Mr AIRD - SES positions?

Mr MARTIN - Yes.

Mr AIRD - That is a level of savings that we seek to achieve over the Budget and the forward Estimates - \$5 million.

Mr MARTIN - Yes, we both agree you should not micromanage, but that is micromanaging, is it not?

Mr AIRD - No, it is not.

Mr MARTIN - Why pick on 25?

Mr AIRD - It is setting a broad parameter to achieve the level of savings that are required.

Mr MARTIN - It is really populist politics, though.

Mr AIRD - No, no, it is not populist.

Mr MARTIN - Explain why not.

Mr AIRD - It is identifying various areas where we have to achieve levels of savings. If you all of a sudden did not have these areas of savings, you would not achieve them. Therefore, you set targets for people to achieve.

Mr MARTIN - Yes, but you are micromanaging.

Mr AIRD - You have got to set targets. I would not call it that.

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Mr WILKINSON - You could be saying, could you not, 'We are going to increase employment by another 2 000 over next year, but you're going to get half the wages.' It is that type of argument, is it not? To me, it is a bit like you are standing at the front line. I am doing battle against you. I normally get 1 000 rounds of ammunition and you say, 'Look, here you are, you've got 500 rounds, do the best you can.' That, to me, is similar to what you are saying.

Mr AIRD - What we are saying is that we have got a budget and forward Estimates and we have to work with them.

Mr HARRISS - Treasurer, Terry and Jim have been going down exactly the same line that I want to pursue. You see, we look at all of that list of savings and targets, and they are substantial. We get to efficiency dividends. Do efficiency dividends include people and severances? I expect not, because the people and severances are identified specifically in the areas above that. Terry asked you about the Senior Executive Service. You have said that you expect 25, and yet the budget paper says the SES will be reduced by 25 positions. Will it or not? Will the SES be reduced by 25? The budget paper says it will be.

Mr AIRD - Yes.

Mr HARRISS - You have said you expect it to be.

Mr AIRD - Yes, I do.

Mr HARRISS - It will be?

Mr AIRD - Yes.

Mr HARRISS - Middle management, you have targeted and you have allocated funds to each agency based on their total number of FTEs, and the savings next year are \$13.2 million. Do you have any indication, as you do for the 800 FTEs that you were talking about a while ago, of the average salary of middle management to give you a target of \$13.2 million? That was the number you gave a while ago.

Mr AIRD - Middle management would be an average salary of \$102 000.

Mr HARRISS - Okay.

Mr AIRD - The Secretary was just saying it was salary and oncosts totalling \$102,000.

Mr HARRISS - You have allocated them across the agencies. If we have done the best we can on the salaries side of it, can we keep working down through this list of amalgamation efficiencies?

CHAIR - Just a question of a general nature, Treasurer, in regard to the State economy and private investment. The Government over the past few budgets has talked about significant private investments such as the Musselroe Bay Resort, \$350 million, the golf resort and other ecotourism projects. Unfortunately, it would seem because of the economic circumstances that quite a few of those have fallen on their sword in the short term. Then it comes back to, of course, that major project on the Tamar, which is still hanging in the balance - the pulp mill. The

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question I have is: do you accept claims by former Premier Lennon, who talked in the *Examiner* newspaper a couple of weeks ago that Tasmania could, in fact, avoid a recession if they began building the pulp mill immediately?

Mr AIRD - The technical definition of a recession is two quarters of negative growth. We have had one quarter. Whether the next quarter shows a similar pattern remains to be seen. Certainly, the pulp mill would be a major fillip for our economy. There is no doubt about that. I think people who may have thought that it was peripheral to our overall economic development now realise that it could easily be a major fillip for our economy.

CHAIR - Have you had any discussions with the proponents on how their finances are going and how quickly they might secure that?

Mr AIRD - I have not had any direct communication in recent times with them.

CHAIR - Is the Government doing anything more to support the project at this stage?

Mr AIRD - There is no direct support. Obviously there is a level of communication. It relates to my other department, the Department of Economic Development and Tourism more than this department, but obviously we make sure we understand as much as we can about what is going on in the future.

Mr WILKINSON - Last year I noted that in relation to the pulp mill it was stated - I can turn it up for you wish me to - that it would not make much difference at all to the economy if the pulp mill was going to proceed.

Mr AIRD - I did not say that.

Mr WILKINSON - Words to that effect.

Mr AIRD - No.

Mr WILKINSON - I will find it for you. Keep going, please.

Mr AIRD - Our commentary about the pulp mill has been the same: it would provide a major fillip for our economy. I cannot actually recall off the top of my head the estimate about growth, but I think it was maybe 1.5 per cent annual growth that was anticipated from the base. The base may have dropped off, but the growth would still be about the same.

CHAIR - I suspect Mr Wilkinson is correct, and it was in light of the fact that some of these other projects were -

Mr AIRD - We did not factor it into the Budget this time.

CHAIR - Yes, but the comment was made, I think, in light of these other private investment projects getting off the ground, which clearly they have not, unfortunately, at this stage. Whether they do remains to be seen.

Mr WILKINSON - I read it last night.

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CHAIR - That was just an overview question I had, which, as you rightly point out, may well have fallen within economic development, but it is still pertinent, I believe.

Mr HARRISS - In addition to that, then, Mr Chairman, another question, Treasurer is: in the past you have provided a list of significant developments which would have an impact on the state's economy when or if they proceed. Can you provide the same for the committee this year?

Mr AIRD - What are you referring to?

Mr HARRISS - In the past - I think it was only last year, but I have not got the papers in front of me - you have given a breakdown in the Budget Papers.

CHAIR - Yes, that is right.

Mr HARRISS - And in front of these committees. You have actually identified significant projects in the private sector which are on the drawing board which, if they proceed, will impact positively on the State's economy.

Mr AIRD - If that position is available, I am happy to provide whatever information is available about that.

Mr HARRISS - Yes. That has been helpful in the past, so members of the committee can get their minds around what is in the pipeline, not appreciating, of course, the bulk economic bounce that might be achieved, but you have had your mind around that and you have shared that in the past. If that could be provided, that would be helpful.

CHAIR - I will just follow on for that. Treasurer, between 2008-09 and 2010-11, we are looking at predicting 7 000 job losses. That was on page 2.4. Obviously that is a pretty big impact in the Tasmanian context. Whereabouts are you predicting those main losses will come from?

Mr AIRD - I do not want to go there. You just do not know. Obviously we are facing a difficult set of circumstances around some businesses in Tasmania.

CHAIR - I suppose somebody must have done an analysis to come up with that 7000 figure, though.

Mr AIRD - There are areas where we are obviously concerned. I think the paper mills in Burnie and Wesley Vale would have to be areas where we are concerned and that there has not been an apparent resolution of that as yet. Again, it is going a bit into my other portfolio, but I guess I can discuss it here. It is the same committee. Basically, we are concerned about that, and that would have a major impact if either one of those mills would not be able to function into the future. That is one example.

CHAIR - I think Mr Wilkinson has a gem for you now.

Mr WILKINSON - No, it is just that last year in answer to the question you said:

'To put it in context, the reason that we have not had two scenarios - that is pulp mill going ahead or not - is basically that Parliament has had its say and given

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permits. I think you need to work on that. There may be some doubt about whether it goes ahead or not, but this is based on finance. The implications for the Budget are marginal. I have indicated that before. Whether in terms of the employment forecasts of around about 1 000 people it is revised forecast by Gunns, and John Holland I think made the assessment for them. Obviously it would still provide a lift in terms of economic growth, but in terms of implication for the Budget, at the margin.'

So what you were saying is that it is marginal.

[10.45 a.m.]

Mr AIRD - No, no, no, for budget revenue. That is about the Budget. In terms of economic growth, I have been very clear about that. So there are two issues here: you are confusing two of them. One was about the actual impact of the mill upon the Budget and that that was marginal. That was the level of advice that I had. But just for the record, it was ITS Global that reported that if the mill is constructed, annual gross State product - GSP - during operations is estimated to be between 2 per cent and 2.5 per cent above the level without the pulp mill. With annual investment being about 2 per cent above the level in the base case, annual consumption being up 2.5 per cent and employment levels being 1 600 on average above base case levels, including around 300 at the mill itself. It is really the uncertainty around the project that we did not include the economic impacts of the pulp mill at this stage.

Mr WILKINSON - But that answer was given to the question of what are the implications of that as an economic driver. So, that is why I asked the question, because that is similar to what we have just been saying, not what the Treasurer has just mentioned.

Mr AIRD - My answer was more directly related to the implications for the State Budget.

Mr WILKINSON - But the question then was asked in relation to economic drivers, you see. That is why the question -

Mr AIRD - If you had any sense of ambiguity from your interpretation of the answer, I hope I have clarified that.

Mr WILKINSON - Yes, well, you have. That is why I asked the question.

CHAIR - So while we are still doing that overview and covering 1.1 -Budget Development and Management - and 1.2 - Financial Management and Accounting Services - Paul, you wanted to ask a question?

Mr HARRISS - Chairman, you were going down the path of the 7 000 job losses. They are on year average terms, I think.

CHAIR - Yes.

Mr HARRISS - Does that then suggest that on a year average term, if it is 7 000, we could actually have 14 000 job losses?

Mr AIRD - No.

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Mr HARRISS - If it is on a year average, then it comes to 7 000?

Mr AIRD - No, no.

Mr HARRISS - But at any point in time, it could be crunch.

Mr AIRD - No, no.

Mr HARRISS - Heaps.

Mr AIRD - No. By anyone's estimation, a loss of 5 000 jobs in a year is a very large drop in employment and a large rise in unemployment. It is a serious situation. There is no need to exaggerate it beyond the two years we have identified for job losses. Hopefully, the turnaround in the economy will allow us to come out of this global financial crisis.

Mr HARRISS - But, Treasurer, that does not address what I just put to you. As you have said, 5 000 a year is big, and you are saying on year average over that couple of years, the figure is 7 000, but if the economy really goes pear-shaped in the next 12 months and then it bounces back, your year average will still be 7 000, but you might have lost 8 000 or 9 000 or 10 000.

Mr AIRD - We are not projecting further job losses for the next two years and that there is an expectation that there is going to be a growth in the economy.

Mr HARRISS - So year average is 7 000?

Mr AIRD - No, well -

Mr HARRISS - Do you have a maximum?

Mr AIRD - What we are saying is that it could be an impact of an increase in unemployment of around about 5 000 in the Budget year and another 2 000 in the subsequent year. So it is -

Mr HARRISS - That gives you a year average of 3 500.

Mr AIRD - No. Well, yes -

Mr HARRISS - Some 5 000 in the Budget year, 2 000 the year after, the year average is 3 500.

Mr AIRD - I do not know what the point of the average is, but the fact is we are forecasting economic growth in the other out years. This is not a scenario anyone wants to actually canvass, but the fact is we have to be realistic about the forces of the economic situation we are in.

CHAIR - I suppose we are dealing with a lot of hypothetical situations here.

Mr AIRD - We are.

CHAIR - I think we all acknowledge that. But if I could just relate back to questions I asked before about expenses. I think I referred to the figure of something like 24 per cent for a

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reduction in expenses for this coming year, which you acknowledged would be difficult but, however, you hope to achieve it.

Mr AIRD - Yes.

CHAIR - Most governments have a track record where there are blowouts above the budgeted figure for expenses. Can you provide any figures on how many occasions in the last 10 years, for example, the State Government's expenses came in below the budgeted figure?

Mr AIRD - I would not have that information.

CHAIR - Is that something we could have provided to the committee?

Mr AIRD - I do not know. If it is available, I will get it for you. But is it going to lead to much, really?

CHAIR - Well, I think it is just making a point in the context of this year's Budget when you are talking about 24 per cent.

Mr AIRD - In terms of achieving our fiscal targets, we have been exemplary performers. Some revenues have increased and some expenditures have increased at various times, but we have always managed to work within our revenues. If the information is available, I will get it to you.

CHAIR - Thank you. Other members on general matters and output 1?

Mr AIRD - Just by the way, just thinking that through, the annual reports should give you an indication of that. The agency annual reports should be able to provide you that information. So I think it would be publicly available.

Mr WILKINSON - Can I touch on credit ratings? What is the tipping point, if I can call it that, at which you would get a credit rating downgrade?

Mr AIRD - The credit rating agencies take in a number of different factors when making their assessments about our ratings. There are areas where they look at, but, in the context of the current financial circumstances, they have shown a greater degree of flexibility and understanding of where the states are generally. We have ensured that we kept the credit rating agencies informed about our financial position and they have an understanding of our underlying assumptions about where we are. As I indicated in the second-reading speech, the credit rating agencies are, I believe, a major area that we have to look at in terms of when we frame the Budget. That is the disagreement I have with the member for Elwick about going into debt, obviously the fact that we can maintain not going back into net debt and also knowing that we can come back into our operating surpluses by the year 2012-30 is an indication that we are on a sustainable path of managing our finances. Now, they say, quite correctly, that they will be watching how we go about implementing the strategies. So we will be doing that. But there are other facets that they do look at from time to time, such as the level of indebtedness and our ratio. The secretary might be able to that if he wants to.

Mr CHALLEN - They have said a number of things on this occasion that underline their reason to maintain our rating where it is at the moment. One is that we are responding to a

revenue shock that looks temporary. Secondly, we have a credible strategy for taking our Budget back into a sustainable position. Thirdly, we are not proposing to go into any borrowing through this. Fourthly, we have a long record of good Budget management, which obviously they are taking into account. If you read the S&P release that was put out on budget day, they go into a bit more detail around some of the parameters that they look at. The key thing there is that they are looking through some of the changes in the parameters to ask the question: what would the parameters look like now if you calculated them on the same basis that they were when we were last upgraded? When you do that and look through valuation changes and so on that are going on, they have got a degree of comfort that we are going to see a rise in the key parameters that is only temporary and very short lived at that.

Mr MARTIN - So are other state governments and the Federal Government that are not taking such a hard line on debt and maintaining deficits over a long period of time, should we expect their ratings to be downgraded?

Mr CHALLEN - I could not say.

Mr AIRD - Queensland was downgraded.

Mr MARTIN - So you think that will follow for the Federal Government?

Mr AIRD - That is their judgment call.

Mr MARTIN - Yes.

Mr AIRD - The Queensland Government said they were going to be downgraded because they wanted to have a big investment program based on debt. They decided to choose that path, and they got down graded overnight.

Mr MARTIN - What do you think the disadvantages of that will be in the long term for Queensland by making that policy decision?

Mr AIRD - They are heavy borrowers, and I think the downgrade is going to add something like \$200 million to their servicing of that debt just by being downgraded.

Mr WILKINSON - Can I ask, then, is it too simplistic to say what the credit ratings agencies are most concerned about? Is their major concern going into debt to do the funding? I'm trying to get it in a nutshell, if I can?

Mr CHALLEN - They make a judgment about the probability of default. Now, obviously, when you are AAA or AA-rated credit organisation, the probability of default is minuscule, but, nevertheless, they create these bands, so that when you get down into the low Bs and the Cs, the probabilities of default are decent-sized numbers. So it is a fine judgment, really, up in the AAs and the AAAs. They look at a range of factors. They look at how much debt you have got. We have not got any net debt at the moment. They look at your program, the probability of your needing to access borrowings in the foreseeable future. Again, on our numbers, we do not. They look at measures like net financial liabilities, debt plus unfunded superannuation liabilities in relation to your revenue base to get a longer term view of where your Budget is going. There is a whole range of factors. They also look at the economy, because although in our case there is not a

strong link between the state of the Tasmanian economy and our revenue base, it is, nevertheless, one of the factors.

Mr WILKINSON - Is there a risk and, if so, what is the biggest risk, which could lead to a downgrading so far as we are concerned? Is that just being totally pessimistic?

Mr AIRD - Jeremiah Wilkinson.

Mr WILKINSON - My next question was going to be: what effect would that have?

Mr CHALLEN - The questions are hypothetical, and I could not want to answer it in the way it has been framed. What we have tried to do with the ratings agencies and, indeed, the Parliament and the community, is to put a credible fiscal strategy in the budget papers, and that is what is in chapter 3. That is the key to the story that we are telling the ratings agencies - that is, we do have a credible program to ride out this big revenue shock and to put the Budget back on a sustainable basis over a period of time. What the ratings agencies and, no doubt, you and other members of parliament and the community will do is look at how we are going against that fiscal strategy over time.

CHAIR - We will move from a hypothetical question to a real question from Ms Forrest.

MS FORREST - I want to look at the general purpose grants from the Federal Government. According to the Federal Government's Budget Paper No. 3, in 2010-11, the general purpose grants will be \$16 009 000 000. However, in the State Budget Papers it says that figure will be \$15 058 007 000 - \$50 million less than what is allocated in the Federal budget papers. My question is: how was this figure determined by the State Treasury, and do you expect the GST receipts to be \$50 million less than forecast by the Federal Treasury next year? If so, on what do you base that view?

Mr AIRD - Basically, we actually put out an explanation of this on the Budget day. But, basically the difference is about, as you would be aware, the Commonwealth Grants Commission doing a reappraisal of the formula and the methodology of making an assessment. We have made a provision for a negative result in the year 2010-11. That is the year you are referring to?

Ms FORREST - Yes. The next year is exactly the same as what the Federal budget papers predict.

Mr AIRD - Yes, that is right. It is a provision which would allow for any major change of the methodology from the Commonwealth Grants Commission, basically.

Ms FORREST - So has the Federal Government not taken that into account? You are saying they have made their assessment, and their assessment is \$50 million more than what the State's assessment is. Why is there so much difference there?

[11.00 a.m.]

Mr AIRD - You see, the Australian Government's estimations as you go through the forward estimates is based on the same methodology. What we are saying is that in the year 2010-11 when the Commonwealth Grants Commission is going to make an assessment about the methodology of the provision of the GST revenue to the States, what we have allowed for in there is a \$50 million provision because there could be a shock to our revenues of \$50 million. That

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allows us to absorb that at a particular time. It is just a prudent measure in making that provision, because we do not want to be disadvantaged. We want to make sure that we have the capacity to mitigate the impact of this risk. So what we have done is really identified a Commonwealth Grants Commission methodology which could provide a risk to us and that we have made a provision of \$50 million on the basis of that.

Ms FORREST - So if the Commonwealth Grants Commission makes that assessment, though, and you are right, the State is right, and you are getting \$50 million less, why would you then not reduce the number in 2011-12 in the forward estimates? Surely if the assessment of the Commonwealth Grants Commission is that Tasmania is not going to get as much, surely that will flow through to future years?

Mr AIRD - Yes, but this just recognises a prudent approach in that particular year.

Ms FORREST - It is not a mistake? You are not trying to cover up a mistake here in your budget papers?

Mr AIRD - No. This is a decision that we have made -

Ms FORREST - I cannot see why, if you expect that to be the issue next year and you are being prudent, as you say, to factor that in so you do not get a big \$50 million Budget shock -

Mr AIRD - That allows for the readjustment. It gives us time then, if that continues on, to make a readjustment -

Ms FORREST - So we expect to see a readjustment in the forward estimates for the next year, I that case?

Mr AIRD - We would make other adjustments in other areas, if need be.

Mr HARRISS - Just while we are on that, Mr Chairman, could I have a look at the year under review - 2009-10 - your assessment is \$11 million less than the Federal Government, and then in the current year 2008-09 you have indicated the Budget is -

Mr AIRD - Sorry, can you just refer me to what you are referring to?

Mr HARRISS - Still GST.

Mr AIRD - What page are you on?

Mr HARRISS - Page 4.10 of Budget Paper 1. So, 2009-10, my research suggests that the Federal Government is saying \$1 537.5 million; you are saying \$1 526.5. You are \$11 million more conservative than the Federal Government.

Ms FORREST - My figure is the same.

Mr AIRD - Mine is the same.

Ms FORREST - Yes, they are the same.

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Mr CHALLEN - The only difference between the numbers in our Budget Papers on GST and the numbers in the Commonwealth Budget Papers are in 2010-11, which is the \$50 million the Treasurer has just explained in answer to Ms Forrest's question. Otherwise they are identical.

MS FORREST - It is only the next year that it is different.

Mr AIRD - Yes.

Ms FORREST - And \$50 million different?

Mr AIRD - Yes.

Mr CHALLEN - We have adopted the Commonwealth Government's estimates of GST, excepting 2010-11, where we have reduced them by \$50 million, a neat \$50 million.

Mr HARRISS - My apology, I scribbled that in there. Looking at the current year, our Budget is \$1 751.7 million. Am I right there in suggesting that the Federal Government has indicated in its papers that the likely result is \$1 803.6 million? So the likely result is going to be better than our forecast?

Mr AIRD - Are you on table 8.1?

Mr HARRISS - In the Federal Budget?

Mr AIRD - No.

Mr HARRISS - I was just trying to establish what the likely outcome is this year? Ruth has just indicated it is going to be less.

Mr AIRD - Yes.

Mr HARRISS - GST revenue is going to be less this year than forecast?

Mr AIRD - Yes, \$124.8 million less.

Ms FORREST - Yes, it was \$1627 million -

Mr CHALLEN - There is a small impact in 2008-09 as a result of a repayment of some additional cash that was advanced in the previous year. I suspect that may be the source of the confusion. I just have to run it down. I have not quite got it in my head.

Mr AIRD - It is academic. It will come out in the financials.

Mr CHALLEN - There is some cash-flow impact between years.

CHAIR - I think at this stage, Treasurer, and people, we might take a short break.

The committee suspended from 11.05 a.m. to 11.24 p.m.

CHAIR - We will resume. We are still trying to knock off 1.1 and 1.2. Are there any further questions on these particular outputs? I think, Terry, you have got something there, have you?

Mr MARTIN - Earlier on I think the Secretary referred to the diagram.

Mr AIRD - Sorry?

Mr MARTIN - There was a comment made by the Secretary about the chart, the diagram, and I made the point that whoever drew the diagram missed out one box, which was DEPHA. I just wanted to explore that a little bit. That conversation was in the midst of talking about basically across-the-board cuts and every secretary is expected to work to achieve the cuts in whatever way they deem fit. That is all except DEPHA. Can you just explain why DEPHA was singled out as the department that had to go, because it was based on Treasury advice and it was driven by Treasury because of economic savings. That is the explanation the public has been given.

Mr AIRD - Well, basically, it does achieve a level of savings.

Mr MARTIN - Some \$12 million.

Mr AIRD - It is ongoing. It is \$4.3 million ongoing. That will continue forever.

Mr MARTIN - Why just DEPHA? Why not any other department, because the same thing could happen there if you got rid of other departments, I suppose.

Mr AIRD - What really occurred here - I do not know if it is actually my area for explanation -

Mr MARTIN - Well, it is based on Treasury advice.

Mr AIRD - We have to make savings where we can. There is a misunderstanding here for whatever purpose. If you do not make these savings, then it would affect the level of service. You have to find the level of savings somewhere else.

Mr MARTIN - Yes.

Mr AIRD - The Government's view is, very clearly, that we were really going back to the original arrangements. This is going back to the 1998 arrangements when this department did not exist.

Mr MARTIN - The pre-1998 situation.

Mr AIRD - 1998. When we first came into government, this department did not exist.

Mr MARTIN - Yes, but you have got a long way to go to get back to the 1998 situation. You are a long way away from going back to the 1998 set of departments, though.

Mr AIRD - I am just saying that the functions of the department are easily absorbed into other agencies.

Mr MARTIN - But you could do that with any other department, so why DEPHA, and why not consideration for doing the same to other departments?

Mr AIRD - The area of savings we identified was this area. That is it. It is a simple decision, administratively simple, in terms of changeover from one agency to another. It has a historic relationship with the other agency other than Arts coming across into the Department of Economic Development and Tourism. It is based on achieving a level of savings and it is administratively relatively simple. That is the reason.

Mr MARTIN - But what was the good logic in combining forest and environment, for example?

Mr AIRD - I beg your pardon?

Mr MARTIN - Putting Environment under the same minister as Forestry, why was that a good idea?

Mr AIRD - It is not quite right, is it, because there is a different minister. The minister has not changed.

Mr MARTIN - The same department, sorry.

Mr AIRD - The relationship between the minister and the department has not changed. In fairness to the honourable member for Elwick, he is a bit confused about that.

Mr MARTIN - Yes, that is all right. When was the decision made to get rid of DEPHA? I know it went to Cabinet on 4 May.

Mr AIRD - I do not know how you can even say that. The decision, as I recall, was made on 11 May.

Mr AIRD - Yes, I think we both know that it went to Cabinet the week earlier. The decision might have been made on the 11th, but the big discussion happened on the 4th.

Mr AIRD - You can make those assertions if you like. I am not going to discuss that other than the reality is that the decision was made on 11 May.

Mr MARTIN - So when did you make the decision to actually put it to Cabinet? When did you receive advice from Treasury, and when did you decide it was the best way to go forward?

Mr AIRD - I have not got the times and dates on that.

Mr MARTIN - Well, approximately?

[11.30 a.m.]

Mr AIRD - Honestly, I couldn't -

Mr MARTIN - Weeks earlier, or months earlier.

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Mr AIRD - I wouldn't even speculate, to be quite frank. I would be guessing.

Mr MARTIN - Is it possible to get the dates?

Mr AIRD - The only date which matters is the date of the decision. A lot of discussion goes on about these things from time to time - whether it is formal or informal, from the notion of an idea, through the whole spectrum. I couldn't pinpoint any one specific time other than the time when the decision was made.

Mr MARTIN - It seems to have been a bit of a last-minute ad hoc decision, given the fact that the Secretary's employment contract was renewed in November, only six months earlier. There just doesn't seem to have been any strategic planning or thought put into all this.

Mr AIRD - You can make that call if you like, but as far as we were concerned, we were making decisions which were coherent and sensible in the financial circumstances. The point being missed about this is that we had to achieve levels of savings; we could do that with this agency relatively simply on the basis of historic alignments that have occurred before and we could achieve these savings that were ongoing.

Mr MARTIN - In this Chamber I have asked previously whether you have received any advice of the same thing happening to the Department of Economic Development. You said on the adjournment that same day that you had received advice and the next day, in response to a question, you said that you had completely discounted it. I assume that advice would have achieved similar savings to getting rid of DEPHA. Why did you make that decision?

Mr AIRD - I can't recall ever having seen a dollar figure associated with this. It just didn't advance to that point, as I recall. I honestly cannot recall any detailed information other than some notion. I don't think it was ever put forward in terms of identifying any level of savings.

Mr MARTIN - So what is the difference between the way you dealt with the DEPHA recommendation from Treasury and the DED? Why did you immediately stop action on the DED suggestion?

Mr AIRD - There wasn't any action in relation to DED at all.

Mr MARTIN - But you received advice about abolishing -

Mr AIRD - There was some preliminary advice given at some stage and it was notional. It was not considered and that was why I had put to you earlier that I had not considered it when in fact it had been put to me but in such a way that I was dismissive of it.

Mr MARTIN - Later on you made the decision to get rid of DEPHA based on the savings of \$12 million -

Mr AIRD - Well, no - there are greater savings than that, of course.

Mr MARTIN - Okay. But the same thing, I am sure, applied to DED -

Mr AIRD - It is \$15 million in the Budget and forward Estimates -

UNCORRECTED PROOF ISSUE

Mr MARTIN - But I imagine the savings in getting rid of DED would be greater. Why would you not consider that?

Mr AIRD - It was never considered.

Mr MARTIN - But why wouldn't you consider it? What is the difference between DED and DEPHA?

Mr AIRD- I don't understand the point of your question.

Mr MARTIN - You have two identical notions put forward - one to abolish -

Mr AIRD - No, no, they are not identical notions.

Mr MARTIN - That is what I am trying to work out -

Mr AIRD - They are not.

Mr MARTIN - What is the difference?

Mr AIRD - I don't know where this is going, Mr Chairman, but the fact is that the member obviously sees the Department of Economic Development and Tourism being amalgamated into other agencies. I don't know where they would go. He obviously sees that as a greater preference than the Department of Environment, Parks, Heritage and the Arts -

Mr MARTIN- I have said nothing of the sort.

Mr AIRD - Well, if that is not the point of your argument, then what is the point of the question?

Mr MARTIN - I am sure you understand why -

Mr AIRD - I will clarify it. It was a simple decision to make in terms of the administrative arrangements. It caused the minimum of disruption to those performing the task within the existing agency and we can achieve the level of savings. It was simple and, because it was really a reversion to where that department had been in another incarnation, if you like, it was easy to put it back to its original position.

Mr MARTIN - It might be easier for all of us to understand the logic here if you could explain what the proposal about DED was.

Mr AIRD - It was nothing other than some consideration - I cannot recall the detail. I am not interested in the detail; it is not something that I am considering; it has never been a serious consideration. I have other plans in terms of Economic Development, which we can discuss later.

Mr MARTIN - So there are no other plans to abolish any other departments?

Mr AIRD - No.

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Mr MARTIN - Given the fact that you have made these savings with DEPHA, why would you not consider doing the same for other departments?

Mr AIRD - There is no proposal. I am not considering it. We have set the departmental structure for the Budget and forward Estimates. That is the departmental structure that we want to continue with.

Mr WILKINSON - In the Treasurer's budget speech he said that members of parliament would have their pay frozen, or words to that effect. Is it not a fact that what occurs is on 1 July each year the Auditor-General looks at what the backbenchers receive in Federal Parliament and last year the Federal backbenchers salaries were frozen, therefore we were immediately frozen anyway -

Mr AIRD - Do you have the right year on this?

Mr WILKINSON - Yes. We are not able to get any pay rise at all as a result of what occurred last year with the Feds - as I understand it.

Mr HARRISS - QED.

Mr AIRD - The fact is that my understanding was there would need to be some action taken. I should have followed it up from when you questioned me in the Chamber last week, but I haven't. I will check it out.

Mr WILKINSON - You see, to me it is spin, and nothing else.

Mr AIRD - I know you have said that before. Of course I am aware of the linkage between our MPs' salaries and those of the Federal MPs, but my understanding is that the freeze applied for -

Ms FORREST - It does for us this year, it was -

Mr HARRISS - 2009-10.

Mr AIRD - Okay, 2009-10 - and that there is no increase for the following year. Isn't there going to be a review on that federally?

Mr HARRISS - We are talking about 2009-10.

Mr AIRD - Anyhow, the fact is that whatever the mechanism, there will be a freeze. That is the truth of it.

Mr WILKINSON - Well the truth of it is that there doesn't have to be anything because there is already a freeze.

Mr AIRD - Well, the fact is that as far as I am concerned, there will be a freeze by whatever means.

Mr WILKINSON - By just sitting still and doing nothing.

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Mr AIRD - Well, if we don't have to do anything, that is fine; if we did have to do something, we would take action.

Mr HARRISS - But in addition to that, the spin is in the budget papers 'Given the need to change legislation, the savings are not reflected in the forward Estimates, and the saving will be recognised following the change to relevant legislation'. Strike it all out because there is no need to change any legislation - it happens.

Mr AIRD - Well, if there is a need to change legislation, then it will be put in place.

Mr HARRISS - But there is no need; you know that.

Mr AIRD - I should have had greater clarification, by my understanding was that it would require some action. If that is not the case then we will obviously review that.

Mr WILKINSON - But those who wanted to be mischievous - and probably I could be classed as being one of those in relation to this question - would be saying that the public sector increases of 3.5 per cent are being frozen and therefore what the Government says is 'Look, members of parliament are doing that also,' when in fact that is not the case.

Mr AIRD - We will not be having a pay increase.

Mr WILKINSON - I know that, so there is no need to say anything at all because it was already in place.

Mr AIRD - No, no. We have to show that we are involved in this as much as anyone else.

Mr WILKINSON - We are involved by doing nothing.

Mr AIRD - Well, that is okay. You can make that assertion, but the fact is, do you think we shouldn't say that?

Mr WILKINSON - What would have been the whole truth is to say that members of parliament will not be getting an increase because of what was done by the Federal Government last year when it froze their wages. Therefore we do not get a flow-on and therefore our wages are frozen as well. That would have been the whole truth.

Mr HARRISS - Not to say that there is a legislative measure required.

Mr AIRD - There is an MPs' pay freeze - QED.

Mr WILKINSON - And there is no legislation required as well, which goes on in the next paragraph. As Mr Harriss has said, 'QED'. It is just the icing on the cake - very fluffy, isn't it?

Mr AIRD - No, it is just a pay freeze. It is on.

Mr WILKINSON - All sweet but no substance.

Mr AIRD - No, it is very much substance. It is all substance.

CHAIR - Okay, I think we know where we are coming from on that point. Is there anything more on 1.1 and 1.2?

Ms FORREST - I just have one question in relation to the GST receipts. We all know that they have plummeted 17 per cent below the expected level and GDP has slowed from about 3 per cent to 0.5 per cent. What analysis has Treasury undertaken of the links between GDP and final consumption expenditure, which determines GST receipts and how that may affect us in the future?

Mr AIRD - We go on what we expect from the Commonwealth Budget and forward Estimates.

Ms FORREST - But it links with GDP. Has an analysis been done of that? For example, has consideration been given to what the impact would be on GDP growth should recovery be led by an export boom with increasing imports being confined to investment rather than consumption goods?

Mr CHALLEN - The GST is actually driven by gross national expenditure rather than gross domestic product because a really important driver of the GST is the GST on imports -

Ms FORREST - That is why I made the point - investment goods rather than consumer goods. Has that been considered?

Mr CHALLEN - Yes, it has. There is a bit of an undiscovered mystery going on: the GST receipts have fallen more sharply than you would have expected on the basis of what is happening to the main drivers - consumption, dwelling expenditure and imports. All the treasuries around the country are trying to understand what is going on but at the moment we do not have an answer to it. Something has happened to the GST - it has fallen more sharply than any of us would have expected on the basis of the drivers.

Ms FORREST - And you are saying that the Treasury has looked at that, but you have not been able to determine those links?

Mr CHALLEN - Not only us but also all the treasuries, including the Commonwealth. In fact I was talking about this very point to the Secretary of the Commonwealth Treasury on Friday. We were together at a conference and he was saying that nobody has yet been able to explain it. There has been some shift in what is driving the GST and we cannot explain it.

Ms FORREST - Which must make it more difficult looking at the way forward in your budget Estimates.

Mr CHALLEN - Indeed. And that is one of the reasons that this year we have chosen to adopt the Commonwealth's estimates of GST. In the past we have sometimes moved away from the Commonwealth's estimates, but the old norms have been upset by the global financial crisis and we think the Commonwealth Treasury's modelling is probably the best there is. So we have adopted that.

Ms FORREST - Having said that, why do you discount the Commonwealth Treasury's predictions of a GST receipt for Tasmania next year by \$50 million?

[11.45 a.m.]

Mr CHALLEN - Because that is a specific effect that is not driven by the GST pool. That is driven by Tasmania's share of the pool which is, in turn dependent on the relativities determined by the Commonwealth Grants Commission. So the working assumption that the Commonwealth Treasury makes is that the current methodology and the current relativity will continue forever, but everybody knows that in February next year the Commonwealth Grants Commission will produce a report based on a major review of its methodology. History shows that each time there is a major review of the methodology, Tasmania's relativity tends to drop but then recovers as the updates process works its way through between major reviews. But on each occasion in the past when there has been a major review the methodology has taken our relativity down. Thus we felt it was prudent to make a provision for that, but the Commonwealth makes a different methodological assumption - they just assume that current relativities carry on until they actually change.

Mr HARRISS - I am looking at page 2.6 of Budget Paper 1. Where there is a statement about the assessments you have made in framing the Budget. You have used the base case scenario, but also you have acknowledged that there is a pessimistic scenario and an optimistic scenario.

Ms FORREST - Covering all bases.

Mr AIRD - I am always amused by Treasury's optimism.

Laughter.

Mr HARRISS - Or their pessimism!

Mr AIRD - I let it stay, but I was quite amused. The relative position between optimism and pessimism is a contextual dynamic, I think.

Mr HARRISS - You are sounding just as bad! You have practised that. I suppose the real question is that I can understand that you have taken the base case scenario, but we understand that in the coming year there are likely to be volatilities. Isn't the basic question that all the budget management strategies need to be achieved or else we are in pretty dire circumstances come this time next year? If we were to adopt the most pessimistic scenario, then even that will impact, but also building on that is the fact that if you do not achieve your budget management strategies there will be major problems.

Mr AIRD - It is not secret that we have to work really hard to achieve what we have set out to do in the Budget. I am not saying it will be easy - it will not be. It will require a lot of discipline and hard work to deliver what we have set out to achieve. But history will show that when we set targets, we are good managers and that we do achieve those outcomes that we seek. I do not expect this to be at variance from that discipline. Ministers and heads of agency will be in no doubt about the requirements we have put forward here, and they have to work within the Budget and the forward Estimates.

Mr HARRISS - What major factors impact both the pessimistic scenario and the optimistic scenario?

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Mr AIRD - If you read them you will see that they are just brief descriptions. In those paragraphs they say:

'Treasury has therefore assessed the outlook for 2009-10 and beyond under three scenarios: the base case presented in Table 2.1, a pessimistic scenario that could arise if the global economic outlook further deteriorates, and an optimistic scenario...This scenario approach has been adopted to reflect the uncertainty over the outlook and to highlight the range and magnitude of risks that the Tasmanian economy will be facing.'

That is really reflecting the level of uncertainty that we have to work with. But we have to make assumptions on the basis our financial targets and we will be out there to achieve them.

Mr HARRISS - But there is still the question: What are the major factors that impact both the pessimistic and optimistic scenarios; can somebody tell us that?

Mr AIRD - You can go through it.

Mr HARRISS - You have done your modelling. Is it something you want to table what each of those scenarios is?

Mr AIRD - I do not know -

Mr HARRISS - I do not specifically need it now but you might like to table it.

Mr AIRD - We will try to get you some information on that. The secretary is just pointing to the statement of risks and sensitivities and the revenue estimates on page 4.43. In terms of the background to the commentary, if there is some information we can give you, we will.

Mr HARRISS - And specifically, Treasurer, you have the models on the pessimistic scenario and you have the models on the optimistic scenario - I am interested in what they might show up in terms of net debt, the fiscal balance and the Consolidated Fund. If nothing else, just those couple of measures to give some indication of the worst case scenario and the best case scenario. We have the middle of the road here.

Mr CHALLEN - We have not done that kind of modelling. Our budget modelling - things like net debt and operating and fiscal balances - is all done on the basis of the base case. So all these budget papers reflect the base case. The pessimistic and optimistic scenarios are some additional work that we have done around the economic outlook that is designed to condition that material on risks and sensitivities that starts on page 4.43. So the things you are asking for do not exist.

Mr HARRISS - Okay.

Ms FORREST - One question in relation to the costs incurred with the management of the budget leaks that occurred before the release of the Budget. How much were the increased costs incurred in that? Is that an ongoing cost that will have to be absorbed within the department?

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Mr CHALLEN - In the main no, it is not an ongoing cost. Most of what we did was changes to procedures. We changed the hours of access that staff are allowed to the building; we changed the access to particular areas of the building; and these were essentially small coding changes in our security system. The biggest one-off cost we incurred was for security guards during the Budget preparation process, which cost about \$15 000. We got rid of those guards on budget day so that has come to an end and was essentially a one-off cost. We are, however, having a very thorough review done which will condition the way we manage these kinds of issues going forward. There may be some additional costs as a result of that, but if there is we will have to absorb it within our budget.

Mr MARTIN - Two quick questions: I refer to a debate last week and a difference of opinion where I put forward the notion that rather than do away with 800 Public Service jobs, it would be better in my opinion to maintain a deficit for a few years longer. Can I just confirm again that there is no economic modelling done about the impact of the 800 job losses and with the 800 salaries not circulating around the economy what impact there will be on the Tasmanian economy?

Mr CHALLEN - It is embedded in these economic forecasts. This base case set of economic forecasts that are in chapter 2 take into account all the Budget measures. It takes into account the stimulatory effect of the payroll tax rebate. It also takes into account the depressing effect of lower levels of departmental expenditure. So all those reflected in those numbers.

Mr AIRD - And infrastructure spending.

Mr CHALLEN - Yes.

Mr MARTIN - And the 800 fewer salaries circulating around the economy, that is taken into account?

Mr CHALLEN - Yes, it is reflected in those numbers.

Mr MARTIN - Can those figures be isolated?

Mr CHALLEN - No.

Mr MARTIN - Did you do modelling on my alternative strategy of maintaining the deficit longer?

Mr CHALLEN - No.

Mr MARTIN - Is there a reason why you would not do that?

Mr CHALLEN - Because it was not the Government's strategy. We only modelled the Government's strategy.

Mr MARTIN - So it is basically a theoretical economic basis that the Government is running about the no deficit?

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Mr AIRD - No, you are getting confused between deficit and debt. What we have said as a policy position was that we were not going to go back into net debt. It was part of our fiscal strategy not to go back into net debt. That was one of the issues that we established very early on.

Mr MARTIN - So it is a philosophical point of view from the Government?

Mr AIRD - No, it is not a philosophical view in as much as it is a fiscal strategy that was based on what we needed to achieve. The history of debt in Tasmania has been a huge burden. We have a narrow own source of revenue base. It has taken us a long time to get into this current situation of retiring debt of \$1.6 billion and then we got into a better cash position, a surplus cash position, which has in fact helped through this current situation. Why would you go into net debt?

Mr MARTIN - But we are talking about \$1.6 billion, are we?

Mr AIRD - No. But why would you do that? To me it was a bad fiscal strategy to go back into net debt. I do not know anyone other than you who thinks it is a good idea.

Mr MARTIN - Have you got advice from Treasury saying that?

Mr AIRD - I do not need advice. Everyone would know. It is axiomatic.

Mr MARTIN - But a lot of the States, the Federal Government, the American Government and just about every government in the world is doing it.

Mr AIRD - I do not know if you have read the commentary here.

Mr MARTIN - I am not the only person who is suggesting it.

Mr AIRD - If other States want to go into net debt territory let them - but not here because -

Mr MARTIN - You have never asked Treasury for their advice on that?

Mr AIRD - I am sure there is probably advice around relating to it. If there is you can have it. I do not mind. Do you think Treasury would be advising me to go back into net debt? You have to be kidding me.

Mr MARTIN - Other States have.

[12.00 p.m.]

Mr AIRD - The argument would be the other way around to convince Treasury that you should go in there - and I am telling you there would be a lot of push back from Treasury on that. My view very clearly in terms of setting a fiscal strategy is that we had to show a pathway through this. That is why we have allowed the deficits over the next couple of years and we come into a surplus in 2012-13. We know where we are going to get back into surplus in terms of our operating balances. For three years we will have deficits. But the fact is having no net debt is a very positive outcome: It is positive to the community to know that we are not going to have debt propping up our operating position; it is positive in terms of the credit rating agencies; and it is positive to the business community. There is a lot of support for this fiscal strategy. It is so good the Liberal Party has adopted it.

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Mr MARTIN - So the Liberal Party is guiding the benchmark -

Mr AIRD - No, I am just saying that is how good it is - they had no alternative but to adopt our fiscal strategy.

Mr HARRISS - Still on the efficiency measures and the Budget strategy: Are there likely to be financial incentives for people to retire early? One of the issues is early or phased-in retirement, leave without pay or whatever else you had factored in there - any incentives to be provided?

Mr AIRD - It would be up to the agencies. I do not know the detail of how the agencies would go about this. There are usually some parameters about how the agencies will provide avenues for people to seek different employment arrangements. One of the concerns about people taking leave without pay for two years or something like that is that they would not be able to come back to an equivalent position. It is those types of issues that will need to be addressed by agencies.

In the past there has been a reluctance. I think that if we are to achieve this level of savings there has to be a quid pro quo in encouraging people if they want to do these things to know where they would come back within two years. It is those types of things that are going to improve for the employee at a management level.

Mr HARRISS - What about voluntary - sorry, early - or phased-in retirement? It is always voluntary to retire.

Mr AIRD - I am not aware of any specific area where that would occur. I can only repeat what I said at the beginning that it would be up to individual agencies to work out their own.

Mr HARRISS - No financial incentives?

Mr AIRD - I do not know. There is certainly no specific instruction or specific package that I know of, so the individual agencies might do -

Mr HARRISS - Model it themselves.

Mr AIRD - They might, yes.

Mr HARRISS - Given 25 separations in the SES, can you indicate to the committee how many SES positions there currently are across the service?

Mr AIRD - There is a figure available. It relates more to the Premier, but I will see if I can get it for you.

Mr HARRISS - Thank you.

Mr MARTIN - A question through you, Mr Chair, that Mr Challen might be able to answer off the top of his head: If the decision had not been made to go down this fiscal strategy that the Government has set and we did not seek savings through the 800 jobs, how many extra years would we have to stay in deficit if those savings were not made now?

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Mr CHALLEN - I cannot answer off the top of my head. It requires some modelling to be done.

Mr MARTIN - Is it a big job?

Mr CHALLEN - It is a substantial piece of work, yes.

Mr MARTIN - Okay.

Mr WILKINSON - Finally for me in relation to the overview: When you read Saul Eslake and his view of the Budget and the bounce back after the recession has finished -

Mr AIRD - I notice Mr Wing referred to seven-and-a-half and eight out of 10 from Mr Eslake.

Mr WILKINSON - Did he give a figure? I do not know.

Mr AIRD - Mr Wing mentioned that.

Mr MARTIN - That was an evaluation of Mr Wing's speech by Saul Eslake. He has rated Don's speech.

Mr WILKINSON - That was not the question what marks did people get, but one of the marks that I am interested in is the bounce back.

Mr AIRD - I want some clarification on it.

Mr WILKINSON - The bounce back in relation to the economy and he said that Tasmania seems to be a bit pessimistic. What I am asking is: is that correct; and, if so, why is it the case and why are we behind the rest of Australia in relation to that? I can understand Queensland and Western Australia, but the other States I cannot quite understand.

Mr CHALLEN - He actually said Treasury's forecasts are a bit pessimistic. Needless to say we do not agree because we put a lot of thought and analysis in coming up with those forecasts but, if he is right, that would be great.

Mr WILKINSON - In relation to the thought that you put into it, why do we differ from the rest of Australia in relation to - I am calling it the bounce back?

Mr CHALLEN - Well, I do not know -

Mr AIRD - Are we that much different?

Mr WILKINSON - Yes, it is 2.25 -

Mr CHALLEN - As we have said in the budget papers, these are very difficult circumstances to forecast, we have put most of our energy into coming up with a realistic set of forecasts for the Budget year 2009-10 and we have modelled the transition from 2009-10 onwards on the experience of Tasmania's recovery from recent recessions, most particularly the 1991 recession. The Commonwealth has done exactly the same thing nationally. If it is the case - it is

a bit of an 'if' - that our trajectory back from our 2009-10 forecasts is more pessimistic than it is nationally, that just reflects the fact that in the 1991 recession Tasmania recovered a bit more slowly than the rest of the country, which was indeed the case.

Mr WILKINSON - Different cause for the recession in 1991 to this one?

Mr CHALLEN - Yes, but we have nothing to go on. That is the problem. I have said this to this committee before: Do not underestimate the difficulty of trying to produce forecasts for Tasmania even in normal times. It is a small economy, and the data is poor. It is like trying to forecast the fortunes of the city of Geelong - it is not easy. Please do not ask us to meet the same standards that the Commonwealth Treasury can meet for the national economy, because it is not something that is doable.

Mr AIRD - Just on that, the Commonwealth forecasts have been criticised as well as being overly optimistic in the out years. We are making the best judgments we know on the information that we have and on what is going on around us. You are right: it is in a changed context. As you go through it, you have to be satisfied that these figures sit reasonably within what we can make a reasonable judgment about and in the end you say, 'Is this plausible? Does it fit? Does it make sense?' And we have decided yes.

Mr WILKINSON - Is it erring on the side of caution as opposed to pessimism?

Mr CHALLEN - No, I don't think so.

Mr WILKINSON - Or optimism?

Mr CHALLEN - If we could go back one step: Why is it that we publish economic forecasts in the budget papers? We publish economic forecasts in the budget papers because you have to have a view of the economy to do all the other numbers that are in the budget papers. We are publishing those so that you can see explicitly the view of the economy that we have had when we have put together the revenue and the expenditure numbers that are in the budget papers. If there were not that link, there would not be any reason, apart from a general interest in it, to publish economic forecasts. Like all numbers in the budget papers these are just the best Estimates that we can produce at a point in time. They will be wrong. Every forecast is always wrong by definition. It is just a question of how wrong it is and how much difference it makes to the rest of the numbers in the budget papers. I worry that too much focus is put on that particular set of forecasts when really they are just part of an overall story about the Budget.

Mr HARRISS - A couple of quick ones to finalise that budget strategy process: board and committee savings, who is going to conduct the review to come to your conclusions there?

Mr AIRD - That will be done under the auspices of DPAC. I am not sure about that.

Mr HARRISS - Are you aware as to whether the review will be made public?

Mr AIRD - I would expect it would be made public. If we have to achieve some savings I would expect it to be public. Have you any ideas?

Mr HARRISS - Yes, I have heaps for you.

Ms FORREST - We all have.

Mr AIRD - Estimates committees?

Ms FORREST - That was not one he was thinking of.

Mr HARRISS - Hardly.

Mr WILKINSON - We will do some modelling on it first though.

Mr HARRISS - Can I go to the matter of the whole-of-government non-salary savings targets where you have advertising, members of parliament mobile phones, and so on. The matter of travel and vehicle fleet, \$6 million or \$5 million savings. What component is contributed to travel through executive class air travel versus economy class air travel across the service? Do you have any grab on that at all?

Mr AIRD - No, I do not know.

Mr HARRISS - Does anybody with you have a grab on that? Is that an area which is being targeted?

Mr CHALLEN - Not particularly. Agencies have simply been told - their travel budgets are being reduced by 30 per cent so most of them will reduce their travel by 30 per cent. The reality is that it is hard to get a business class seat in and out of Hobart anyway. Virtually all the travel I do is with Jetstar and Virgin because it is hard to get in Qantas business class seats. I think the reality is that it is a rather small component.

Mr HARRISS - Would that not be a sensible move anyway? Mr Challen has just indicated his majority of travel is with Jetstar and Virgin Airlines. Historically they certainly have been more cost-efficient. Committees of the Legislative Council which travel tap into those economical travel arrangements when travelling interstate. I find it galling to get on a plane to go off on parliamentary business out of Hobart to see both Federal and State people sitting on an executive class airfare from here to Melbourne, for goodness sake, which is an hour.

Mr CHALLEN - You were travelling Qantas, were you?

Mr HARRISS - Yes, on occasion. I have said the Council does use -

Ms FORREST - Some Qantas flights are as cheap. If you search you can get really cheap Qantas flights.

Mr HARRISS - That's true.

Mr AIRD - In terms of understanding the detail of this, I think travel arrangements are about the best way to travel and people can make their own judgment calls about short-haul and long-haul flights; what work is to be done on the flight; what the purpose is of the flight and what work can be undertaken on the flight. It is those types of things and it is a productivity issue as much as anything else, but I understand the point you're making. People can really make their own judgments about that.

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Mr HARRISS - You say it's a productivity issue and people can make their own judgments but we are talking about taxpayer funds. You could identify what is short-haul travel and there could be a directive.

Mr AIRD - Look, it's not my call but my view is that it depends on the purpose of the travel, the lead time for the travel, what needs to be undertaken on that travel -

Mr HARRISS - Does it really?

Mr AIRD - I think a lot of different aspects need to be taken into account.

Mr HARRISS - Economy versus executive class?

Mr AIRD - I understand the point you're making. I think it's a judgment call and that various members of the State Service and what-have-you need to make a decision about those things, but in the end they have to work within the budget targets, that is the important thing - and the budget savings.

Mr HARRISS - Yes, that may be so, but the savings and the budget targets could be even better if a directive came from the Treasurer.

Mr AIRD - The savings are here and they will be achieved.

Mr HARRISS - But I'm suggesting they could be even better.

Mr AIRD - Well, you might make that assumption but in terms of achieving anything else we have made a decision that we want to achieve those levels of savings and we will achieve them. Some people will simply choose not to travel and have teleconferences and a whole range of other things instead. Less travel is best, as far as I'm concerned. If something can be done here over the phone or via teleconference, that is great. If there are other reasons that you need to travel then it has to be in the context of the objective here.

Mr WILKINSON - I agree that teleconferencing would be terrific. In relation to the set-up now within Parliament, I know we have the equipment but are we able to have teleconferencing, because that would save a great deal of time, it would seem to me, for all parties concerned and extremely worthwhile?

Mr AIRD - I don't know the detail but I know there is work undertaken at a government level - and it has been discussed at COAG - that we use the improved technology to have meetings, which obviously means that we don't need to travel. I'm just trying to think of the expression - telepresence readiness, I think it's called; some jargon like that.

Mr WILKINSON - That's the Clayton's presence - being in the room when you're not in the room.

Mr AIRD - Anyhow, it's in the budget papers and we anticipate we'll be using it a lot more. Parliament uses it and it's great. It is called the Telepresence for COAG.

Mr WILKINSON - I know just recently there was a committee which unfortunately had to travel. We have the system here but for some reason we couldn't link up to the other room and

two hours later finish the meeting with the information we needed, and instead had to spend the day travelling to get it.

[12.15 p.m.]

1.3 Shareholder advice on government businesses

CHAIR - If that is all I think we will now move on output 1.3 which is shareholder advice on government business, and I have a few questions on that. I suppose the first one I would ask, given we have been talking about efficiency dividends and savings strategies that have to apply to government departments in this Budget, what is going to be required of the government businesses, especially in view of the fact that they're the ones that hold most or virtually all of the debt in this State? Have you worked out a policy whereby they will also be held accountable and required to produce savings?

Mr AIRD - Obviously they have been made aware of the Government's policy position and we have asked them to recognise the Government's position and try to provide consistent decision-making within the Government's policies, particularly relating to wage restraint and other matters. The GBEs and State-owned companies are affected by the global financial crisis as well and I notice that people are saying we can drag more out of the SOCs and GBEs, but it must be recognised that each of those is operating in different circumstances and we have to be very careful. As I said in the budget speech, we have to keep investing in these areas of infrastructure now for the future. If we don't then we have our assets being run down and not maintained in a way that is going to be productive in future.

CHAIR - So you're saying that nothing has been mandated but the message has been sent through to them fairly clearly.

Mr AIRD - Yes, exactly.

CHAIR - In the coming 2009-10 year can you rule out any of those that might be placed on the market?

Mr AIRD - Here we go.

Mr HARRISS - Watch this space.

Laughter.

Mr AIRD - I can't identify any assets there that I would want to put on the market. As far as I'm concerned we have placed the assets that I think should have been put on the market, and at the right time.

CHAIR - But there could be - it's possible.

Mr AIRD - Look, I can't identify any assets that I would want to be on the market.

CHAIR - At this stage. Has Mr Challen just added one to the list?

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Mr AIRD - No, he has just reminded me that there's a recommendation - it's not a secret; I wouldn't have put it up there in neon lights - that for the Devonport Airport there has been a recommendation made by TasPorts.

CHAIR - For terminal 9 or 8?

Laughter.

Mr AIRD - I don't know - that'd end up out in Bass Strait, wouldn't it? Anyway, that is no secret and Cabinet is yet to consider that recommendation. That is the only caveat.

Mr MARTIN - Are there any other proposals?

Mr AIRD - No.

Mr MARTIN - Nothing else from TasPorts or any other GBE?

Mr AIRD - Not that I'm aware of.

Ms FORREST - No early discussions except for Devonport Airport?

Mr AIRD - No - that's it. Are you clear on your questions? Am I clear on my answers?

Laughter.

CHAIR - Treasurer, just in regard to rail being the big story the other day - and I appreciate it has to go past the Asciano board and Cabinet so it is probably pre-empting it a bit - has any advice been given in terms of any governance arrangements that might apply to a new rail operator?

Mr AIRD - I do not have carriage of the Cabinet submission. It will be put before Cabinet by the minister at the appropriate time and I would imagine that would canvass a range of options and then Cabinet will have to work out what they deem to be the best one.

CHAIR - When will that be, as a matter of interest?

Mr AIRD - I don't know specifically but I would expect, given the nature of the timeliness, that it would be within the next couple of weeks.

Mr WILKINSON - If government had to take over, which it would seem to me might well be the case, where would you find that money from?

Mr AIRD - Again, we will just have to work through the scenarios about the nature of it. There will have to be a lot of discussions with the Commonwealth Government, for instance, and there is no settled provision and when we get to cabinet consideration there will be some commentary about that and what options are available. I think the key is our working with the Commonwealth on this.

Mr WILKINSON - Sure. So it would seem that the answer is that if there is going to be money spent by government for the railway it would be hoped that that money would come from

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the Commonwealth. If not, there could be a hole in the Budget if the Tasmanian Government had to find the money to run the railway.

Mr AIRD - Look, let's not jump the hurdles yet.

Mr WILKINSON - I'm not - it's an obvious scenario.

Mr AIRD - There could be a range of options here and what I am saying is that we have to have some very serious discussions with the Commonwealth.

Ms FORREST - One of the major initiatives under this issue is the sale of TOTE and there are a few confusing figures in here which I want to go through to see if we can clarify what has actually been spent where. On table 4.9 and page 4.37 of budget paper 1 - the policy and parameter statement - and I must say the policy and parameter statement is a good document; I find it very useful.

Mr AIRD - These are the most transparent budget papers in Australia.

Ms FORREST - Correct - as Mr Eslake said.

Mr AIRD - It wasn't very well reported. The first budget I brought down I was criticised for and I said I would improve, and I have.

Mr HARRISS - We've reported it.

Ms FORREST - Anyway, the policy and parameter statement has a figure of \$2.5 million allocated to the divestment cost of TOTE to the 2008-09 financial year and \$900 000 for 2009-10. I have a few questions in relation to this. Firstly, has this money been spent?

Mr AIRD - Yes, it has.

Ms FORREST - So what expenses came out of that \$2.5 million? The statement shows a figure of \$900 000 for 2009-10, however in budget paper 2 under major initiatives on page 12.2 shows an allocation of \$78 000 for 2009-10, so there is a difference of \$12 000 there and I am just asking what those funds will cover. Can you firstly answer what the \$2.5 million was spent on, where that money went?

Mr AIRD - That would be on lawyers, financial advisers - those types of costs.

Ms FORREST - Are you able to provide details of how much was paid to those people and when - the dates?

Mr AIRD - We'll take it on notice.

Mr CHALLEN - The policy and parameter statement reference you are referring to is under Finance-General and is actually \$900 000.

Ms FORREST - That's right.

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Mr CHALLEN - This \$78 000 is in Treasury corporate, so that is our department's staff costs for those working on the TOTE sale and the \$900 000 is our adviser costs. They're from two quite different budgets.

Ms FORREST - Can you explain what those funds will be used for?

Mr CHALLEN - It is just the cost of our staff who are working on the TOTE sale, the people who are actually running the sale process inside Treasury; that's just an allocation of our budget to this project.

Ms FORREST - So the \$2.5 million has been for the lawyers, advisers, that sort of thing, and you will provide the breakdown of that - and the dates. Okay.

CHAIR - I have a raft of questions under this output. On page 4.22 of budget paper 1 in regard to Hydro, Treasurer, it talks about a significant increase in the dividend it's providing in the out-years of the forward Estimates and footnote 2 says it is due to replenishment of water storages. I hate to tell you that the *Tasmanian Country* and *Weekly Times* have El Nino coming again, which was a bad portent the other day.

Mr AIRD - Any particular time?

CHAIR - Yes, this year - this coming spring and summer, which was really handy to hear.

Mr AIRD - Peter Cundall says it's going to be a very wet winter. He said he could feel it in his bones.

CHAIR - Okay - righto.

Mr MARTIN - He's a very wise man.

Mr CHALLEN - The Elders 28-day forecast is consistent with that too; I had a look yesterday.

Mr AIRD - People with water storages are very interested.

CHAIR - Okay, so because of the replenishment of those storages and an increase in dividend pay-out ratios, can you provide some detail as to the proportion that each of these contribute to the increased dividend?

Mr AIRD - I couldn't give you a breakdown on that. The minister might be able to but we wouldn't have that information.

CHAIR - I'll refer that to Minister Llewellyn if that is the case. I wasn't sure if you'd be across that.

Mr AIRD - No, it's a bit too detailed.

Mr HARRISS - Too wet for a dry Treasurer.

Mr AIRD - Ha, ha! No sledging allowed!

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CHAIR - Does breaking for lunch between 12.30 and 1.30 suit you, Treasurer? Can you digest your lunch in that time?

Mr AIRD - I don't mind. Okay, let's work on that basis. I said I'd provide some information relating to State and Commonwealth funding and seek to table that for the committee.

The committee suspended from 12.30 p.m. to 1.33 p.m..