

IN THE TASMANIAN INDUSTRIAL COMMISSION

Industrial Relations Act 1984

T.2146 of 1989

IN THE MATTER OF AN APPLICATION
BY THE TASMANIAN TRADES AND
LABOR COUNCIL TO VARY **ALL
PRIVATE AND PUBLIC SECTOR AWARDS
AND AGREEMENTS** TO INCREASE WAGE
RATES AND ALLOWANCES GENERALLY
AND TO REVIEW THE WAGE FIXATION
PRINCIPLES

AND

T.2147 of 1989

IN THE MATTER OF AN APPLICATION
BY THE BUILDING WORKERS'
INDUSTRIAL UNION OF AUSTRALIA
(TASMANIAN BRANCH) TO VARY THE
BUILDING TRADES AWARD RE BASE
RATE FOR TRADESPERSON IN
DIVISION A. AND TO INCREASE WORK
RELATED ALLOWANCES

AND

T.2152 of 1989

IN THE MATTER OF AN APPLICATION
BY THE TASMANIAN PUBLIC SERVICE
ASSOCIATION TO VARY **NOMINATED
PUBLIC SECTOR AWARDS AND
AGREEMENTS** RE SALARIES,
ALLOWANCES AND AWARD
RESTRUCTURING

AND

T.2167 of 1989

IN THE MATTER OF AN APPLICATION
BY THE TASMANIAN TEACHERS
FEDERATION TO VARY **NOMINATED
AWARDS** TO INCREASE SALARIES AND
SALARY-RELATED ALLOWANCES

CONSEQUENT ON THE DECISION OF
THE AUSTRALIAN INDUSTRIAL
RELATIONS COMMISSION IN THE
NATIONAL WAGE CASE DECISION OF 7
AUGUST 1989

FULL BENCH

PRESIDENT
DEPUTY PRESIDENT
COMMISSIONER GOZZI

HOBART, 9 October 1989

TRANSCRIPT OF PROCEEDINGS

(RESUMPTION)

PRESIDENT: In relation to the last matter called, appearances are invited together with an explanation as to why that matter has been lodged.

MR LANE: Mr President, members of the Commission, **CHRIS LANE** appearing on behalf of the Tasmanian Teachers Federation.

In relation to the last matter, T.2167, the explanation for our lodging that appeal, Mr President, members of the Bench, is that as an organisation it was felt that the Teachers Federation would like to be represented at any of the hearings and any subsequent conferences that may be called on this matter so that their point of view can be at least taken note of.

PRESIDENT: Do we take it then that the TTLC does not speak for the Teachers Federation?

MR LANE: No, Mr President, that's not the case; not at this particular time. We are fully supportive of the TTLC's actions and their submissions so far on this matter and we see no reason why today should make that any different, but we certainly are supportive of the TTLC's actions on this matter.

PRESIDENT: The claim does not appear to seek from the Commission restatement or introduction of the current ... or the national wage guidelines.

MR LANE: I would have thought ...

PRESIDENT: You simply seek a money increase.

MR LANE: Yes, Mr President. I would have thought the last section of the sentence on that, 'to provide the mechanisms for award restructuring' covered that.

PRESIDENT: Well then, do we take it, Mr Lane, by way of clarification that your organisation does in fact seek from this Commission a flow-on in every sense ...

MR LANE: That is correct.

PRESIDENT: ... of the national wage decision?

09.10.89

APPEARANCES

MR LANE: Yes, Mr President. Yes, that is correct.

PRESIDENT: Yes. Thank you.

Any other appearances in that matter?

MS MORAN: If it please the Commission, **TRISH MORAN** appearing for the Secondary Colleges Staff Association.

PRESIDENT: Thank you, Ms Moran.

MR WILLINGHAM: Mr President, if the Commission pleases, **CLIVE WILLINGHAM** for the Minister for Employment, Industrial Relations and Training. I would seek to enter an appearance in matter T.2167, together with **MR IAN FINLEY**.

And if it further pleases the Commission, may I amend my previous appearances to also include **MR IAN FINLEY** in the remaining matters.

I further seek leave of the Commission to indicate that as proceedings unfold today it may be, with the leave of the Commission, our intention to introduce sworn evidence.

I indicate to the Bench that our prospective witness is present in the hearing room today, and I seek the dispensation from the Bench for **MR CHALLEN** to remain, mindful as I am of the convention relating to witnesses.

PRESIDENT: Yes. Thank you, Mr Willingham.

DEPUTY PRESIDENT: I would just like to ask Mr Lane a ... in relation to your application, Mr Lane, I draw your attention to the National Wage Case decision of August of this year at page 16 of Print H9100, under the heading 'Special Cases'.

And the Full Bench of the Federal Commission says, in the second paragraph:

"It was generally accepted that applications said to fall into the category of special cases

09.10.89

APPEARANCES - DEPUTY PRESIDENT

DEPUTY PRESIDENT:

must be dealt with at the same time as, and in the context of, the application of the structural efficiency principle."

Bearing that in mind, could you indicate to us whether or not teachers will be asking for a special case hearing in the event that we adopt the federal decision.

09.10.89

DEPUTY PRESIDENT

MR LANE:

Mr Deputy President, members of the Bench, it would be the course of action which the federation would be taking. We'd be seeking special case status for three of our matters, or three matters to which we are a party to: the Teaching Service (Teaching Staff) Award, the Teaching Service (Non-Teaching Staff) Award as it relates to laboratory technicians, and in conjunction with the Tasmanian Public Service Association (I would imagine I would need them to verify this) the Welfare Workers Award.

I understand that that is also one that may be subject to either special case status or work value.

DEPUTY PRESIDENT:

Well, I'll just again underline that the federal decision, as I've quoted, says that special cases ought to be raised at the same time as the structural efficiency principle is being examined.

MR LANE:

And so it will be, Mr Deputy President, in the due course of time. I'm quite sure that the matter will be raised and dealt with as it has been or it appears to be in other jurisdictions where in fact it is usually brought on and the case, if necessary, presented after the initial granting of the initial 3%.

DEPUTY PRESIDENT:

But aren't you, at this time, seeking what presumably is an interim increase and then you're going to go for the rest later.

MR LENNON:

That's it in a nutshell.

MR LANE:

At the moment, Mr Deputy President, it would appear that what we are claiming at the moment is under the wage adjustment principle and the structural efficiency principle will be argued at a later time.

DEPUTY PRESIDENT:

You've probably read more principles than I have then.

PRESIDENT:

Are you talking about the minimum wage adjustment? Are you about 3 months early?

09.10.89

PRESIDENT - DEPUTY PRESIDENT - LANE -
LENNON

MR LANE:

I think if you have a look at page 20 of the Print, members of the Bench, you'll see under the heading of 'Wage Adjustment' the first one is the structural efficiency adjustment. Now, we would see that as part of the total wage adjustment, one part of it, and we don't believe it's appropriate at this time to bring up the matter in detail of our special case status.

DEPUTY PRESIDENT:

Well I'm just basing my question upon two things: your indication that you want us to accept a flow-on of the National Wage Case decision and the fact that it says, under special cases, that they ought to be raised at the same time as and in the context of the application of the structural efficiency principle.

MR LANE:

Well, I still stand by what I said earlier, Mr Deputy President, and that is that this matter will be raised and will be argued at what I believe was the appropriate time and that is following the initial granting of the 3%.

Now, we have no problems in raising that matter but at this particular time I don't think it's appropriate to hold the 3% matter up whilst we argue the merits of a special case status or work value.

DEPUTY PRESIDENT:

Thank you.

COMMISSIONER GOZZI:

Mr Lane, I would just want to make the point that the national wage principles we're asked to pick up do contemplate that structural efficiency exercises should be run at the same time, or should incorporate past work-value exercises.

Now, we're in the process of determining, on the one hand, an agreement put in place between the TTLC and TCI which contemplates structural efficiency changes in the broad sense.

Now, I think the thrust of the question from the Bench is simply: shouldn't any potential work-value claim be part of these proceedings?

09.10.89

DEPUTY PRESIDENT - COMMISSIONER GOZZI -
LANE

COMMISSIONER GOZZI: Or put it around the other way, how can it be dealt with further down the track given that we're supposed to be exhausted with a structural efficiency exercise?

MR LANE: Mr Commissioner, I believe in the broad sense we are looking at the structural efficiency principle to gain that first 3%, but I would have thought that until such time as the Bench either accepts or rejects the principles, the matter of bringing up special case status and work value is superfluous.

COMMISSIONER GOZZI: I'll take that on board. Thank you.

PRESIDENT: Yes, Mr Pearce?

MR PEARCE: If it please the Commission, it's somewhat remiss of me. I failed to announce an appearance in respect of T.2167 on behalf of the Minister for Public Administration. My name is **PEARCE A.**

PRESIDENT: Thank you, Mr Pearce.

Mr Abey?

MR ABEY: Mr President, I don't seek to appear or intervene in the Teachers' matter, but I would like to indicate that today we appear for the Master Builders Association and the Retail Traders Association, **ABEY T.J.**

PRESIDENT: Thank you, Mr Abey.

Doctor Garnham, you're here now.

DR GARNHAM: Yes, I'm here now. Thank you, Mr President. I appear on behalf of the Tasmanian Council of Advanced Education, **JIM GARNHAM.**

PRESIDENT: Thank you.

MR WARWICK: If the Commission pleases, **RICHARD WARWICK** for the Hospital Employees Federation and I have an authorisation from the Australian Railways Union, Tasmanian Branch.

09.10.89 APPEARANCES - PRESIDENT - COMMISSIONER GOZZI - LANE

PRESIDENT:

Thank you, Mr Warwick.

Mr Lennon, when this matter was last before the Commission it was adjourned on the understanding that the TTLC and the government would negotiate on the basis of Exhibit TTLC.2, I think it was, and W.1, was it?

09.10.89

APPEARANCES - PRESIDENT

PRESIDENT:

Are you in position to report progress?

MR LENNON:

Yes, Mr President, I am and indeed there was some outstanding matters relating to the private sector which I am also in a position to report progress on. In fact if I can come to the private sector initially.

PRESIDENT:

Yes.

MR LENNON:

At the adjournment of the last proceedings there was no agreement relating to the Retail Trades Award. It was referred to a conference of the Full Bench to await outcomes from national negotiations which were due to be held on the mainland on 5 October. In fact they took place earlier than that.

And I can report that the retail trades employers are now in agreement that the Retail Trades Award should be dealt with under the auspices of the TTLC-TCI agreement to access the 3% from the common date.

I understand Mr Abey is representing the Retail Traders Association today, but certainly it's our understanding that they are in complete agreement with that position and that from here on in Tasmania in the retail industry will be dealt with on a State basis.

I'm not sure where we're at with the Chemists Award, but certainly at the last hearing it was foreshadowed by the employers that they may be seeking to run incapacity to pay arguments in that award.

I simply remind the Bench of our position, and that is that we have no objection to that principle being applied so long as it's applied on an enterprise-by-enterprise basis.

We fail to understand at any stage how that principle could in fact be applied on an industry basis, because it is difficult to understand how 300 different employers or 1,000 different employers, or how many chemists there

09.10.89

PRESIDENT - LENNON

MR LENNON:

are in Tasmania, could have cost sharing arrangements or profit sharing arrangements. If they haven't got profit sharing arrangements they've got to be dealt with on a case-by-case basis.

So I don't know what the position with the employers is, whether they wish to proceed with the foreshadowed position of the last hearing or not.

That is our position should they wish to do so.

Perhaps before I go on it might be timely to ask Mr Abey whether he supports our position, particularly with the Retails Award.

PRESIDENT:

Mr Abey.

MR ABEY:

Mr President and members of the Bench, I am able to support Mr Lennon in respect of the Retail Trades Award, and about debating the issue suffice to say that the Retail Trades Award now is part of the agreement between the TCI and the TTLC.

I'm also instructed to report on proceedings in relation to the EZ Pasminco Award ... EZ Risdon Award (if I can use that shorthand term) as follows:

In accordance with the proposal put to the Industrial Commission on 21 September on behalf of Pasminco Metals - EZ, the company convened a meeting of unions to discuss the changes that the company wishes to implement immediately in return for the first instalment of the current wage case.

The unions have requested that the company supply more specific detail relating to the company's proposal. The company has agreed to this request. The earliest possible opportunity for the parties to meet is Wednesday, 11 October at 9.00 a.m.

The parties have agreed that if as a result of these discussions no agreement

09.10.89

PRESIDENT - LENNON - ABEY

MR ABEY:

is reached, then the parties will seek the assistance of the Commission and request a conference under the auspices of the State Wage Case.

In other words, Mr President, that matter which has been stood aside is proceeding satisfactorily and should be allowed to continue on that basis.

My colleague, Mr Edwards, does have a submission to put in respect of the pharmacy position.

If the Commission pleases.

COMMISSIONER GOZZI:

Mr Abey, you've covered Risdon, what about the Lead Mining Zinc Award?

MR ABEY:

Well, I've nothing further to add on what was reported on the last occasion. Again our submission is that that award should be allowed to work its way through and I don't think there's a contrary view from the trade union movement.

COMMISSIONER GOZZI:

Thank you.

PRESIDENT:

Mr Edwards.

MR EDWARDS:

Thank you, Mr President. I would just seek to put a couple of brief comments to the Bench in respect of the Chemists Award, and those observations I wish to make arise both in questions raised by, I think, particularly the Deputy President last time we were together, and a couple of observations made by Mr Lennon, both the last time we were here and again this morning, on the enterprise-by-enterprise approach.

Firstly I wish to clarify the position of what it is exactly we're seeking to do in respect of the Chemists Award.

The employers through the Pharmacy Guild seek to come before the Commission and put detailed submissions and lead detailed evidence that Division B of the Chemists Award - that is Pharmacists - and Division E - Sales Assistants Retail

09.10.89

PRESIDENT - COMMISSIONER GOZZI - ABEY - EDWARDS

MR EDWARDS:

- should be set aside from the first round at least of the State Wage Case decision should there be a favourable response to the union's claim, and they wish to advance that position based on the principle soon to be adopted, perhaps, of economic incapacity.

Unfortunately at this point in time, as I advised last time, the figures that would be required to run that case are not currently available and are currently being collated and would be available in the fairly near future, so that the matter can come before the Commission and be argued through to finality.

In respect of Mr Lennon's comments to the effect that incapacity arguments should be run solely on an enterprise-by-enterprise basis, we do take issue with that and believe there is ample precedent for incapacity to pay arguments, or economic incapacity, however called, to be run on an industry-wide basis with indicative evidence being taken.

And in that regard I refer the Commission to a decision by a Full Bench of the Federal Commission which was comprised of Sir John Moore, Mr Deputy President McKenzie and Mr Commissioner McKenzie, and a decision dated 2 July 1984, print number being F6097. This particular matter was a case argued on the basis of economic incapacity to pay in respect of the Hop Industry Award.

09.10.89

EDWARDS

MR EDWARDS:

The AWU's submissions which are summarised on page 3 of that print are virtually identical to the ones put by Mr Lennon this morning, and that is that the case had to be run, in their submission, on a company-by-company approach.

The Full Bench, in their conclusions, commencing on page 4 of the print say, and I quote:

"We do not accept the AWU's submission regarding the approach to incapacity to pay. As we said in our earlier decision, the approach will vary from industry to industry. What is accepted in an industry with a small number of operating units may be quite impracticable in an industry with a large number of such units. Each case must be looked at on its own merits."

In our submission, the pharmacy industry is an industry with a large number of separate units and it would be appropriate to lead evidence from a number of representative pharmacies - as yet, a number yet to be determined - which would be indicative of the industry as a whole.

Which brings me to a more detailed response to a question raised by the Deputy President and that is the question of whether the intervention by the Federal Government which has proposed cuts to pharmacists' income are real and in operation now or are merely proposed.

The answer to that question is in two parts. The first part is that there was a 12% cut in gross remuneration, operative from April of this year. That cut came about by a reduction in the fee paid for dispensing national health prescriptions and, as I say,

09.10.89

EDWARDS

MR EDWARDS:

was operative from April of this year.

The second part of the Federal Government intervention into the pharmacy industry was to be effective from 1 October, has now been deferred to 1 November, wherein there is to be a further cut of 23% by way of abolition of the previous government authorised mark-up of 25%.

I'm instructed by members of the Pharmacy Guild that, in fact, the overall cut in bottom line for pharmacies in Tasmania is in the order of 40%. Now that would be something that would need to be tested by sworn testimony, subject to cross-examination, and it's that testing that we seek to have done before this Commission by way of an economic incapacity argument in respect of those sections of the Chemists Award which I have identified.

In saying that, I must say that the remuneration of chemists is a fairly complicated exercise (always is when governments are involved) and as a result we would - rather than labour the point through these proceedings - seek to come before the Commission, either an individual commissioner assigned to deal with the matter or this Full Bench - whichever is deemed appropriate - to argue a detailed case for an economic incapacity in respect of the Chemists Award.

We accept Mr Lennon's comment that he has no objection to us doing that, but we do reject his rider that it must be on an enterprise-by-enterprise basis.

As I already indicated, there is ample precedent for doing it on an industry-wide basis, and that is what we seek to do.

If it please the Commission.

09.10.89

EDWARDS

PRESIDENT:

Mr Lennon.

MR LENNON:

Thank you, Mr President.

The first thing I have to say is that I understood this system to be productivity and efficiency based.

Now, that's certainly our understanding of it; it doesn't appear to be the Pharmacy Guild's understanding of the system based on the submissions just been put to us.

Again, I'd have to come back and say it will not be satisfactory so far as we're concerned for them to take a selective group of pharmacists, who they'll decide upon, put them in the box and they'll all tell us they're broke and that'll be indicative of the industry.

I read the 'Sunday Examiner' yesterday which showed - and it wasn't refuted by the Pharmacy Guild - that they had a net income of \$74,000 per annum, minimum.

MR EDWARDS:

Do you believe everything you read in the press?

MR LENNON:

Well John Cleary, who represents the Pharmacy Guild, didn't refute the statement, he simply said it was mischievous. Maybe he thought it was mischievous because it was accurate. I don't know.

So I've heard the submissions put by Mr Edwards and really it's something for the Commission to decide, but we stand by the point that we made that we believe it should be enterprise by enterprise. You can't, I think, establish by word of mouth that the effects of the Commonwealth decisions on pharmacists is going to be equal across-the-board. Most of them are like supermarkets these days.

And as the point was made in the paper yesterday, they're popping up like nine pins all over town and, of

09.10.89

PRESIDENT - LENNON - EDWARDS

MR LENNON:

course, people are doing very nicely out of the system that already operated.

And the effects of the Federal Government decisions, if any, in the end, arguably, will not be felt equally across-the-board.

But should they be able to demonstrate that the survival of a pharmacy (to the satisfaction of the Commission) the survival of a pharmacy depends on the application of the 3% not applying to them, well then, obviously, being in support of the principle, we'll have no objection to that position being taken.

But one thing that really concerns me is, of course, that we will not know until after 1 November what, if any, effect Commonwealth decisions will have on pharmacies in Tasmania.

Are some of the lowest paid workers in the community, who work in pharmacies, expected to wait until some time after November before the Pharmacy Guild get around to putting their submission? I mean, no indication has been given today as to when they will be ready to put their submission.

And I would think, Mr President, a more preferable course from our point of view, unless they can indicate when they're prepared to put their submissions, would be that they should be included and it could then be deferred at some point in future should they be able to persuade the Commission otherwise.

But there has to ... I mean, the Commission's persuasion surely has to be against the background as to whether or not productivity and efficiency improvements can't be found in pharmacies to match the increases being sought.

09.10.89

LENNON

MR LENNON: I find it difficult to understand how anyone could argue economic incapacity to pay before this system started because we've all agreed that it's going to be productivity and efficiency based.

PRESIDENT: Well the Commission must, first of all, make a decision whether or not it will accept the agreement between the TTLC and the TCI, I imagine.

MR LENNON: Yes. I appreciate that, yes.

PRESIDENT: Not much point in arguing incapacity to pay increases that haven't been awarded.

DEPUTY PRESIDENT: Mr Lennon, could you just clarify for me whether or not your agreement with employers does set chemists aside, like Pasminco ...

MR LENNON: No, it doesn't.

PRESIDENT: Doesn't.

MR LENNON: What we have said is that, and I understand this to be the position, that should the chemists fail in their application for economic incapacity to pay - and so far as the employers are concerned they're part of the agreement - we don't accept that they have a legitimate incapacity to pay argument.

MR LENNON:

But should they persuade the Commission, then obviously, having supported the principle, then so be it.

But at this stage we'd be asking for the Chemists Award to be included in the agreement, subject to them being able to convince the Commission on enterprise-by-enterprise basis that they have an economic incapacity to pay.

PRESIDENT:

Is the Pharmacy Guild a registered organisation?

MR ABEY:

Yes, they are, Mr President.

PRESIDENT:

Yes. Thank you, Mr Lennon.

MR LENNON:

The last point I'd like ...

PRESIDENT:

Well now, does that bring us to the situation regarding the non-private sector?

MR LENNON:

Well there's only one other thing I wanted to say about the private sector in closing, Mr President, and that really relates directly to the point that you raised a minute ago, and that is that the Commission still has to decide whether it's going to accept the agreement between the TTLC and the TCI.

I would simply make the observation that the Federal Commission, in its deliberations regarding award restructuring, has encouraged agreement to be reached wherever possible, and I certainly hope that that carries a lot of weight with this Commission when it considers whether or not it wants to adopt the agreement that's been put forward by the TTLC and the TCI.

And I hope that ... or I know that the Commission will not allow discussions and arrangements in the public sector to interfere with what appear to be good working arrangements that have now been

09.10.89

PRESIDENT - LENNON - ABEY

MR LENNON:

established for the operation of award restructuring into the private sector.

So we would certainly implore the Commission to ratify the agreement and allow us to get on with the job of restructuring awards in the private sector.

So far as the public sector is concerned, just to recap, we were instructed by the Commission at the conclusion of the last hearing to meet with the Government and to report back to the Commission as to whether or not we'd been able to reach agreement in the subsequent period.

We used as the basis ... we have met on a number of occasions with the Government over the last 2 weeks. Many long hours have been put into discussions between the two parties.

The basis for our discussions was W.1, that being the exhibit lodged by Mr Willingham, which was a letter written to myself as Secretary of the TTLC by the Minister for Industrial Relations, Michael Aird, which had an attachment with a list of 10 points, and we used that as the basis for our discussions.

Unfortunately, Mr President, I can't report that we have reached agreement. Although, as I will explain in a minute, we're of the view that we have reached agreement on the substantive issues, the issues which relate directly to the issue of award restructuring, productivity and efficiency.

The outstanding issues are negative cost-cutting measures which, as we indicated during the last proceedings, were not on the agenda so far as we're concerned and, in fact, they're not on the agenda so far as the Federal Commission is concerned either.

09.10.89

LENNON

MR LENNON:

And I refer the Commission to page 11 of the federal decision of August '89, Print 9100, where they say, and I quote ... and they're referring, Mr President, to an explanation of what the Commission sees that fourth dot point of structural efficiency doing, that is, ensuring that working patterns and arrangements in hand, flexibility and the efficiency of industry.

They're referring to that point in particular, I believe, when they say, on page 11:

"Proposals for changes of this nature should not be approached in a negative cost-cutting manner and should as far as possible be introduced by agreement".

They're clearly saying there that they shouldn't be approached in a negative cost-cutting manner.

I think it's reasonable to conclude, Mr President, they derived that statement after an examination in the February review where the employers put forward much debate regarding the meaning of the structural efficiency principle.

And I just take the Commission to a summary that the Federal Commission made in its February review, Print 8200, and they said:

"Much of the debate on the meaning of this principle [that is, the structural efficiency principle] came from employers who emphasised the need for a wide agenda, including both award and non-award matters. They proposed that changes be made to the wording of the principle to make specific reference to:

(i) removing award restrictions on the contract

09.10.89

LENNON

MR LENNON:

of employment regarding the employment of casual, part-time, temporary, fixed term and seasonal employees, and introducing more flexible provisions in relation to the definition of ordinary hours and in the arrangement of working hours, including the working of and payment for overtime;

(ii) reviewing the scope and incidence of the awards; and

(iii) eliminating barriers to efficiency that arise from demarcation issues."

And then they said:

"Ultimately, there was no real contest as to the nature of the issues covered by the principle".

And, of course, the fact that there was no contest was that it was understood that there was to be no negative cost-cutting, because the ACTU, on behalf of the union movement nationally, has pursued this point vigorously and indicated quite clearly everywhere we've been that we're not going to have a rerun of the second-tier system in this system.

So the sticking points, as I will explain in detail to you in a minute, Mr President, are indeed, we argue, quite clearly negative cost-cutting issues. They are not issues which relate to award restructuring and the impediments that are made just at the moment to productivity and efficiency within the Government sector.

What I'd like to do now, Mr President, is to present a document to the Commission which we believe is sufficient for us to access the 3% across-the-board in the public sector.

09.10.89

LENNON

PRESIDENT:

TTLIC.4, thank you.

MR LENNON:

This document, Mr President, has been ... all the points contained in this document have been agreed by a meeting of public sector unions convened by myself, the Secretary of the TTLIC, at 3.30 on 5 October.

So it comes with the support of all the public sector unions, and it is our response at the end of the discussions to W.1.

PRESIDENT:

What's the relevance of the second item on the first page?

MR LENNON:

'Nurses certificate allowances'? Well, nurses certificate allowances are similar to proficiency allowances. There are a number of allowances paid to nurses, as to clerical ...

PRESIDENT:

Under the terms of our awards?

MR LENNON:

Well there are a number of allowances paid for skill, and certificates acquired, which we would hope that through the introduction of appropriate awards, classifications and refinements and so on, that they would no longer need to be part of the wages and salaries paid; that they would be incorporated within a new structure.

This was a point raised with us by the government. We have addressed it in a positive fashion.

That's the only way it got there, Mr President. It wasn't put there by us.

But, nevertheless, the same as with the proficiency allowances, if you look at those they range from anything between \$200 and, what, \$2,000 per annum depending on the proficiency that the particular employee has. And we would hope that the new structure within the State Service would obviate the need for those. But should it not, well then

09.10.89

PRESIDENT - LENNON

MR LENNON:

we would want to see the proficiency allowances remain. Our preferred position would be that the new structure obviate the need.

Sick leave is a contentious point. There is a dispute hearing already been lodged with the Commission by the TPSA to look at the question of medical certificates after 2 or 3 days.

We've indicated in this document that we will accept the decision of the Commission relating to that matter and, secondly, in line with the comments made by the Federal Commission on page 10 of its decision (Print 9100), a review of sick leave entitlements would be undertaken, and we would acknowledge that that would happen.

Again, we would agree to review the incidents and operations of shift work, having regard to efficiency and productivity, particularly in hospitals.

There is a disagreement between us and the Government as to what is the most efficient operation for shift work in hospitals. Nevertheless, in view of that disagreement, we will review its operation incidence and see where that takes us.

The question of second-tier offsets for nurses was a matter that we believe ... appropriately considered during professional rates.

PRESIDENT:

Again I raise it with you. Why would this Commission be concerned with nurses when the Government and others have deliberately taken nurses out of this jurisdiction?

MR LENNON:

That's right, Mr President. I mean, we are addressing matters raised by the Government in this document.

As I indicated at the start, we used

09.10.89

PRESIDENT - LENNON

MR LENNON:

as the base of our discussions W.1, which was the letter from the Minister for Industrial Relations.

All I am doing is reporting to you where we got to on each of the dot points that they raised with us.

Further on, Mr President, you will see matters which don't relate to this Commission either, and relate properly with the Federal Commission, but you would appreciate that we are seeking to access the 3% across-the-board in the public sector.

Some public sector employees operate under federal awards. We don't ask you to endorse those matters which relate specifically to people covered by federal awards.

But I wanted to report in full to the Commission as to where we stood in these discussions.

On the spread of hours, again we have indicated our willingness to examine any requests for changes in that area, and our understanding that those requests would fall within a 7.00 am to 7.00 pm spread.

There is no disagreement with the Government, as I understand it, on that matter.

In relation to overtime, we have indicated that we are prepared to examine proposals put forward by the Government to compensate overtime with time off.

Again, it is a matter addressed on page 10 of the federal decision.

PRESIDENT:

The acronym 'TOIL' I presume stands for 'time off in lieu'.

MR LENNON:

Yes.

PRESIDENT:

I didn't think it would stand for anything else.

09.10.89

PRESIDENT - LENNON

MR LENNON:

Pardon?

PRESIDENT:

I didn't imagine it would stand for anything else.

MR LENNON:

Aggregated wage rates: we have agreed to identify and examine areas where that could occur.

The question of teachers: we have indicated that we will participate in a review of resources and their management; resources being human and capital.

In this regard we acknowledge that the Government will raise the issue of contact hours, and for our part we have indicated that we are not prepared to cooperate with a rationalisation of schools unless it is considered concurrently with the structural efficiency negotiations.

DEPUTY PRESIDENT:

That's not meant to be contract hours?

MR LENNON:

No, we come to that later. We come to contract for sale later on.

Unfortunately, there is no agreement with the Government on this matter. We are not too sure why, but they have indicated they are not prepared to consider a rationalisation of schools in the context of structural efficiency negotiations.

One wonders how they can make a new schooling system productive and efficient without considering the award implications of such a change.

Permanent part-time work: we've agreed to review the incidence of permanent part-time work, subject to there being no loss of full-time equivalents.

Here we broke down with the Government on the last bit. They weren't prepared to give a commitment that they wouldn't use award restructuring to reduce their work

09.10.89

PRESIDENT - DEPUTY PRESIDENT - LENNON

MR LENNON:

force, which is unfortunate from our point of view. But we are prepared to look at the incidence of permanent part-time work, subject to there being no loss of full-time equivalents.

PRESIDENT:

But can you have a part-time worker, unless that person is held against a full-time position?

MR LENNON:

Sorry, Mr President?

PRESIDENT:

Can you employ a part-time worker unless that person is held against an approved full-time position?

09.10.89

PRESIDENT - LENNON

MR LENNON: I don't understand what you're getting at with your question.

PRESIDENT: Well I imagine others do.

MR LENNON: Well ask them.

PRESIDENT: I hope.

MR LENNON: What I could perhaps do is explain what they're trying to do. And that is, if a full-time employee resigned or retired or whatever, they might wish to turn that 37.1/2 hours into 20 hours. We said, 'No'.

By all means, we could look at the operation of permanent part-time work to turn the one full-time job into two part-time jobs. It might enable them to operate a department more effectively and efficiently.

But that would be a matter of discussion between the relative union and the Government at that point in time. But we were prepared to have a look at it.

Overnight absence provisions ...

COMMISSIONER GOZZI: Mr Lennon, you did say that there's a proposal to reduce overall numbers in the public sector and ...

MR LENNON: When did I say that? Oh, Mr Willingham said that.

COMMISSIONER GOZZI: Yes, and the TTLC said 'No' to that proposition.

MR WILLINGHAM: Excuse me, Mr Commissioner. I've made no such statement. Let's just put that clearly on the record.

COMMISSIONER GOZZI: Well I'm sorry if I've sparked something. I just really want clarification, Mr Lennon, in respect of permanent part-time work where you, I think, indicated that the proposal from the Government was that full-time equivalents be reduced, and that the TTLC wasn't having a

09.10.89

PRESIDENT - COMMISSIONER GOZZI -
LENNON - WILLINGHAM

COMMISSIONER GOZZI:

part of that.

MR LENNON:

What they said was that they weren't prepared to accept the wording as is there, and that is that the only agreement to review instances of permanent part-time work was so long as there was no loss of full-time equivalents. They wouldn't agree to the last bit. It's a bit different to saying no loss of jobs. I mean, obviously you could turn every full-time job in the Public Service into a part-time job and have no loss of jobs, just another 35,000 people on the poverty line, that's all.

COMMISSIONER GOZZI:

Well I guess what I'm trying to identify is whether or not the discussions impinged on what the size of the public sector would be at the end of the restructuring.

MR LENNON:

No, they didn't.

Overtime absence provisions: there is ...

PRESIDENT:

Overnight.

MR LENNON:

Sorry. Overnight absence provisions: there is an agreement to those words there, that a review would be conducted and the result of that review, if deemed appropriate by both parties, could form part of the discussions during the second stage.

Uniforms: there is an agreement to that position there. It will review the frequency of uniform issues and laundry.

On minimum rates, we've indicated that we will advise the Government as soon as practicable which areas are likely to be included in negotiations for minimum rates adjustments, and the minimum rate, and that we would accept that minimum rate adjustments cannot be available for 1 July 1990 unless there was genuine consent to an earlier date, but in any event not

09.10.89

PRESIDENT - COMMISSIONER GOZZI -
LENNON

MR LENNON:

before 1 January.

We haven't got an agreement with the Government, obviously, on that matter. If we did, we'd be putting up an agreed document.

The first instalment increase: this is all agreed except that they say that the \$15.00 or the 3% should apply at and beyond \$408.70, not \$400.50.

I stand to be corrected, Mr President, but I believe that in a work force of about 34,000 or 35,000 there are around about 100 people who would slot in between the \$400.50 and the \$408.70. But perhaps it's a question that should properly be asked of the Government.

But from my investigations it appears to be about 100 people. But we were unable to get them to move from the \$400.50 at any stage during the discussions, which is a matter which concerns us. The \$400.50 is derived from the base trade rate plus the first instalment of SIPS. That's how we got to it.

Just at the bottom there you will see some anomalies to be discussed further for hospital tradespersons. That's in there because the first level of tradespersons in hospitals is on less than \$400.50 (\$391.00 I think is the appropriate rate).

And there may be other anomalies which arise across the Service and there is an agreement to address those on a case-by-case basis if they come about.

The MTT: there is an accepted nexus with the federal Metal Industry Award. It's agreed that that will be maintained.

DEPUTY PRESIDENT:

Mr Lennon, you missed out the bit about Building Trades shall be as per the federal award decision.

09.10.89

DEPUTY PRESIDENT - LENNON

MR LENNON:

Yes, sorry. Building Trades matters, the junior trainees matters, the nurses, are all agreed between us. The disagreement we have with the Government, in respect of the first instalment increase, related only to the level at which the \$15.00 or 3% should commence to apply.

We put up \$400.50. They want \$408.70. As I say, we're talking about something around about 100 people who would be discriminated if that were the case.

The operative date: we've asked for, in effect, the same date that we've achieved in the private sector - the date of decision. The closest they got to that, I think, was around about 1 January next year. But obviously we have no agreement there.

SIPS and wage-related allowances is an agreed matter. Special cases is an agreed matter. The translation arrangements is agreed. Multiskilling is agreed. Demarcation is agreed. And the incorporation of SIPS into award rates of pay, in principle that's agreed. Training and skills formation is agreed. And the qualifications is agreed.

09.10.89

LENNON

MR LENNON:

Contract employment: we propose that there should be no further appointments within the State Service to be made by contract, and that in future appointments should be in accordance with appropriate award provisions.

The Government's position was that they couldn't agree to that, but in line with their policy they were minimising the effect of contract employment.

PRESIDENT:

Did you say that is agreed or not?

MR LENNON:

No, it is not agreed. The words we have got there are 'not agreed', but the Government's position was that in accordance with their policy they were moving to minimise the incidence of contract employment.

State Service reorganisation: this is the restructuring of the State Service from 50-odd departments down to 18.

We put forward the proposition that the Government recognised the positive role that had been played by the public sector unions and their members in facilitating the major reorganisation of the State Service and the productivity and efficiency spin-offs that will result. We asked them to take that into account in assessing the impact of award restructuring, to which we got a blanket 'No'.

One wonders whether the Government considers the restructuring of its State Service to be productive and efficient or not.

But, nevertheless, we intend to pursue that matter, and at the appropriate time we will be putting up detailed evidence to show that that ought to be taken into account where we believe it desirable to do so.

09.10.89

PRESIDENT - LENNON

MR LENNON:

The last point recognises that there may be matters in addition to these in this document which are peculiar to a particular award or department, and they could be examined and identified during the course of the second stage.

Now except for the matter relating to teachers with part-time employment, the first instalment increase, minimum rates and the operative date, those matters I identified.

The great bulk of this document is agreed. The last two matters aren't, for sure.

The outstanding matters which held up the agreement are matters which we had no room to negotiate in, related directly to negative cost-cutting issues.

They being the payment of higher duties allowances, and the application of special leave provisions within the State Service, and meal allowance provisions.

PRESIDENT:

Mr Lennon, can I take you back to page 5 of the exhibit under the heading of 'Translation'.

It says:

"The parties agree that the translation of positions from old awards to new must be expedient and with minimal disruption. It is therefore proposed that translation would occur as follows:

An agreed 'standard' translation of current classifications to new classifications - generally based on broadbanding of classifications - will be developed. The parties will seek to have the agreed standard translation form part of the decision of the

09.10.89

PRESIDENT - LENNON

PRESIDENT:

Tasmanian Industrial
Commission. As such,
employees could be directly
transferred without the need
for advertisement of
positions or consequent
promotion appeals."

Is it not possible that in
broadbanding and translating existing
employees from the old structure to
the new, that increases in excess of
3% would result?

MR LENNON:

That is possible, yes. That, of
course ... I mean, what would need to
be done, Mr President, is that a
detailed exhibit would need to be
presented to the Commission before
the second stage was accessed.

PRESIDENT:

Then it might fall into a special
case.

MR LENNON:

It may well do, yes. It may well do.

What we were trying to alleviate here
was a major concern that the
Government had, that there could be
major wages drift occur during the
translation process.

We've indicated our preparedness. In
fact, the words there are ours. We
proposed them. And it was probably
one of the first items agreed to.

So what we were trying to do was
streamline the translation process
from the old awards to the new.

We believed that it was a major issue
in contention so far as the
Government was concerned.

We tried to address it positively
and, in fact did, because they
supported our proposition.

PRESIDENT:

And that's agreed?

MR LENNON:

Yes.

As I say, the issues outstanding that

09.10.89

PRESIDENT - LENNON

MR LENNON:

I haven't listed in the document, but which are not agreed, are issues relating to higher duties allowances and more responsible duties allowances, meal allowance, special leave.

I haven't put them in there because they are issues to which we are not prepared to address ourselves, given that we believe that they are negative cost-cutting matters and, as such, are outlawed not only by ourselves but by the Federal Commission on page 11.

This is not under another disguise a second tier. This is productivity and efficiency through award restructuring.

And the emphasis should be on that, not on doing someone out of \$5.10 meal allowance by making the prescription more difficult to meet, or by not compensating someone for a higher duties allowance, but still expecting them to do the work, but not paying them for it, or taking away special leave provisions without agreement, which relate to TUTA leave and other leave can only be sought and applied for under very strict terms now.

So they are all things which are under ... the special leave provisions are under the direct control of the Government anyhow.

The question of teachers is not agreed at the moment, but it is in there, because I believe it can be resolved and, certainly, we really don't understand what the problem with the Government is on the wording relating to teachers that's in there.

Again, the part-time employment clause, there is a minor disagreement there I would have thought. And I don't believe for the life of me that

09.10.89

LENNON

MR LENNON:

the Government will pursue the issue and that they want to use restructuring, productivity and efficiency to reduce their employment, particularly with the state of Tasmania's employment at the moment, and the likelihood that it will worsen.

I would have thought that the Government would want to make all the contribution it could towards employment.

09.10.89

LENNON

MR LENNON:

So the issues that are in there are issues in the main which are agreed, except for the ones I've identified. If they're not I believe they should be and they could be. And certainly the way it is at the moment we believe that it is ample to access the 3% across the board, particularly, Mr President, when it's taken into consideration with the document that we lodged - TTLC.3 I think it was - at the last hearing.

It certainly goes into a lot more detail of issues relating to award restructuring than what this one does. The reason this one doesn't is because we weren't asked to by the Government in their discussions with us.

But I think an examination of TTLC.3 by the Commission will clearly put on the record, particularly at the development and implementation stage of restructuring, the way that we see it operating.

We don't detract from that, we don't withdraw it, because we want to make award restructuring work. So we wouldn't see our position altering with respect to development and implementation, award restructuring, from that which we lodged with the Commission at the last hearing, TTLC.3.

PRESIDENT:

Now does TTLC.4 represent the extent to which negotiations to date have achieved these results, or have negotiations on award restructuring gone beyond the agreed contents of TTLC.4? I'm referring in particular to what I have read in the TPSA journal from time to time regarding the progress that has allegedly been made with award restructuring.

MR LENNON:

The document, Mr President, represents two things: agreement and non-agreement. If you like I'll go through it one by one and ... proficiency allowance is agreed.

09.10.89

PRESIDENT - LENNON

MR LENNON:

Clive might like to ...

MR WILLINGHAM:

Mr President, I wonder if I could ... just so perhaps all of us being spared Mr Lennon going through this yet again, can I draw to the attention of the Commission, please, that Mr Lennon's exhibit itself is noted without prejudice, and I've frequently said I have no difficulty whatsoever with Mr Lennon putting documents up for the public record which emanate from him, however marked. But I would be greatly obliged, since all of our conversations and negotiations have taken place on a 'without prejudice' basis, that Mr Lennon confines his remarks to the Bench as to informing the Bench on the TTLC's position, not on that of the Government.

PRESIDENT:

Then I take it you repudiate the alleged agreed parts of TTLC ...

MR WILLINGHAM:

I would prefer, Mr President, to be in a position to inform the Bench myself on behalf of the Government of what the Government's position is.

PRESIDENT:

Well, where does that leave us?

COMMISSIONER GOZZI:

Well, it would be useful just to know what's agreed and not agreed.

MR LENNON:

Well, we understand at the last time we met, the Government had indicated its acceptance of these, if you like. So proficiency allowances, nurses certificate allowances, the last paragraph of sick leave (that is the paragraph that commences on the top of page 2), shift work insofar as they wish to stand by the proposition that they wanted to review 10-hour and 12-hour shifts.

We've indicated all through the discussions that we believe we can put up a case to say that they are more productive and efficient than any other example that could be

09.10.89

PRESIDENT - COMMISSIONER GOZZI -
LENNON - WILLINGHAM

MR LENNON:

thought of in hospitals. The second-tier offsets so far as nurses was not agreed, but you've made enough comments about that, Mr President, without me going into any more detail.

Spread of hours: we understood we had an agreement. On TOIL we understood we had an agreement. On aggregated wage rates, it was put we had an agreement.

On teachers, as I've indicated, the Government does not want to include the rationalisation of schools in with the structural efficiency negotiations, but on permanent part-time work the Government wasn't prepared to give the commitment that no loss of full-time equivalents would take place.

Overnight absence provisions, I understood we had an agreement. On uniforms, the same. On minimum rates, subject to all the other matters being agreed that the Government put on their lists, I understood that there was great potential for us to have an agreement, but in any event they had continually popped up the last quarter of 1990 as being the operative date.

The responsible question put by myself at one stage where I asked if all the other matters were agreed, would the Government support our claims relating to minimum rate, first instalment increase and the operative date, the answer I got back was 'Probably, yes'.

So I've indicated where the disagreement lies with the first instalment is very minor. I don't know why they're holding out there.

On operative dates, again, I've indicated there's no agreement. On SIPS and wage-related allowances,

09.10.89

LENNON

MR LENNON:

special cases, translation, multiskilling, demarcation, SIPS the second time, training and skills formation, qualifications, there's agreement, as I understood it, on all those matters.

Contract of employment, there is no agreement. I've indicated what I understood the Government's position to be and on State Service reorganisation they've indicated to us, 'Thank you very much for helping us, but we're not prepared to take it into consideration in productivity and efficiency improvements'.

09.10.89

LENNON

MR LENNON:

I won't repeat what the response of some of my colleagues has been to that. It mightn't help discussions at all.

So ... and in fairness to the Government's position (because I have tried to put their position fairly, Mr President, in this), there are three matters which I have deleted from the document, they being higher duties allowances, more responsible duties allowances, meal allowances, and special leave provisions.

And I think I have explained enough as to why I have done that.

COMMISSIONER GOZZI:

Mr Lennon, just on 'special cases' on page 5, what does that actually mean in practical terms?

MR LENNON:

It means what it says.

COMMISSIONER GOZZI:

Well, you identify 'all special work-value cases to be considered in the context of structural efficiency reviews'. Now what does that mean in the context of this current proceedings?

MR LENNON:

Well it means that what we have put before you is a program for restructuring in the public sector and, as I said, taken in conjunction with TTL.C.3, and I don't detract from anything we said in that document, but we are indicating that there will be a number of special cases that we will want to pursue in the context of the second stage. And it is possible in some isolated areas that that may throw up a few anomalies in terms of who accesses what amount in the first stage, and we would see that being rectified in the second stage.

Now all the Government asked us to do was to notify them as soon as we could of what areas we believe would be special or work-value cases.

In other words, what areas we would access in excess of 6%, if you like,

09.10.89

COMMISSIONER GOZZI - LENNON

MR LENNON: at the tradesmen's level.

COMMISSIONER GOZZI: Right. So the special cases which would have, or could have, work-value considerations applied to them would still have as their base the structural efficiency review type agenda, would it, or ...?

I am not quite clear. I will tell you what I am getting at.

MR LENNON: A number of them would, yes, Mr Commissioner, yes, if not all of them.

COMMISSIONER GOZZI: In TTLC.1 you asked us to amend the special cases provision so that we would ... if we picked that up again and deal with it through the Anomalies Conference.

Now these special cases that you allude to on page 5, would they go through the Anomalies Conference or would they be part of these proceedings as far as the second instalment is concerned?

MR LENNON: Well, what we have tried to do by putting in the anomalies and inequities procedure is to recognise the size of the Commission. But anything we do with these principles can't override the Act. I mean, there is a discretion for the President there to convene a Full Bench in any hearing if he so pleases.

COMMISSIONER GOZZI: So there would be a number of public sector work-value cases in the pipeline ...

MR LENNON: There could be a number of private sector ones, too.

COMMISSIONER GOZZI: Well, yes, but we are talking about the public sector which would either be part of these proceedings by way of what happens with the second instalment, or it could be processed through the special cases provision in the principles, as you see it.

09.10.89

COMMISSIONER GOZZI - LENNON

MR LENNON:

Yes.

COMMISSIONER GOZZI:

Right, yes, I am clear on that, thank you.

MR LENNON:

Mr President, we would simply indicate to the Commission that an acceptance of the document that we put forward ... we believe that TTLC.3 and now TTLC.4 taken together is more than enough, we believe, to access the first stage structural efficiency within the public sector across the board.

It is with regret we have been unable to reach agreement with the Government, but it is on a fundamental principle that we have been unable to reach agreement, not so much the detail, and that is that they would not accept in the end that negative cost-cutting measures were not on the agenda. They couldn't seem to come to grips with that principle, notwithstanding the fact that they implored you to endorse the Federal Commission's decision last time we met, which I presume included the comments on page 11. If not, perhaps they could tell us.

But we cannot get involved, and will not get involved, in award restructuring if it is only going to concentrate itself on negative cost-cutting exercises. We will cooperate positively with award restructuring and structural efficiency, but not in a negative cost-cutting manner, and we don't believe that the system was ever designed to do that anyway.

And with those comments, Mr President, we would at this stage be asking you to apply an across-the-board first stage structural efficiency increase for the private sector, as was indicated in the agreement between the TTLC and the TCI, and in the public sector in the terms of this document that we have presented.

09.10.89

COMMISSIONER GOZZI - LENNON

DEPUTY PRESIDENT:

Mr Lennon, having regard for what you said in relation to the employer's position concerning pharmacists, how would you regard any foreshadowed argument on incapacity to pay in relation to the whole of the public sector?

MR LENNON:

Well, Mr Deputy President, last time we met, before this case was adjourned, the Government - in fact all representatives of the Government - urged the Commission to adopt the decision.

I don't know what they intend to do now, but I would indicate this: should they attempt to put forward a case before this Commission that they haven't got the capacity to pay, then I would say that the horse has bolted. They should have put that at the last time we met.

Now I don't know what they are going to be putting, but if they are going to say that they can't afford structural efficiency increases, then one wonders how they could stand up and urge the Commission to adopt the principles with the wage movements embodied within it last time without foreshadowing that very point.

DEPUTY PRESIDENT:

Except there is an incapacity to pay principle.

09.10.89

DEPUTY PRESIDENT - LENNON

PRESIDENT:

But there must first of all be some wage increase awarded before anyone can seek to invoke that principle.

MR LENNON:

But last time we met, Mr President, the Government had no objection to applying the increases award by award and they asked you to do that.

So either they've got the capacity or they haven't. Are they saying they haven't got a capacity to pay across the board? In other words, assuming that everyone was going to access it by December or November or October. They certainly said they've got the capacity to pay it across the board from 1 January next year because that's what they offered us.

PRESIDENT:

Yes. But should this Commission first of all make a judgment or decision, a) whether it will bring down a new set of principles in line with the federal principles with minor amendments of the kind discussed and then make some prima facie finding perhaps regarding application of wage increases, allowing persons or organisations likely to be affected to come along and argue incapacity to pay, or do we hear an incapacity to pay argument now before the Commission has decided in any case whether or not it will flow on the federal decision at all?

MR LENNON:

Mr President, I believe the Commission should be making a decision as to whether we adopt the principles in Print 9100 firstly, and secondly as to whether it's prepared to ratify the agreement to access the first stage in the private sector as outlined by the TCI and the TTLC, and thirdly as to whether or not it is prepared to allow access in the public sector across the board from the date of its decision under the terms presented by the TTLC, in Exhibit TTLC.4 today.

It's only after that time that ...

09.10.89

PRESIDENT - LENNON

PRESIDENT:

Or show cause why public sector awards should not be varied.

MR LENNON:

Mm. On the grounds of incapacity to pay. Should they do that, should people foreshadow that, we would be indicating at the time then that we will want to talk about ... put submissions to the Commission about retrospectivity should their applications fail.

If the Commission pleases.

PRESIDENT:

Thanks, Mr Lennon. Mr Willingham, have you got anything for us?

MR WILLINGHAM:

It's not a hard act to follow, Mr President, I can tell you. I want to first reiterate the point, Mr President and members of the Bench, of the status of the discussions and the documentation which has passed between Mr Lennon and his constituents and the Government. And I really have to record that I'm astonished that on matters which have been so clearly based on 'without prejudice' status, Mr Lennon, firstly, will seek to document details of those matters from his perspective and then go into quite fine detail in relation to summarising the relevant positions of the parties.

Now if that's the sort of principle that Mr Lennon or his colleagues want to undertake in relation to what are exceptionally sensitive negotiations and exceptionally sensitive positions in relation to this agreement that Mr Lennon seeks, then that's fair enough. But I would have to say it's a valuable lesson for the future in relation to dealing with Mr Lennon. And when he gets to the point of saying, 'Well, we actually said if we do this, will you do that? Is that a deal?', and that sort of material is put before this Bench - and clearly it's only put before the Bench so that Mr Lennon can gain some tactical advantage with the media

09.10.89

PRESIDENT - LENNON - WILLINGHAM

MR WILLINGHAM:

being here and to record his preferred position with the Commission - I just say that's pretty poor form. We've learned a lesson for the future.

Now I'll indicate what the Government's position is. We put a package of proposals to the Tasmanian Trades and Labor Council and we said, 'That's the package we would like. If you can see your way to agree to it, then we've got a deal.' The TTLC have not, therefore we do not have a deal and each component part of TTLC.4 should be read accordingly.

That is our position, Mr President and members of the Bench.

Mr Lennon referred, in a flippant sense, to the fact that the Government could afford to pay the increase from 1 January. The Government indicated that if all other elements of the proposal it put to the Tasmanian Trades and Labor Council had been agreed, then 1 January would be an acceptable operative date.

It did not, as Mr Lennon says, say that it could afford to pay the increases from 1 January.

Mr President and members of the Bench, in our very respectful submission to you on the 21st we said we believed that the purpose of this hearing, the State Wage Case, was first to determine whether this Commission would adopt the decision and the principles of the Industrial Relations Commission, and that is still our position.

In our view, it is absolutely essential that the Commission hand down its decision so that the parties are then aware of what that decision is and what the attendant wage fixing principles are going to be.

09.10.89

WILLINGHAM

MR WILLINGHAM:

The question of seeking concurrently to have some 100-odd awards varied on the basis of, I think, TTLC.1 and TTLC.3 and 4, without ever giving the Commission the opportunity to examine details of any one of those 100-odd awards, is quite preposterous, and we've said so.

That is why we insisted on the agenda items that we did. That is why we still insist on identification of special cases and work-value cases. That is why we still insist on knowing what the minimum rate sought by the Trades and Labour Council is, and in what areas they will seek minimum wage adjustment. None of that information has been forthcoming. We've heard some very cute and fairly specious submissions put by Mr Lennon that all of these things will be revealed in the fullness of time. And indeed if you have a look through TTLC.4, that's about the commentary that you can make with just about everything else in there. It will all be revealed in the fullness of time.

We have said right from the start that that is not a position which will induce the Government to go forward to this Commission on an agreed basis in relation to the first instalment. And that remains, Mr President and members of the Bench, our position.

Now it is my intention to put to the Bench again that in our very strong but respectful view the Commission should do no more than determine the decision and the wage fixing principles of the State Industrial Commission.

And as you've correctly pointed out, Mr President, if there are then arguments from anyone in relation to structural efficiency, and whether those arguments encompass incapacity to pay or anything else, those matters are properly before the

09.10.89

WILLINGHAM

MR WILLINGHAM:

Commission at the time that the awards to be varied are before the Commission, either in an agreed or a non-agreed basis.

But if Mr Lennon is saying that the Commission may concurrently deal with both the decision of the principles and the applications before the Commission, then of course the Government has already indicated that it may wish to bring further evidence by sworn statements - sworn evidence - to the Commission's attention before that decision is reached.

And really I need the guidance of the Commission. Is it the Commission's intention merely to bring down the State wage decision and the principles, or is it intending to deal at the same time with the applications from Mr Lennon and other organisations?

If it is the latter, then I would be respectfully seeking the indulgence of the Commission, perhaps very shortly, to introduce my witness and bring what we believe is important and salient information to the attention of the Bench which we respectfully submit they will need in order to make those dual decisions that Mr Lennon seeks.

If, on the other hand, the Commission is disposed to adopt my first point, that is that it should only bring the decision and the principles, then the sort of information that I would wish potentially to bring before the Bench may be left to another time.

COMMISSIONER GOZZI:

Well, Mr Willingham, what do you say in respect of TTL.C.1 which asks the Commission to pick up the principles of the Federal Commission amended to suit the position as outlined on behalf of the TTL.C. and TCI?

I mean that's what we've been asked to do in the application from the

09.10.89

COMMISSIONER GOZZI - WILLINGHAM

COMMISSIONER GOZZI: TTLC. Similarly we've been asked to do that in the application from all the unions as it now turns out. And that application contemplates in Principle 3 the operative date, or the document including the principles ... (I'm sorry, I flicked over the page one too far ... yes, I flicked over the page). Yes, I take your point.

MR WILLINGHAM: Thank you, Commissioner.

COMMISSIONER GOZZI: Sorry about that, Mr Willingham. I just went to check it and it just happened to open on that page. I thought that was it.

MR WILLINGHAM: If the Commission pleases.

COMMISSIONER GOZZI: Yes, thank you.

MR PEARCE: Mr President ...

PRESIDENT: Yes.

MR PEARCE: ... I'd like to be given the opportunity to address the Bench in relation to those matters which have been spoken about by Mr Lennon and subsequently responded to by Mr Willingham for the Minister for Industrial Relations.

The ... if I could be obliged to address the Commission ...

DEPUTY PRESIDENT: On behalf of the ...

MR PEARCE: ... the Minister for Public Administration. And merely it is to indicate that quite clearly no agreement has materialised in relation to the discussions which have taken place. As has been indicated the issues put before the public sector unions are as a package and in the absence of any agreement as Mr Willingham properly put forward there is no agreement in relation to any of the matters contained within TTLC.4.

09.10.89 PRESIDENT - DEPUTY PRESIDENT -
COMMISSIONER GOZZI - WILLINGHAM -
PEARCE

MR PEARCE:

It is, in the view of the Minister for Public Administration, and consistent with that as expressed by Mr Willingham, that the nature of these proceedings should not be lost sight of.

That is, it is to our mind a hearing to put into place a set of wage fixing principles against which matters of subsequent award variations to accommodate structural efficiency matters can then be tested.

It is our view, therefore, that consideration for claims of the natures being advanced in the Commission at this time are pre-emptive of the primary reasons attaching to these proceedings, which I repeat is the substantive matter of putting into place a set of wage fixing principles.

To that extent, the Minister for Public Administration has in these earlier proceedings strenuously submitted that the decision of the Australian Industrial Relations Commission Full Bench of the National Wage Case be adopted.

It would then follow that issues to be further considered by this Bench would go to the manner in which commitments are going to be taken from the parties, being commitments to their preparedness to observe the principles as handed down by this Commission.

That statement concludes the submission for the Minister. If it please the Commission.

PRESIDENT:

Thank you, Mr Pearce.

We have decided to adjourn until 12.30 to consider what has been put.

...

PRESIDENT:

In these proceedings the applicants,

09.10.89

PRESIDENT - PEARCE

PRESIDENT:

in differently worded applications, have asked the Bench to flow on the 7 August National Wage Case decision of the Australian Industrial Relations Commission.

In TTLC.1, Mr Lennon on behalf of all unions, has requested the Bench to endorse wage fixing principles which, apart from some minor variations, are identical to those of the Federal Commission.

The principles that we have been requested to endorse are, for the most part, agreed to by the parties. However, the manner in which the principles should be applied in respect of operation of wage increases that would flow from the processes we may determine, varies between the private sector and public sectors.

In the private sector the parties have reached agreement for a common operative date for the first instalment. This approach is not supported in the public sector.

To further facilitate this hearing, we wish to now indicate that we will endorse the principles in TTLC.1, but will issue in our decision responses to those matters in respect of which the parties are in disagreement.

Does that help you, Mr Willingham?

MR WILLINGHAM:

I understand that, thank you, Mr President.

PRESIDENT:

Then ...

MR WILLINGHAM:

I am sorry, sir, I took your announcement just then to be that you would now issue your decision, or am I incorrect?

PRESIDENT:

We may very well do just that if there are no further submissions.

09.10.89

PRESIDENT - WILLINGHAM

MR WILLINGHAM: I have no further submissions at this time.

PRESIDENT: I take it, Mr Willingham, you have responded to Mr Lennon's claim for an across-the-board increase in all public sector awards?

MR WILLINGHAM: Is our position not clear, Mr President?

PRESIDENT: It's reasonably clear to me, Mr Willingham.

MR WILLINGHAM: Well that's all that I am concerned with then, Mr President.

PRESIDENT: Yes.

We have indicated that we will respond to the non-agreed areas in our decision.

MR WILLINGHAM: Yes, Mr President, and members of the Bench.

PRESIDENT: Yes.

COMMISSIONER GOZZI: Mr Willingham, I just wanted to get it clear in my mind that you have exhausted your response as far as you wish to in respect of the comments made by Mr Lennon, and the agreed and non-agreed areas in TTLC.4 and, notwithstanding the comments that now none of the package is agreed, the reality is that we have an exhibit before us, and one of the parties to that exhibit have said that a number of matters are agreed and the only matters in effect that are outstanding are those which go to negative cost-cutting measures, so called.

09.10.89

PRESIDENT - COMMISSIONER GOZZI -
WILLINGHAM

COMMISSIONER GOZZI:

There was some indication by you that you may wish to call Mr Challen, and I just wanted to make sure for my part that you'd exhausted what you'd wanted to say in respect of the proposition of the TTLC being applicant on behalf of the public sector unions going to the common operative date.

MR WILLINGHAM:

Well, let me restate our position, Mr Commissioner and members of the Bench. As far as the Government is concerned, there is no agreement on any aspect of any matter contained within TTLC.4 as put before you this morning.

We do not endorse and will not endorse any suggestion that there should be common operative date for public sector awards until such time as the Trades and Labor Council and its affiliates are able to come far, far closer to the position that we've established during the course of our negotiations.

And might I just say, Mr Commissioner, those negotiations started on Tuesday of last week and took place over 2 days. We were informed on Thursday of last week that the Trades and Labor Council were unable to move further from their established positions. The document which is before you now, TTLC.4, the first time we saw that was the same time you saw it. But I'll restate the position I outlined earlier.

We are in agreement on no points of any elements contained in that document and indeed on, I think, the three matters that Mr Lennon has indicated that he has removed from his own document that were the subject of discussions between us.

We restate our position, Mr Commissioner, that in our respectful submission this Bench should determine first whether it will in

09.10.89

COMMISSIONER GOZZI - WILLINGHAM

MR WILLINGHAM:

fact endorse and adopt the national wage decision, and we further respectfully submit that it is then appropriate for matters on an award by award, or in groupings of awards, to be brought before the Commission to be tested under the guidelines that the Commission may adopt. And I hope that clarifies our position, sir.

COMMISSIONER GOZZI:

Well, it does for me, except that we have indicated in what the President just said that we intend to endorse the principles and arbitrate on those matters where there is disagreement.

One of those major areas of disagreement goes, of course, to the operative date. Now the operative date advanced by the TTLC on behalf of public sector unions is a common operative date.

Now we've, in fact, I think, by our pronouncements from the Bench, gone beyond the point that you would envisage in any decision that may come down because any decision that may come down will pick up some comment, I would imagine, on the operative date. That's why we made the statement.

Now if you want to exercise your rights on whether we should pick up the common operative date or not, I suppose you've really got to make up your mind when you want to do that.

MR WILLINGHAM:

Well, sir, I thank you for raising these issues because I have overlooked that that matter is not one in which our position is perfectly clear.

Reference to the national wage decision, which all parties here are asking the Commission to adopt, clearly refers to the fact that awards will be adjusted on award-by-award basis. Therefore that in itself is contradictory to the application Mr Lennon has before you.

09.10.89

COMMISSIONER GOZZI - WILLINGHAM

MR WILLINGHAM:

It also says, Mr Commissioner and members of the Bench, that each of the awards in question must be examined and the Commission must be satisfied that real measures consistent with the structural efficiency principle are being implemented and the award is so varied.

Now, if in the Commission's view, Mr Lennon's applications, as they currently stand, are capable of being ratified by this Bench under the guidelines which you will adopt, then, okay, let it be. Our position at the moment is that we are unable to reach agreement with Mr Lennon in relation to the proposal that he placed before the Government on 18 September.

It is our assumption that if our argument before the Bench is successful, we will then resume our negotiations with public sector unions on an individual or collective (where appropriate) basis, and we will continue to work towards structural efficiency first instalment increases in accordance with the principles.

But to me, and certainly the Government's position is that in the unagreed position in the public sector the parties currently bring before you, it would be quite contrary to the current principles that you're being asked to adopt for there to be any suggestion of common operative date.

With great respect, we believe that it would be almost outside of the principles for this Commission to impose by arbitration such a common operative date.

PRESIDENT:

I think in announcing that we would adopt the principles in TTLC.1, it should be understood that the date of 7 August that appears there would need to be adjusted to be not earlier

09.10.89

PRESIDENT - WILLINGHAM

PRESIDENT:

than the date of decision.

MR WILLINGHAM:

Again, Mr President, I had assumed that.

PRESIDENT:

Yes. I did a quick check and I think it's important that be made quite clear. We were talking really of the principles per se, not necessarily that date that appears there which is a straight lift from the Federal Commission.

MR WILLINGHAM:

Sir, if I might just conclude, and I am grateful to you, Mr Commissioner Gozzi, for raising these issues. Following the statement that the President just read, I understood that to mean that the Commission would reserve a decision as to whether it would adopt the National Wage Case decision and principles, suitably modified, for this State and would then give indications to the parties on the outstanding matters which in my immediate concern would be the public sector matter.

If that is not the case and I have misread the intent of that statement that you intend to impose by arbitration and however that may be, a response to Mr Lennon's request to you of earlier this morning then, yes, sir, I would seek reconvening of this hearing this afternoon. I would seek, with your leave, to introduce Mr Challen as a witness for the Government and I would seek to educe evidence which we believe should properly be before you, before you reach that conclusion.

09.10.89

PRESIDENT - WILLINGHAM

MR WILLINGHAM:

And again, Commissioner Gozzi, I thank you for raising that point.

PRESIDENT:

We will reconvene at 2.15 p.m., Mr Willingham.

...

PRESIDENT:

Dr Garnham?

DR GARNHAM:

Thank you, Mr President and members of the Bench. I've your indulgence perhaps to address the question first of the higher education awards that are party to this hearing, in particular the Advanced Education Service Award and the University of Tasmania General Staff Award.

The situation with regard to the higher education sector has been greatly influenced by the impact of the White Paper (of which we've heard so much) on the rationalisation of higher education in Australia as a whole.

We now talk of a national unified system. There is a national award for general staff and there are significant negotiations going on, amalgamating institutions and bringing the whole structure of higher education in this country into a national unified system.

It was in this context that the first questions of award restructuring came to place. And on 31 July I received a letter from the Tasmanian Public Service Association referring to our earlier discussions on award restructuring.

And in that the Acting General Secretary, Mr Vines, stated that he attached our official document outlining in our proposals to the effect of the restructure. And that document was the State Public Service Federation ACU endorsed document, 'A Better Deal for General Staff in Higher Education - the SPSF's Award

09.10.89

PRESIDENT - WILLINGHAM - GARNHAM

DR GARNHAM:

Restructuring Strategy', dated July 1989.

Given the status of the National Wage Case, I held off on a direct answer to that request from the TPSA. But on 11 August I wrote stating that:

"As you are aware, the matters of restructuring form part of the national wage decision, and a movement on a national level initiated by the ACTU, and that any discussions that take place must take these factors into account".

That, sir, is the last official communication that we have had with the TPSA, and there have been no formal or informal discussions since that time. However if I could just quickly run through the discussions that I referred to that were taking place on a national basis, because I think it is significant to show that the TPSA, through the Australian Public Service Federation or the State Public Service Federation, have been party to these negotiations that have been going on on a federal basis.

We received communication from our federal body on 2 August which stated that:

"At a meeting between the ACTU officers, the representatives of 20-odd unions and AUIA/AAEIA officers, which was not held on 26 July due to a Workcare strike on that day, have been rescheduled until 9 August.

It had been drawn to the attention that the negotiations in the ACTU's view should be conducted on a national basis between the ACTU and its affiliates, on the one hand, and the

09.10.89

GARNHAM

DR GARNHAM:

AUIA/AAEIA on the other,
representing the employers."

That was on 2 August.

On 9 August a meeting was held between both bodies where Mr Carmichael, as Assistant Secretary of the ACTU, chaired the meeting. He outlined the content of the document, which is the one that had been forwarded to us by the TPSA, and specifically committed ACTU affiliates, covering general staff, to a national approach to award restructuring.

09.10.89

GARNHAM

DR GARNHAM:

He made it clear that any moves by individual unions to reach separate agreements with individual institutions should be referred directly to him.

We heard no more. Then on 6 September there was a hearing in the Federal Industrial Commission before Commissioner Baird during which time discussions of the possibility of developments in the higher education sector with regard to general staff were canvassed.

It was proposed by Mr Carmichael at that hearing that a federal award should be established which would contain existing salaries and conditions and would cover those institutions where the State Public Service Federation had a hegemony (or however you pronounce it); that is, sole or the major control in those institutions.

Such institutions were all of the higher education institutions in Western Australia, the CAE's in South Australia, and the Tasmanian State Institute of Technology.

At that hearing (and unfortunately because, as in a lot of significant negotiations, it was done off the record) it was agreed before Commissioner Baird that the parties should confer and report back to the Federal Commission on the outcome of the negotiations on 18 October.

On 2 October there was a meeting held between the ACTU and its affiliates and the employers' federal body to consider, in addition to the ACTU document of 9 August that had been chaired, the similar document that had been forwarded to the TSIT by the TPSA in July. There was a meeting to discuss that document, together with a document that had been put forward by the national employers'

09.10.89

GARNHAM

DR GARNHAM:

body to effect restructuring within the general staff area.

The unions and the employer bodies met, agreed to have further discussions and to reconvene on 5 October - last Thursday.

They did, sir, and at that time the ACTU and its affiliates put forward a document, which I can table now as a draft of a proposal, if I may, that would give us the outline of the current status of the negotiations on a federal scale.

I have made those copies available.

PRESIDENT:

Yes, Doctor. While you are ...

DR GARNHAM:

We have already put some up for the Bench.

PRESIDENT:

While that's being distributed, Dr Garnham, I'm just wondering ... I am sure you will get to the bottom line, but at present the staff are covered by an award of this Commission. I don't think it is other than academic interest to this Commission that a federal award might be contemplated.

DR GARNHAM:

No, sir. Can I come to that bottom line immediately, which is what I was planning to do?

PRESIDENT:

If you will, please.

DR GARNHAM:

The situation is that we have had no negotiations with the TPSA or any other body within this State with regard to our State awards, on the instruction that the negotiations that were being carried on for a national agreement (and not necessarily a national award, sir, but for a national agreement) with regard to the higher education sector were progressing with some speed.

The concept was that should a national negotiation lead to a

09.10.89

PRESIDENT - GARNHAM

DR GARNHAM:

national agreement, then it was most likely that that agreement would be brought into the State commissions to be ratified in the restructuring submissions for the flow-on of the National Wage Case.

And that's why I am laying so much emphasis on the negotiations that have been taken at a federal stage, because it was not necessarily ... and in fact I think we would be optimists to think that a federal award from such a conglomerate of awards existing around the country could be implemented very quickly.

But the concept was that a federal negotiation on the method of award restructuring would form the basis then of applications to State commissions to have the existing awards varied.

And it was in that context that we have, through our parent body, participated in those federal negotiations, and it therefore came as somewhat of a surprise when we found ourselves nominated to participate in the hearing that was scheduled - first heard - on 21 September of this year.

What I am trying to say, sir, is there have been substantial negotiations on a federal basis with regard to an agreement to form the basis of general staff award restructuring throughout the country.

The factor of a federal award, I believe, is irrelevant at this time.

Those negotiations have been taking place over the past 2 months and are progressing at a significant rate.

We have had no discussions on a State basis to form the application currently before the Commission today.

The negotiations between the TTLC and

09.10.89

GARNHAM

DR GARNHAM:

the Government have not formed part of any negotiations that we have taken part in, because we are not part of the State Service, and therefore any agreement or purported agreement or basis of discussion that has been tabled does not have any effect upon the awards that affect the higher education situation in Tasmania.

And could I just add my age-old phrase that I am afraid I have to make a point of whenever I appear before you, sir, and that is with regard to the funding situation with regard to higher education.

I have a feeling we may hear something more about the State funding situation this afternoon, but in the federal arena we receive our entire funding from the Federal Government.

There is a Cabinet meeting set down for tomorrow, I am told (and this is only a grapevine hearing that I have) at which the question of the funding of any award restructuring flow-on of the National Wage Case will be discussed by Federal Cabinet with regard to the entire higher education system.

The past basis for the flow-on of the funding has been any agreement that has been reached with regard to the Commonwealth public sector.

I believe that a submission will be put to Cabinet tomorrow to suggest that any funding for higher education restructuring, and the flow-on of the National Wage Case, should be based upon that national agreement.

09.10.89

GARNHAM

DR GARNHAM:

... whether it is incorporated into any federal awards, as will be the case with regard to the academic staff, or whether it is then incorporated into awards of the various State commissions.

So therefore we have a two-edged prong: that if the Commission were to go ahead and award an increase - an immediate flow-on of the 3% - on the basis of no document that we have at the moment, then we not only would be in a position of not being able to fund it from the Federal Government's point of view, but it could bring into jeopardy some of the employment situations that exist at the moment.

PRESIDENT:

Are you not bound by or at least observing some private industry awards, say those relating to gardeners and support staff?

DR GARNHAM:

No, sir. We have an award for the Advanced Education (Miscellaneous Workers Union) Award. That is a public sector award for the purposes of the gardeners and ground ... and house officers.

PRESIDENT:

I see.

DR GARNHAM:

And we also have a catering agreement to cover those within that area, that is registered with this Commission. We are not subject to any private sector awards.

PRESIDENT:

Well, is the catering agreement registered as a private industry award?

DR GARNHAM:

No, sir. It is an agreement between the Federated Liquor and Allied Trades Union and the Tasmanian Council of Advanced Education.

PRESIDENT:

I see, thank you.

COMMISSIONER GOZZI:

But the University of Tasmania General Staff Award has a provision in it that states that increases

09.10.89

PRESIDENT - COMMISSIONER GOZZI -
GARNHAM

COMMISSIONER GOZZI:

determined by this Commission from the operative date of any State Wage Case will apply to staff under that award.

DR GARNHAM:

I will have to allow Mr Buchanan to answer that, I think, sir, because I am not speaking entirely on his behalf. I am speaking on a sector behalf. Nonetheless, I believe that there is ... there has been brought before this Commission the effect of a decision of this Commission on the federal funding of the higher education system within Tasmania.

COMMISSIONER GOZZI:

Well Dr Garnham, you did mention the University of Tasmania General Staff Award in your opening, and that matter that you referred to resulted in an arbitration with a decision that, in future, State wage increases would operate from a date determined by this Commission.

DR GARNHAM:

And sir, we have followed that in the case of the Tasmanian Council of Advanced Education as well. In some circumstances that has caused a financial loss, if you like, to the institution (not that we can talk in those terms because we have got nothing to make a profit on either).

But in some circumstances, because an award of this Commission has predated the date of an effect of the Federal Commonwealth Government granting of an award, then the period in between, which I think in October of last year was a matter of 3 weeks, was something for which the institution was not funded and had to be found from its own resources.

Now in those circumstances it didn't have a tremendous effect on the funding, but nonetheless there was a shortfall that had to be found within the institute's own recurrent grant made by Canberra.

COMMISSIONER GOZZI:

Well, what are you saying then in respect of the awards that fall

09.10.89

COMMISSIONER GOZZI - GARNHAM

COMMISSIONER GOZZI:

within this jurisdiction?

DR GARNHAM:

I am saying that in regards to this case before you now, sir, that we have had no negotiations. We are under instruction that there have been significant negotiations on the federal ... on a national scene to reach an agreement which reflects the whole status of the higher education system in Australia.

And it is the intention of our bodies to, if they do not lead, and which we do not anticipate at this stage they will lead to a federal award, that that national agreement will be brought immediately into the State Commission and if the decision of Cabinet is as we anticipate it will be, there will not be a funding shortfall because it will be based upon the national agreement.

COMMISSIONER GOZZI:

Because there are other ... or one other award, at least, that is funded substantially from ... by Federal Government funds, and I am talking about Welfare and Voluntary Agencies Award which is, of course also, I would imagine, part of the private sector agreement.

DR GARNHAM:

My only comment on that, sir, would be, I am not sure of the supplementary funding agreements that exist. We have been told quite categorically that there will be no supplementary funding made available outside of the proposal put forward by the Federal Government. They may be a separate arrangement with regard to that award.

COMMISSIONER GOZZI:

Because I am always a bit curious when words such as 'It has to be a decision of the Australian Industrial Relations Commission before any funding is made available' ...

DR GARNHAM:

No, sorry, sir, the agreement has to be one that has been nationally accepted by both parties - by the ACTU and its affiliates on one hand,

09.10.89

COMMISSIONER GOZZI - GARNHAM

DR GARNHAM: and our employer peak body on the other.

COMMISSIONER GOZZI: Thank you.

PRESIDENT: Dr Garnham, you discussed this situation with Mr Vines or Mr Lennon?

DR GARNHAM: Yes, sir, with Mr Vines. I rang him on the ... we got notification of the commencement of this hearing on 20 September. I immediately rang Mr Vines and said that in light of the current situation, did they wish to withdraw our award from the hearing. Mr Vines said he would take instruction from, or have communication (shall I perhaps be a little more precise) with his federal body.

In the meantime I contacted our federal body and it was suggested that our awards would be withdrawn from this hearing because of the situation of the federal negotiations that were taking place.

Subsequently, however, we were advised by Mr Vines that the awards would not be withdrawn, and they would be proceeding with them within the State arena notwithstanding the negotiations that have taken place in the federal arena. We have heard no more since then.

PRESIDENT: Yes, very well, thank you.

09.10.89

PRESIDENT - COMMISSIONER GOZZI -
GARNHAM

PRESIDENT: This ... oh yes, sorry.

DR GARNHAM: I tabled that, sir, if I ... perhaps to explain ...

PRESIDENT: The fairies came, did they, during the lunch hour?

DR GARNHAM: No, I tabled that mainly to give you an indication of the status of the negotiations that are being carried on at a federal level.

PRESIDENT: And is that the document that you circulated among others?

DR GARNHAM: Yes, sorry, sir, I thought it was being passed up then. I ...

PRESIDENT: Then we'll mark this as Exhibit G.1.

DR GARNHAM: Thanks.

DEPUTY PRESIDENT: Is this a 'without prejudice' document, Doctor Garnham? Is it?

DR GARNHAM: I believe so, sir, yes.

PRESIDENT: Another one. Yes, thank you, Doctor Garnham.

DR GARNHAM: If the Commission pleases.

PRESIDENT: Mr Willingham?

MR WILLINGHAM: Thank you, Mr President. If I may have Mr Challen called and sworn please.

PRESIDENT: Yes.

MR LENNON: Mr President, just before this takes place, I wonder if Mr Willingham might explain to the Bench and us exactly what he's now going to do with this submission, what its relevance is and what it actually relates to.

PRESIDENT: Yes, we would like to know that also, Mr Willingham.

MR WILLINGHAM: Well it's not a submission, Mr

09.10.89 PRESIDENT - DEPUTY PRESIDENT -
GARNHAM - WILLINGHAM - LENNON

MR WILLINGHAM:

President, it's the educeement (sic) of evidence and it is to put in perspective, from the Government's point of view, the state of the Tasmanian economy and how any decisions emanating from this tribunal have the potential to affect, adversely or otherwise, the state of the economy, both for the remainder of this fiscal year and indeed into the year 1990-91. It will also help to, we believe, give the Commission an insight into why the Government has adopted the position it has in relation to this State Wage Case.

PRESIDENT:

It's mainly public interest material, is it?

MR WILLINGHAM:

I suppose it clearly will impinge upon the area of my colleague, Mr Pearce, representing the Minister administering the State Service Act, because it's very difficult to distinguish in those overall economic comments matters which go to the State generally and those which impact upon the State as an employer.

PRESIDENT:

Yes, it just seems somewhat curious because earlier today we were left with the clear impression that you had concluded your submissions.

MR WILLINGHAM:

I ... yes, I acknowledge that, Mr President, and were it not for the fortuitous intervention of Mr Commissioner Gozzi who reminded me that your statement issued just before lunch hadn't been fully absorbed by me, that may well have been the case, and I'm very grateful that I have the opportunity to have one more bite at it.

PRESIDENT:

Well have you read something into it that we haven't?

MR WILLINGHAM:

I obviously misunderstood the import of your statement, Mr President, yes.

MR LENNON:

Mr President, if I might just add a little bit here then. I understood

09.10.89

PRESIDENT - WILLINGHAM - LENNON

MR LENNON: just prior to lunch that the Commission, having regard to the submissions of the parties, has adopted the principles. That's as it ...

PRESIDENT: Well that was in the statement, yes.

MR LENNON: Right, well I just wonder what's left in the public interest for the Minister for Industrial Relations, under those circumstances, to put. The horse has bolted. That's what I would have said. And that any submissions which flow now must go directly to the outstanding matter which relates directly to the Government, and that is the TTL Exhibits 3 and 4 wherein we've requested the application of the principles - the first stage increase - across the board.

Now either the Government is about to run an incapacity to pay argument or it's not, or it has some other argument to put in opposition to those two exhibits of ours.

PRESIDENT: I thought the Government had indicated quite clearly that it was opposed to 3 and 4 - TTL.3 and 4 - and had given its reasons why, and was going to await our decision.

MR LENNON: Yes, that's what I thought.

MR WILLINGHAM: I'm sorry, Mr President, perhaps I should have put it on a 'without prejudice' basis and Mr Lennon wouldn't have objected to us putting it in.

But clearly if Mr Lennon's view, and the Commission's view subsequently, is that the Minister for Employment, Industrial Relations and Training has had his primary submission turn and there is no more, then I'll simply seek leave to amend my appearance to include that of the Minister administering the State Service Act and the evidence that we deduce from here will be in relation to the

09.10.89

PRESIDENT - LENNON - WILLINGHAM

MR WILLINGHAM:

Tasmanian Government in its role as an employer.

I'm quite happy to cover it that way if that's the sort of pedantry we've got to go through to satisfy Mr Lennon.

MR LENNON:

Mr President, it's not a question of satisfying me at all. The fact is that the Commission has handed down a decision on the principles.

Now I don't believe that there's anything for the public interest left to satisfy. If the Commission wasn't satisfied of the public interest it wouldn't have handed down its decision in the way that it did this morning. And in the face of no opposition I'm not surprised that the Commission has handed down the decision in the way that it did.

I just wonder where we're going now with the submission, as I understand it economic submissions in the public interest, that so called it Mr Willingham referred to a minute ago.

I mean are we about to enter an incapacity to pay argument from the Government or not? That's the simple question through the Bench to Mr Willingham.

COMMISSIONER GOZZI:

Mr Lennon, the situation as I understand it is that the Bench handed down a decision which said it would pick up the principles and would arbitrate, if you like, on those matters in the principles that are outstanding, i.e. the anomalies, special cases. We have been asked to adjust the AIRC principles to reflect the unique situation in Tasmania.

In your submissions this morning, as I understood them anyway, you put up Exhibit TTLC.4 and requested the Commission to endorse a common operative date for the first

09.10.89

COMMISSIONER GOZZI - WILLINGHAM -
LENNON

COMMISSIONER GOZZI:

instalment on the basis of the agreed
items as you saw them.

09.10.89

COMMISSIONER GOZZI

COMMISSIONER GOZZI:

It appeared to me anyway that in response Mr Willingham and Mr Pearce did not have an opportunity to fully address their position in respect of that particular question of common operative date.

And for my part, seeing as we've been asked by the TTLIC on behalf of the public sector unions to look at that question of operative date, for my part I wanted to hear what he had to say in response.

MR LENNON:

Right. So you believe he's about to put an economic incapacity to pay argument then.

COMMISSIONER GOZZI:

Well I don't know what he's ... that's for Mr Willingham to do. I don't know what he's going to do. We said we'd reconvene at 2.15 to hear some comment.

MR LENNON:

Well ...

COMMISSIONER GOZZI:

Well we could really have the situation where nothing further would need to be done because a decision has been made and this Bench could retire. But the bottom line is if we did that your position of a common operative date for the public sector unions would then be addressed at some further stage down the track, and I don't think that's what you really wanted.

MR LENNON:

No. I mean I'll save most of my comments for later, but I simply make this observation; that is, if the Government is about to run an incapacity to pay argument, it's live, whether it's award by award or across the board.

If it hasn't got the capacity to pay structural efficiency increases, it hasn't got the capacity to pay no matter when it occurs.

COMMISSIONER GOZZI:

Well, as I say, I wonder though what Mr Willingham's going to say.

09.10.89

COMMISSIONER GOZZI - LENNON

MR WILLINGHAM:

Mr Commissioner, you've again encapsulated the position that we put before the luncheon adjournment which was that if the Commission was of a mind to adjourn to reserve its decision in relation to whether it will adopt the national wage decision and its principles, issue that decision and then reconvene (as has been the case in the past) to deal with matters of commitment and then award variation, we would have had no difficulty, as you say, in watching the Bench retire and wait for that decision anxiously.

My understanding of your very helpful comments just before lunch was that, in fact ...

COMMISSIONER GOZZI:

I'm not sure what they were.

MR WILLINGHAM:

... the Commission had indicated, in principle, that it was going to adopt the national wage case decision and principles, suitably amended, and if it heard no further submission would then proceed to arbitrate those matters that are in dispute between the Tasmanian Trades and Labor Council and the Tasmanian Government in its role as an employer.

Now if that is the case, it was on that basis that we asked for the hearing to be reconvened so that we could put argument to the Bench, and indeed, information to the Bench (I suppose is a better word) which we believe it ought to hear before making a decision on whether it should use its arbitral exercise of powers in giving relief to Mr Lennon's application.

Now if I've misunderstood anything from there, I'd be grateful to be corrected. But if that is the case, that is what we now hope to embark upon.

And as to whether it's an argument on economic incapacity, as Mr Lennon

09.10.89

COMMISSIONER GOZZI - WILLINGHAM

MR WILLINGHAM: seems so anxious to turn it into, he'll just have to be patient and wait and see.

PRESIDENT: Excuse us.

MR WILLINGHAM: Yes, certainly, Mr President.

PRESIDENT: You may put your ... whatever case you wish, Mr Willingham.

MR WILLINGHAM: My gratitude, Mr President, members of the Bench.

Could I now proceed to have Mr Challen called?

PRESIDENT: Yes.

Donald William CHALLENGE sworn

PRESIDENT: Be seated, Mr Challen.

MR WILLINGHAM: Mr President, before going through the formalities with Mr Challen, it may be appropriate if I table these documents which at some stage I believe Mr Challen may well refer to. It would be useful if those are distributed before we get to that stage.

PRESIDENT: Yes.

MR WILLINGHAM: The first document is headed the 'Consolidated Fund Appropriation Bill 1989-1990', Mr President.

PRESIDENT: That will be W.2.

MR WILLINGHAM: The second document, Mr President, is marked 'Consolidated Fund, Summary of Estimated Expenditure (including Expenditure Reserved by Law) and Estimated Receipts, 1989-1990'.

PRESIDENT: W.3.

MR WILLINGHAM: And the third and final document, Mr President, is marked 'Budget Paper No. 1, Supporting Budget Information, 1989-1990'.

PRESIDENT: W.4.

09.10.89 PRESIDENT - WILLINGHAM

PRESIDENT: Yes, Mr Willingham.

MR WILLINGHAM: Thank you, Mr President. Mr Challen, for the purposes of the record, would you advise the Commission of your full name and address?

MR CHALLENGE: Donald William Challen, Brightwater Road, Blackmans Bay.

MR WILLINGHAM: Your occupation, Mr Challen?

MR CHALLENGE: I'm an economist.

MR WILLINGHAM: Your present position, Mr Challen?

MR CHALLENGE: I'm Deputy Secretary, Economic and Financial Policy in the State Department of Finance. As the Commission would know, until recently and colloquially that department was known as the Treasury.

MR WILLINGHAM: Mr Challen, what qualifications and credentials do you have in respect of your profession?

MR CHALLENGE: I hold a Bachelor of Economics with First Class Honours and a Master of Economics degree. I've published extensively in the professional literature and I'm the co-author of six books.

MR WILLINGHAM: Indeed. What has been your experience in previous positions, Mr Challen?

MR CHALLENGE: Prior to holding my present position, I was employed by the Commonwealth Government in the Economic Planning Advisory Council. I was appointed to the council as Chief Economist and rose through several positions to be acting as Director of that agency during the last 6 months of my term with them.

Prior to that, I was employed in the University of Tasmania's Economics Department for quite a number of years. At the time I left the Economics Department, I was a Reader in Economics and Director of the

09.10.89 PRESIDENT - WILLINGHAM - CHALLENGE - XN

MR CHALLENGE: Centre for Regional Economic Analysis.

MR WILLINGHAM: Thank you, Mr Challen.

Would you please advise the Commission precisely what your present role with the Department of Finance entails?

MR CHALLENGE: I have specific responsibility for the revenue side of the Budget, including State taxation. I'm responsible for financial relations between the Commonwealth and State Governments and between the State and Local Governments.

I'm responsible for financial policy and for economic policy generally. Under the new arrangements that have arisen since the change of government, I'm one of a group of three senior officers in the Treasury that are responsible for formulating advice to government on all budgetary and financial issues.

MR WILLINGHAM: Thank you.

Is it legitimate to claim that you may speak with authority on matters going to the Department of Finance?

MR CHALLENGE: Yes, I believe so.

MR WILLINGHAM: Thank you, Mr Challen.

Mr Challen, the Government has recently brought down its Budget for the year 1989-1990. Does the State have, what is called in vernacular terms, a balanced budget?

MR CHALLENGE: It's true to say that the process of budgeting has led the Government to a position in which it now has a complete strategy to acquire all the funds it needs to fulfil its financial program for the current year.

If the Commission would turn to page 3 of Exhibit W.3, Budget Paper No. 2,

09.10.89

WILLINGHAM - CHALLENGE - XN

MR CHALLENGE:

you'll see a statement of the transactions through the Government's consolidated fund for the current budget year 1989-90 in which the total receipts to the budget amount to a little over \$1.5 billion - \$1,523 million roughly. The total expenditure that's involved in the Government's program is \$1,658 million. There is a gap between those two numbers of some \$134 million, evidenced from that statement.

That gap is the financing requirement. It's, in simple terms, the amount by which the Government's expenditure program requires it to spend money in excess of the total receipts that will be available to the Government in the current budget year.

In simple terms, the Government has to find \$134 million to bridge the gap between its intended expenditures and its intended receipts. At the bottom of the statement to which I'm referring is a section which shows how the Government proposes to acquire \$134 million worth of funds to bridge that gap between expenditure and receipts.

In simple terms, it proposes to borrow about \$126 million and it is planning to run down its cash reserves by about \$8 million.

Now, because the Government has a financing requirement as large as \$134 million, this Budget is fairly described as displaying a fundamental structural imbalance. So, in answer to Mr Willingham's question, in the narrow sense, our Budget is balanced in the sense that we know where the Government is going to find the funds it needs to carry out its program of expenditure for the year, but that expenditure program requires the Government to borrow sufficiently large sums that it's fair to describe this Budget as structurally

09.10.89

WILLINGHAM - CHALLENGE - XN

MR CHALLEN:

imbalanced.

Now I say that because the requirement on the Government to borrow a sum as large as that will involve it in additional interest payment obligations next financial year.

09.10.89

WILLINGHAM - CHALLEN - XN

MR CHALLENGE:

In very rough terms, if we borrow an additional \$126 million this year, at current interest rates we will have additional interest obligations in our next budget of something of the order of \$19 million, depending a bit at the rates at which we are able to borrow.

There isn't, inherent in the natural growth in our receipts or in our existing expenditure plans, a natural consequence that sufficient room will arise in next year's budget to accommodate that additional \$19 million.

There is a sense in which we are borrowing this year already to pay our interest bills and if nothing changes the Government will have to borrow even more next year to pay next year's interest bill. In that sense, Mr President, this budget is imbalanced.

MR WILLINGHAM:

Thank you, Mr Challenge. So just returning to that topic of structural imbalance, as I think you referred the current budget to, what are the visible likely impacts of that structural imbalance, apart from the fact that you are going to have to borrow further sums of money to service interest debt?

MR CHALLENGE:

We are in a situation in which the financing requirement - that gap between our receipts and our expenditures - has a momentum of its own. If the Government does not take some significant policy decisions in relation to its budget, over a period of time the financing requirement will build on itself as the extra interest payments that are required to meet last year's borrowing to cover the financing requirement impinge on this year's expenditure obligations, thereby increasing the financing requirement and requiring us to borrow still more in the next year to cover the interest on last year's borrowings, as it were.

09.10.89

WILLINGHAM - CHALLENGE - XN

MR CHALLEN:

So that we have got a situation in which we have a problem, a financing requirement that is too large for our budget, which is building on itself. And if nothing is done, that financing requirement will increase every year, the amount of the increase being determined by the additional interest obligations arising in each year on the borrowing necessary to cover last year's financing requirement. And over time the financing requirement itself will get larger and larger and larger, and consequently our interest payments will become a larger and larger and larger proportion of our total revenues over time.

We have in fact produced some estimates of what the situation will look like out into the future if the current situation is allowed to continue. And on projections about the inflation rate going forward for the next decade; on projections about the likely growth we will get in State-source revenues, taxation and the like; projections about the likely outcome for various forms of grants for the Commonwealth; and assuming that the current policy decisions that are embedded in this year's Budget and were indeed in last year's Budget continue into the future - in other words, there is no significant realignment in policy as regards the Budget - then 10 years from now 28% of all our recurrent revenues would have to be earmarked to pay our interest bill. In the current year's budget, the corresponding figure is 9.9%.

Now that dramatic growth through the 10-year period in front of us, if there are no policy changes, and on those projections and assumptions that I described, that arises solely from the fact that we have this structural imbalance that I spoke of in our budget which is leading to the additional interest obligations this

09.10.89

WILLINGHAM - CHALLEN - XN

MR CHALLEN:

year needed to pay for last year's borrowing to bridge the gap between expenditure and receipts, compounding the problem, requiring us to borrow still more next year, which results in yet further interest obligations the following year, and so on.

COMMISSIONER GOZZI:

I am sorry to interrupt. It would help me to understand what you are saying better if I knew how you treated wages and salaries in the expenditure part of the CRF. I mean, it is in there somewhere, is it not?

MR CHALLEN:

Yes, in the statement on page 3 of Exhibit W.3, wages and salaries are, for the most part, included in the operating expenses item under recurrent services. There is a total amount there of some 525.7 million. There are other components. In fact that falls well short of our total wage bill. But there are other components of our total wages payment that appear in reserved by law items, and in various sections of works and services.

Indeed, our total wage bill in the current budget ... this is a number that is not revealed in the Budget papers, but it is of the order of \$700 million.

COMMISSIONER GOZZI:

I don't want to get ahead of you, Mr Willingham, but if that is the Budget for 1989-1990, presumably there is a forecast projection of wage increases emanating from a State Wage Case such as this.

MR WILLINGHAM:

If I could help, Mr Commissioner, we will be drawing quite specific information from the witness in respect to those and other related matters.

09.10.89

COMMISSIONER GOZZI - WILLINGHAM -
CHALLEN - XN

MR WILLINGHAM:

Mr Challen, in summary then, in your view, what is the outlook for the 1990-1991 budget for this State?

MR CHALLENGE:

It might assist the Commission if I was to break down the broad budget aggregates in our recurrent budget for the current year in a slightly different way to the way in which it is presented in the Budget papers, and then to use that to explain our view of the 1990-91 budget.

I referred to the total expenditure which appears in that statement on page 3 of \$1,658 million. You'll see that that comprises about \$1,352 million of recurrent spending, and around \$306 million of works and services expenditure. That's the State Government's capital program.

If we look at that total recurrent expenditure of 13,052 million it can be broken up into two figures: an amount comprising what we describe as 'non-discretionary expenditure', totalling 510.9 million, and a balance which we describe in Treasury as 'discretionary expenditures' - those sums that are available for agency operating expenditures - of 841.1 million.

Now non-discretionary expenditure covers such matters as interest charges and other financing costs, pension payments, long service leave and death allowance, and what are known as 'R items' - reserved by law items - obligations that the Government has to meet by law, by the State's statutes.

We have estimated the non-discretionary expenditures for 1990-91 at 555.1 million. That's an increase over this year's figure of 510.9 of 44.2 million.

Now of the 841.1 of the balance, we have extracted total wage payments of about 700 million, and payments for

09.10.89

WILLINGHAM - CHALLENGE - XN

MR CHALLEN:

all other expenditure of the balance
- some 141 million.

On the assumption that all other expenditure increases by about the anticipated rate of inflation of 7%, we need to provide an extra 5.7 million in next year's budget for growth in that other expenditure item.

Our advice is that there is foreshadowed a 1990-91 wage decision for which we should prudently put aside 25.9 million.

Now those increases amount to 31.6 million. So that relative to a total figure for discretionary expenditure this year of 841.1, we believe that before we take account of these proceedings we ought prudently to anticipate a figure of 872.7 million next year.

Now when those two items are taken together we are looking at an increase in expenditure in next year's budget of 75.8 million in total, before any allowance is taken for the impact in next year's budget of these proceedings.

Mr President, we have also ...

COMMISSIONER GOZZI:

Could I just stop you there, Mr Challen. I am sorry to do this, but when you say that, does that exclude any forecast in the Budget up to August 1990 that's in the current figure already?

MR CHALLEN:

The figure of 841.1 for discretionary expenditures that I mentioned in this year's budget, Commissioner Gozzi, includes our estimate of the impact on our wage costs of these proceedings in this financial year.

COMMISSIONER GOZZI:

The financial year of completing 30 June 1990?

MR CHALLEN:

90, yes. What I am saying is that

09.10.89

COMMISSIONER GOZZI - WILLINGHAM -
CHALLEN - XN

MR CHALLENGE:

the 872.7 figure for discretionary expenditure in the 1990-91 budget does not take into account any additional cost in next year's budget that may arise from these proceedings.

Now that has been based on particular advice which we have received, which I am happy to explain to you if it is helpful. But perhaps it might be better if I came back to that and just finished answering Mr Willingham's specific question about next year's budget.

What I have done then is explain to you that on the expenditure side we are looking at an increase in non-discretionary expenditure of 44.2 million, and increase in discretionary expenditure of 31.6 million, a total increase in expenditure between this year and next of 75.8 million.

09.10.89

WILLINGHAM - CHALLENGE - XN

MR CHALLEN:

We have also undertaken an exercise in which we have produced forward estimates for all items of revenue for next year.

Now in some areas one has to be a little conjectural. It is very difficult at this stage of the year to predict what the Commonwealth's position is likely to be at a May 1990 Premiers' Conference. Nevertheless, on what we believe are reasonable assumptions, reasonable projections, we're looking at total increase in revenues between this year and next of \$33.3 million.

DEPUTY PRESIDENT:

Is it possible to express that in percentage terms, Mr Challen?

MR CHALLEN:

It certainly is.

That's an increase over all revenues of about 2.5%. Now that figure is influenced by certain special conditions in the '89-90 Budget and by certain policy decisions that have already been taken and announced by the Government.

When we put all these figures together we find that next year's budget will be worse than this year's budget to the tune of \$42.5 million on the bottom line.

Now, in this year's budget ... I'm talking for the moment of only the recurrent side of the budget. In this year's budget there is an excess of recurrent expenditures over recurrent receipts of about \$8.3 million or \$8.4 million. What that figure of 42.5 million worsening means is that in next year's budget the gap between recurrent receipts and recurrent expenditures would be \$50.9 million.

Now in addition to that, the situation in regards to the capital program ... it's much more difficult to describe in detail, but it is

09.10.89

DEPUTY PRESIDENT - WILLINGHAM -
CHALLEN - XN

MR CHALLENGE:

clear already that our capital receipts will be substantially lower than they are this year. So that to keep the capital program in balance next year, as it is in this year's budget, there would need to be some reductions in capital spending.

MR WILLINGHAM:

Thank you, Mr Challen.

You mentioned that you'd already made projections in relation to inflation. I think you mentioned the figure of 7% for the year 1990-91. You've detailed projections in relation to revenue growth. I'm not sure that you specifically indicated to the Commission the projections that the Department of Finance has made in relation to wage increases over that period of time.

MR CHALLENGE:

Those figures assume that the outcome of these proceedings will be the payment of 3% across all public sector awards in the next month or two.

MR WILLINGHAM:

Sorry, could I just stop you, Mr Challen, for a moment for the purposes of clarity, where you're using the shorthand term of 3% as it applies to structural efficiency, or is that the actual figure?

MR CHALLENGE:

Perhaps if you allow me just to develop the point for a moment.

MR WILLINGHAM:

Please do.

MR LENNON:

You'd better have an adjournment to get it right.

MR WILLINGHAM:

Would you care for an adjournment, Mr Lennon? We can easily do so.

MR LENNON:

....

MR WILLINGHAM:

Mr President, Mr Lennon was looking for an adjournment. Sorry, Mr Challen, please continue.

MR CHALLENGE:

Not at all. The advice, Mr President, that we had when we formed

09.10.89

WILLINGHAM - CHALLENGE - XN - LENNON

MR CHALLEN:

these estimates was that the flow-on of the national wage decision to State public sector awards would result in wage increases of 3% in two phases; that the first stage would be paid towards the end of this calendar year and the second stage, 6 months later; that at the time the first 3% was paid an agenda would have already been agreed which would make it clear that by the time the second 3% was paid, there would be achieved productivity and efficiency changes that would mean that the cost to the Budget of the second 3% was nil.

And consequently, while we have provided a sum of money in this year's Budget to ensure that we have the capacity to meet the first stage of that 3% before the productivity increases and efficiency increases come through and remove the cost impact, we have not provided any such sums in those '90-91 figures that I read out to you.

Our understanding of the national wage decision is that the increases in productivity and efficiency will ensure that the State's Budget can accommodate the 6% wage increases without an overall increase in its wage costs.

Just covering Mr Willingham's question on wage increases, we have covered the anticipated cost of the further flow-on of the nurses' restructuring. We have taken into account the costs of some other minor award restructuring on which we've been given advice.

I mentioned that the foreshadowed ACTU CPI claim has been taken into account in the 1990-91 figures. At this stage we have made no allowance for what I understand to be the nurses' professional rates issue, a teachers' restructuring that has been foreshadowed, a further 3% superannuation increase, which I

09.10.89

WILLINGHAM - CHALLEN - XN

MR CHALLEN:

understand has been foreshadowed, and the minimum rates adjustments, which at the moment we are unable to cost and are unlikely, on our advice, to have any impact on this year's budget.

09.10.89

WILLINGHAM - CHALLEN - XN

MR CHALLENGE:

The important point, I think, is that our wage assumptions are fairly limited ones and based on firm knowledge that we now have, and that knowledge is, regrettably, fairly limited.

On the revenue side we have assumed a 7% inflation rate, as Mr Willingham said, but we have taken certain adjustments into account on a tax-by-tax basis to reflect the fact that some individual tax bases are increasing at a much slower rate than the overall rate of inflation.

For instance, our assumption on the rate of increase of property values for the purposes of forming a land tax estimate is only 5%, and there are many instances where we have made adjustments of that sort.

We have taken into account also that the Government has already made a firm policy commitment to reduce petroleum franchise fee rates from 1 June and, consequently, we have reduced the taxation revenue estimates for next year by 5.5 million to take into account the cost of that initiative.

The ambulance contribution has already been disbanded. There is \$1 million in this year's budget for outstanding payments in respect to taxpayers' liability from last year. We have also eliminated that.

In other areas we have assumed that current arrangements with no policy changes will apply.

MR WILLINGHAM:

Assuming then, Mr Challen, that the Government will pursue new policy initiatives in 1990-91, what allowances have you made for any expenditure which will be required to give effect to those new policy initiatives?

MR CHALLENGE:

Those figures that I provided to the Commission make no allowance for any

09.10.89

WILLINGHAM - CHALLENGE - XN

MR CHALLENGE:

policy initiatives on the part of the Government.

The position that the Government is taking on that issue at present is that they will be looking to reorder their budgetary priorities without new initiatives impacting on the bottom line of the budget, as it were.

So that to the extent that in individual portfolios decisions are taken to implement new policy, a savings will be made either in that portfolio or elsewhere in the budget to offset that cost.

MR WILLINGHAM:

Thank you, Mr Challen. Please confirm for me, but if I understood you correctly you indicated to the Commission that in relation to wage increases arising from structural efficiency as they would impact in the year 1990-91, the Department of Finances made no allowance whatsoever. Is that correct?

MR CHALLENGE:

That's correct. In those figures that I gave the Commission ...

MR WILLINGHAM:

What provision then has been made in the current budget for wage increases arising from structural efficiency cases?

MR CHALLENGE:

We have provided an amount in the Treasurer's Reserve which we believe will be adequate to cover the impact of the first stage of the flow-on of the national wage decision in this year's budget.

MR WILLINGHAM:

Are you in a position to be able to advise the Commission what that figure is, Mr Challen?

MR CHALLENGE:

The amount that we have provided?

MR WILLINGHAM:

Yes.

MR CHALLENGE:

No, I am not, Mr Willingham.

MR WILLINGHAM:

How much has been included in the

09.10.89

WILLINGHAM - CHALLENGE - XN

MR WILLINGHAM: Treasurer's Reserve to meet the cost of the 6% increase, Mr Challen?

MR CHALLEN: Well, I can't tell you that number. All I can do for you is to draw your attention to the fact that the Budget papers show that the total amount provided in the Treasurer's Reserve is \$26 million.

MR WILLINGHAM: Well that was going to be my next question, so we'll work backwards. Could you give me that figure again, please?

MR CHALLEN: 26 million. I think the Commission would know from the previous opportunity on which I have had to be before them that the Public Account Act requires a minimum provision of \$10 million in the Treasurer's Reserve as a reserve by law item.

The Treasurer may, if he deems it prudent to do so, appropriate additional amounts into the Treasurer's Reserve, and he has done so this year.

You will find in the Appropriation Bill, under Division 8, Department of Finance C Items, an amount of 16 million being appropriated into the Treasurer's Reserve. Those two items - the 10 and the 16 - give the 26 total that I mentioned.

MR WILLINGHAM: Can you give us any more examples of the type of items which are funded from the Treasurer's Reserve?

MR CHALLEN: The Treasurer's Reserve is used to fund all items of a non-discretionary nature which are unanticipated at the time that the budget is formed, or unquantifiable at the time that the budget is formed.

Historically the large part of the Treasurer's Reserve has been needed to meet wage increases of one kind and another. But it is also used where the Government is obliged to meet an obligation.

09.10.89

WILLINGHAM - CHALLEN - XN

MR CHALLEN:

For instance, if a welfare program, for instance, turns out to be more expensive in a particular year because there have been more eligible persons for that particular class of welfare, then the difference between the amount that was appropriated in the Appropriation Bill to meet the cost of that program and the actual amount would be met from the Treasurer's Reserve.

09.10.89

WILLINGHAM - CHALLEN - XN

MR WILLINGHAM:

Well, in as best as you're able to forecast in the Department of Finance, is there sufficient moneys in the Treasurer's Reserve to pick up not only the wage increases for which you must allow and those other items?

MR CHALLENGE:

Yes.

MR WILLINGHAM:

What would the consequence be then, Mr Challen, if the 6% (in my shorthand terms) flow-on effectively came into a situation where the cost was more than 6%; that is, with minimum rates adjustments, with special cases, with work-value matters and, indeed, the fact that the so-called 6%, as you will obviously be aware, is not a true 6%. It is some figure greater than that.

MR CHALLENGE:

In the current year the impact would be that the bottom line of the Budget would blow out. The Treasurer's Reserve would, presumably, be inadequate to meet the total costs. The financing requirement would, in the end, be larger than the \$134 million that the Government has budgeted for.

The Government would then have to face up to the problem of reviewing its plans for meeting that \$134 million financing requirement and a decision would have to be made later in the year as the problem emerged on whether they would borrow more, or whether they would run down their cash reserves by a larger amount.

MR WILLINGHAM:

So effectively what you're saying is the bottom line blows out?

MR CHALLENGE:

Yes.

MR WILLINGHAM:

In terms of this State and this community, does that matter?

MR CHALLENGE:

Yes, I judge that to be a moderately serious problem.

MR WILLINGHAM:

Why?

09.10.89

WILLINGHAM - CHALLENGE - XN

MR CHALLENGE:

We have a budget that is in an unacceptable state. The Government has in front of it in the next 1, 2 or 3 years a very difficult problem that has to be resolved. It has to restructure its budget to remove that fundamental imbalance that I spoke of.

On the figures that I've already given the Commission we have, just on the recurrent side, a \$51 million shortfall next year that has to be taken care of before we take account of any additional cost that might arise from these proceedings.

If this year's budget blows out, then the scale of that problem becomes that much worse next year because in the final analysis more will have to be borrowed and we will have even higher interest obligations next year than we currently anticipate.

So that we have a situation in which we already have a very difficult budgetary problem and the kind of blow-out that you've spoken of makes that problem that much worse.

MR WILLINGHAM:

I think we clearly understand that what you're saying is that if those blow-outs do occur this year, forecasts turn out to be inaccurate, then that's compounded in not only next year but succeeding years.

MR CHALLENGE:

Yes.

MR WILLINGHAM:

Well, you keep referring us, Mr Challenge, to this structural imbalance in the Budget. What options are available to Government to redress that structural imbalance?

MR CHALLENGE:

The imbalance arises because the gap between total expenditure and total receipts is too large.

In very simple terms, what the Government will have to do is to close that gap and they can do that in two ways. They can reduce

09.10.89

WILLINGHAM - CHALLENGE - XN

MR CHALLENGE: expenditures or they can increase receipts.

MR WILLINGHAM: Well, let's have a look at receipts. What are the main revenue areas?

MR CHALLENGE: About half of our total revenue comes from Commonwealth grants. Of State sources the main components are State taxation, territorial revenues, fees and other recoveries and recoveries of State debt charges (interest payments made back to the Government).

COMMISSIONER GOZZI: What are territorial revenues?

MR CHALLENGE: Such things as forestry and mining and fishing royalties, rent of Crown lands and the like.

MR WILLINGHAM: Mr Challenge, what do you say to those who say, 'Well, if you need more revenue, why can't you in fact just increase taxes and charges?'.

MR CHALLENGE: You can increase taxes and charges. It becomes progressively more difficult to reasonably raise additional revenue from taxation sources as the severity of taxation rises.

Figures that have been produced by the Commonwealth Grants Commission show that relative to an Australia-wide average, the severity of taxation in Tasmania is about 11% higher than the national average. We are already the highest taxed State.

The Government has made a policy decision, at least in part on the basis of advice from Treasury, that it will take whatever action is available to it, as budgetary circumstances permit, to reduce the severity of taxation.

09.10.89

COMMISSIONER GOZZI - WILLINGHAM -
CHALLENGE - XN

MR CHALLENGE:

I can't say that taxation can't be increased. What I can say is that it would be an unfortunate response to the Government's current budgetary problems if they were to increase taxation in circumstances in which the Tasmanian economy is already taxed very hard.

I think it is also important to remember that what taxation does is it takes money out of the hands of the private sector and puts it into the hands of the Government, and taking money out of the private sector, in the final analysis, must have an effect on employment in the economy.

Now in circumstances in which Tasmania has a reasonably fragile economy with very high unemployment rates and relatively slow employment growth, it would be an unfortunate budgetary response to worsen that employment situation by increasing taxation.

MR WILLINGHAM:

Thank you. Okay, well if we can't, or it is an unattractive option in terms of Government policies and realities to increase taxation, are there measures available to Government, or why are there not measures available to Government to increase its revenue base from royalties in the mining and forestry and fisheries type of area?

MR CHALLENGE:

Those elements of territorial revenue are kept under review and close scrutiny by Treasury all the time, and in the case of fisheries, forestry and mining royalties there have been significant policy changes in the last 2 years which have led to substantial increases in forestry and fishing royalties, and to a change in arrangements for mining royalties that ensures that the industry is paying at its capacity to pay.

Our judgment would be at the moment that while there may be some scope

09.10.89

WILLINGHAM - CHALLENGE - XN

MR CHALLENGE:

for very modest increases in revenue from those sources, they are not going to provide substantial amounts in the next year or two and, in any event, we are talking about total revenue from territorial purposes of about 58 million in total revenue of 1.3 billion. So it's a relatively small revenue source in any case, and even a large increase in that item wouldn't make a large contribution to the problem.

MR WILLINGHAM:

On a summary perhaps on that aspect, a two-part question, Mr Challen, are you effectively saying that there is very little capacity to raise additional revenue as we currently stand?

MR CHALLENGE:

Yes.

MR WILLINGHAM:

And am I correct in interpreting what you said as being effectively that if you did increase revenue that it would adversely impact upon the private sector, and therefore employment?

MR CHALLENGE:

Yes.

MR WILLINGHAM:

Mr Challen, then the other option then is to reduce outlays. What options are available to Government in respect of that?

MR CHALLENGE:

Well in broad terms there are two ways of reducing your outlays. You either improve the efficiency with which you deliver the existing range of service, or you delete some services.

MR WILLINGHAM:

In terms of the public sector, Mr Challen, what does that mean for employment?

MR CHALLENGE:

Well, given that something like 65% of our total budget is wages and salaries payments, it is hard to contemplate a situation in which there is a significant reduction in outlays by either of those means that

09.10.89

WILLINGHAM - CHALLENGE - XN

MR CHALLENGE: I described without an overall reduction in employment.

MR WILLINGHAM: What is the total annual cost of the so-called 6% structural efficiency increase?

MR CHALLENGE: Well the cost in terms of additional wage payments that have to be made (this is before we take into account the impact of any savings from productivity and efficiency improvements) is about \$42 million.

MR WILLINGHAM: That's the full year cost?

MR CHALLENGE: Yes.

MR WILLINGHAM: May I ask you a hard question? If we were unable to achieve (as I'm sure you are aware, the Government is trying to) productivity and efficiency savings through structural efficiency, if we were unable to achieve any such productivity and efficiency gains, what would that \$42 million translate to in terms of jobs in the public sector?

MR CHALLENGE: About 1,450 jobs, assuming that a full year saving could be made. In other words, if the reductions were notionally made on 1 July next year, then to save the \$42 million we would have to reduce total full-time equivalent employment by 1,450 if we had to make that saving within a given financial year, and the reductions in numbers flowed through the year, as they might well do from natural attrition and so on, turnover, the number would be proportionately higher.

MR WILLINGHAM: Why then could you not look for savings of that magnitude, assuming no productivity and efficiency gains arising from structural efficiency? Why could you not look for that order of savings elsewhere?

MR CHALLENGE: Well, if you go back to the breakdown of the recurrent budget that I gave earlier, in simple terms of this

09.10.89

WILLINGHAM - CHALLENGE - XN

MR CHALLEN:

year's budget: \$1,352 million worth
of recurrent expenditure - \$510.9
million of that is untouchable
(that's non-discretionary
obligations). Of the remaining
841.1, about 700 is wages and
salaries payments.

09.10.89

WILLINGHAM - CHALLEN - XN

MR CHALLENGE:

So you would be looking to make \$42 million savings out of \$141.1 million of all other payments. The problem is that the item that you have got available on which to make the savings is just too small to have the capacity to make a saving of that magnitude.

MR WILLINGHAM:

Well what about capital works spending?

MR CHALLENGE:

Well, for the reasons I mentioned earlier, the capital program is already going to have to be reduced in size somewhat just to reflect the fact that capital receipts in next year's budget will be smaller than they were this year.

If a saving of the order of \$42 million had to be made on the capital program to offset that cost, it could be done, I imagine. It would be an extremely difficult thing to organise.

But at the end of the day it would mean that many people who are employed on one form or other of Government contracts to complete capital works would not get the employment that they are now expecting. I mean, what you would be doing is shifting your problem, as it were, into the private sector.

MR WILLINGHAM:

Right, so public sector versus private sector jobs, if the assumption is made no productivity and efficiency gains out of structural efficiency.

MR CHALLENGE:

On those assumptions, yes.

MR WILLINGHAM:

In summary, Mr Challenge, then, perhaps you would just care to give us your views on the importance of the Government, in its employing role, and indeed the whole community, achieving structural efficiency and productivity gains.

MR CHALLENGE:

Well, I believe it is absolutely

09.10.89

WILLINGHAM - CHALLENGE - XN

MR CHALLENGE:

paramount. We have an extremely difficult budgetary problem already. If that problem is compounded by 6% worth of productivity and efficiency savings not coming forth to offset the wage costs of this flow-on, that problem will get into the horrific category, I think.

MR WILLINGHAM:

Thank you, Mr Challenge. Mr President, that is all my questions at this time.

PRESIDENT:

Mr Challenge, I think in your evidence-in-chief you said that part of your responsibility is to give advice, presumably to the Government, on all budgetary and financial issues. And I presume you gave the appropriate advice to the Government in relation to the national wage supplementary decision in which the Government supported the 6%. Did you?

MR CHALLENGE:

Mr President, without any disrespect, I must claim privilege for what advice I have given to the Government. I would be happy to answer the question in another way, if you can rephrase it for me. But the advice that I have given to the Government is privileged, and I think, without disrespect, I am obliged, sir, to claim that privilege.

PRESIDENT:

Well, can I put it this way. You would be aware that the Government supported that proposition. Were you able to make some financial provision for the cost?

MR CHALLENGE:

Well, I think all I can do, sir, is to refer back to what I said earlier, that we have made what we believe to be a prudent financial provision for the cost in this year's budget. We have as yet made no provision in next year's budget because we believe that if the national wage principles are adhered to, there should be no cost in next year's budget. There will be productivity and efficiency improvements sufficient to offset the

09.10.89

PRESIDENT - WILLINGHAM - CHALLENGE - XN

MR CHALLENGER: cost of the 6%.

PRESIDENT: I thought you said - and I may have been confused - that something like 26 million has been put aside for wage increases in this financial year.

MR CHALLENGER: No, no. What I said, Mr President, was that a Treasurer's reserve of 26 million had been provided.

PRESIDENT: All right.

MR CHALLENGER: That has to meet the cost of wage increases and all other unanticipated discretionary expenditures.

COMMISSIONER GOZZI: \$21 million of that, presumably, is for the 3% first stage around about November, December this year, according to your calculations.

MR CHALLENGER: You are teasing me, Commissioner Gozzi. You know I can't answer that question.

COMMISSIONER GOZZI: Well, you have indicated in response to Mr Willingham that 6% is 42 million. So presumably half of that is 3%.

MR CHALLENGER: Well, implicit in your suggestion, sir, is an assumption about the date on which it will be paid, which of course is a matter I couldn't comment on in these proceedings.

PRESIDENT: But you did say in your evidence that provision had been made - and I presume adequate provision - for 3% to come into effect across all awards some time this year.

MR CHALLENGER: Yes.

PRESIDENT: Now obviously if it is some time this year, there is at least 3% for 6 to 8 months, say; at least not less than 6 but possibly more for a whole year. And then you went on to say that if those strategies work, then it would

09.10.89 PRESIDENT - COMMISSIONER GOZZI - CHALLENGER

PRESIDENT:

not be necessary to make provision for the second 3% which you anticipated might come in 6 months after because of the productivity gains.

Now the national wage decision of course said proposals for change of that nature (that is, these initiatives) should not be approached in a negative cost-cutting manner, and should as far as possible be introduced by agreement. So were you aware of that when you made this prediction?

MR CHALLEN:

Well, I wasn't personally involved in the calculations that led to the provision that was made.

09.10.89

PRESIDENT - CHALLEN

MR CHALLENGE: I confess I don't know what that term means, Mr President.

PRESIDENT: You may not be alone.

MR CHALLENGE: I suspected as much.

PRESIDENT: Well the only other question I had for you was this, that in fact I suppose 6% ... say 3% now and 3% 6 months later would probably run out in rough terms at about 4% for a whole year, would you think?

MR CHALLENGE: I'd need to do some mental arithmetic. Your number sounds a little high.

PRESIDENT: Well you could have 6% ... no, 3% for, say, 8 months and then 6% for 3 months.

MR CHALLENGE: Yes, 3% for 8 months is about 2% across the year, isn't it? And how many months worth of the second 3% were you assuming?

PRESIDENT: Well for 6 months, that's one and a half.

MR CHALLENGE: Yes, well I think we might be looking at something like 3.1/2% across the year. I wouldn't like to be held to that number, Mr President. I'd need to do the sums.

PRESIDENT: But in round terms about 28 to 30-odd million.

MR CHALLENGE: Mm.

PRESIDENT: Yes, thank you. Cross-examination?

COMMISSIONER GOZZI: Mr Challen before you do, by deduction, let's say there's \$21 million there for the 3% in the Treasurer's Reserve. You've set aside 21.9 million for a 1990-91 decision. Can I ask you what is that based on? Is that on the forecast of an ACTU claim in May as identified in the discussions, that the ACTU would lodge a CPI claim or

09.10.89 PRESIDENT - COMMISSIONER GOZZI - CHALLENGE

COMMISSIONER GOZZI: a review of the wage fixing principles September?

MR CHALLEN: Commissioner Gozzi, I'd have to take advice on that. The figure I mentioned was \$25.9 million and my understanding is that it is based on a CPI-based claim which the ACTU has foreshadowed for 1990-91. I'm sorry, I can't elaborate, but if you'd like me to get more detailed information I'd be happy to do so.

COMMISSIONER GOZZI: Yes, well I suppose the reason I'm asking is if it's based on what may flow out of a September National Wage Case, which was the other date, of course that takes you into 1991-1992, doesn't it?

MR CHALLEN: Yes, we have in fact provided only half a year in 1990-91, so presumably the assumption has been made that the decision would flow through in the third quarter of calendar year 1990 and that it would have half a year's impact in the 1990-91 financial year.

COMMISSIONER GOZZI: I guess what I'm trying to get from you is that is there money projected in the Treasurer's Reserve which could realistically be applied to a flow-on of the National Wage Case decision, some of which will eventuate anyway given the fact that there are a substantial number of State employees who are covered by federal awards and, already having regard to some of the test case decisions that have been issued, will benefit from those decisions.

MR CHALLEN: Yes, but the important point to understand is that in the case of State employees under federal awards who already have their increase, because the amount is known with certainty it would have been provided for in agency allocations. It's not in the Treasurer's Reserve.

COMMISSIONER GOZZI: Well how could it have been known with certainty? I mean the National Wage was only finished on 7 August.

09.10.89

COMMISSIONER GOZZI - CHALLEN

COMMISSIONER GOZZI: The cases that flowed from the National Wage Case were post that date. Are you saying that ...?

MR CHALLEN: Well there may not be any, Commissioner Gozzi. I mean ...

COMMISSIONER GOZZI: No, what I'm saying is that there are State employees under federal awards who because of decisions of the Industrial Relations Commission will get an increase.

MR CHALLEN: Yes.

COMMISSIONER GOZZI: Well where's that money coming from?

MR CHALLEN: Well, if at the date that the Budget was finalised they were known, the money is provided in agency allocations. If the cost of those increases at the date of the Budget were not known, then it's in the Treasurer's Reserve.

COMMISSIONER GOZZI: The only other question I have is that you indicated in your evidence that the payment of 3% across all public sector awards was on the basis of the flow-on to State public sector of 3% in two phases, the first phase being towards the end of this year (and you didn't tell us when) and that the second phase wouldn't cost anything on the basis that the agenda would produce results to offset that 3%.

MR CHALLEN: Yes, actually what I said was it wouldn't cost anything in 1990-91.

COMMISSIONER GOZZI: 1990-91, that's correct. Now have you had the opportunity of looking at some of the agenda items, if you like, contained in TTLC.4?

MR CHALLEN: I looked very quickly through that document when it was tabled this morning, Commissioner Gozzi. I haven't looked at it in depth.

COMMISSIONER GOZZI: Would it be a normal course of events

09.10.89

COMMISSIONER GOZZI - CHALLEN

COMMISSIONER GOZZI:

that you would cost an agenda like
this if you had time?

MR CHALLEN:

Yes, we would.

09.10.89

COMMISSIONER GOZZI - CHALLEN

COMMISSIONER GOZZI: Yes. Thank you.

PRESIDENT: Any re-examination, Mr ...?

MR WILLINGHAM: No, thank you, Mr President.

PRESIDENT: You're excused, Mr Challen. Thank you.

MR : What happened to cross?

MR LENNON: Are we going to get an opportunity, Mr President, or ...?

PRESIDENT: I was waiting for you, Mr Lennon. You had your head down.

MR LENNON: I mean, Mr President, I'd like a short adjournment so that I can confer with my colleagues.

PRESIDENT: Very well.

...

PRESIDENT: Yes, Mr Lennon.

MR LENNON: Thank you, Mr President.

Before I ask Mr Challen a few questions, I'd simply like to indicate this, that at the conclusion of the questioning of Mr Challen, we would be seeking an adjournment of this hearing so that we can prepare an appropriate response to the Government's case.

PRESIDENT: And when would you hope to ...?

MR LENNON: We would be prepared to proceed tomorrow if the Commission is available.

PRESIDENT: Yes. Well there are other matters listed, Mr Lennon.

Just excuse me, Mr Lennon.

Mr Willingham, how long do you

09.10.89 PRESIDENT - COMMISSIONER GOZZI -
WILLINGHAM - LENNON

PRESIDENT: suppose you would be in concluding your response?

MR WILLINGHAM: A very short period of time. Only 10 minutes, Mr President.

PRESIDENT: I see.

MR WILLINGHAM: And I understand my colleague Mr Pearce has a similar time frame, and unless there are other matters which require response, with the leave of the Commission, that would see us out.

PRESIDENT: Hasn't Mr Pearce responded once?

MR WILLINGHAM: To your statement at lunch time, I don't believe so.

PRESIDENT: Oh, I see. I see.

Yes. Will there be any other people addressing ...?

MR ABHEY: I don't know if I'm going to be invited to cross-examine, Mr President, but if I ...

PRESIDENT: It depends on whether your head's up or down, Mr Abey.

MR ABHEY: I'm contemplating the odd question.

PRESIDENT: Yes. Thank you for that. We'll keep an eye out for you.

We would be prepared to resume tomorrow afternoon so long as the matter will conclude tomorrow.

Mr Abey, did you wish to cross-examine before Mr Lennon?

MR ABHEY: It doesn't matter, Mr President.

PRESIDENT: No. Very well.

MR ABHEY: Do you ...?

MR LENNON: You can go if you like, yes.

MR ABHEY: Thank you.

09.10.89 PRESIDENT - WILLINGHAM - ABHEY - LENNON

MR ABEY: Mr Challen, if we were starting from scratch, would it be financially prudent to have a budget that wasn't structurally imbalanced?

MR CHALLENGE: No.

MR ABEY: I didn't catch that.

MR CHALLENGE: No.

MR ABEY: It would not be financially prudent?

MR CHALLENGE: No.

MR ABEY: So we conclude from that deficits are in order. Is that right? It's sort of a bit of a double negative. I've lost the answer.

MR CHALLENGE: If we were starting from scratch, we would establish a budget that had a financing requirement that was not so large that the natural growth in revenue would be insufficient to cover the additional interest payments in the future.

There is nothing particularly imprudent about having a deficit or a financing requirement, provided that you are confident that you will have the budgetary capacity in the future to meet the additional interest costs that will arise from the borrowings that you needed to meet that financing requirement.

MR ABEY: So it's the percentage of total revenue which is important. Is that correct?

MR CHALLENGE: Yes.

MR ABEY: So if you can keep that at a constant percentage you are in a satisfactory position ...

MR CHALLENGE: Yes.

MR ABEY: ... as long as the original percentage figure is right.

MR CHALLENGE: Well there is a policy choice that

09.10.89

ABEY - CHALLENGE - XXN

MR CHALLENGE:

governments have to make about how much of their revenues they're prepared to earmark to pay interest payments.

The problem in our budget that I describe is not that the policy decision that's been made about that number is the wrong one, but rather that the nature of the budget is that it can't be controlled. On current parameters it will continue to increase.

MR ABEY:

Well that same matter which is of some concern to my organisation ... On 1 January this year the then State Government was instrumental in having a 3% superannuation arrangement on an unfunded which was put into place. Are you familiar with that?

MR CHALLENGE:

The SAF scheme?

MR ABEY:

Is that what it's called?

09.10.89

ABEY - CHALLENGE - XXN

MR ABEY: Is there anywhere in these three documents that refers to the costs associated with that scheme?

MR CHALLENGE: Yes. You can't find the particular cost of that scheme. It's buried in an item in Division 8 in the Appropriation Bill. If you'll bear with me for a moment, I'll find it for you.

I see, it is separately. It's on page 17 of the Appropriation Bill, about a little over half-way down, C809, Superannuation Accumulation Fund Benefits, \$504,000. There are two other items that relate to ... C807 is the one-off costs of implementation and C808 is the annual administration costs of the scheme.

MR ABEY: C809 is the ... sorry, again?

MR CHALLENGE: The administration costs - what it costs to run the scheme, the staff salaries and computing time and so on.

MR ABEY: That's 808?

MR CHALLENGE: Sorry, C809, I beg your pardon. C809 is the item you originally asked about. It's the cost of payments under that scheme.

MR ABEY: On those figures, it would cost as much to administer as it does to pay the contributions?

MR CHALLENGE: In this year, yes. That's because it's funded on an emerging cost basis and because it's only been in place for, well, less than a year, the costs that have so far emerged are not large.

MR ABEY: No. The accumulating cost would be in excess of \$20 million, would it not?

MR CHALLENGE: I don't know.

MR ABEY: Well, 6% of the wages bill adds up to 46 million on your figures.

09.10.89 ABEY - CHALLENGE - XXN

MR CHALLENGE: Well, it depends on the amount of turnover one gets in staff in a given year. I wouldn't hazard a cost.

MR ABEY: Well, I put it to you that it doesn't. At the end of the day, that debt is there. It's accumulated. It's quite different from the normal superannuation, the promised benefits superannuation provisions for State employees.

Every day the debt is increasing by 3%. Is that correct?

MR CHALLENGE: No, that's not correct. Every day the contingent liability is increasing by 3% of one day's wage bill.

MR ABEY: Yes, but it's only contingent on someone ultimately leaving, which they will do.

MR CHALLENGE: Yes. But that is no different from the way the Government funds all its retirement benefits liabilities. They're all funded on an emerging cost basis, with a few exceptions.

MR ABEY: Well, I'm sorely tempted to labour the point, but in the interests of getting over this tonight, I won't push it too far. Why did the Premier and the Treasurer make special reference to the cost of the 3% in his Budget statement?

MR CHALLENGE: I don't know. You must ask him.

MR ABEY: Well, I did and he indicated that no special provision was being made to fund that scheme. Is that correct?

MR CHALLENGE: Yes. The only provision that's made is C809.

MR ABEY: Is it true that the Government has directed statutory authorities with revenue raising capacity to make an actual contribution?

MR CHALLENGE: Not to the best of my knowledge. What you may be referring to though

09.10.89 ABY - CHALLENGE - XXN

MR CHALLEN:

is an arrangement under which the Consolidated Fund recovers from the cost of certain employing authorities the share of the cost that the Consolidated Fund has to meet for those liabilities.

For instance, employees in the Department of Main Roads, the cost of their superannuation and SAF entitlements are not met from the State Highways Trust Fund, which is the trust fund that meets the cost of road building. They are met from the Consolidated Fund, and elsewhere in the budget there is a recovery from the trust fund into the Consolidated Fund.

MR ABEY:

If you didn't have the financial constraints which are clearly on the Government, would it be prudent to make an actual contribution of 3%, given that it is a fully vested accumulation fund?

MR CHALLEN:

Not necessarily. It's a financial policy question about whether you will fund certain contingent liabilities by reserving funds from the budget in the year in which the liability arises and putting those aside and investing the moneys until the payments have to be made, or funding those liabilities on an emerging cost basis as they actually occur.

Now if you have a work force which is in a fairly stable state, not growing in which the in-flows are roughly balanced by the out-flows, there is not a lot of difference in public finance terms between the two.

In this particular case, we've got a brand new scheme and its cost will build up over a period of time until we get to that stable state that I referred to, and that will probably take 5, 6, 7 or 8 years. And in 8 years from now, if the current policy continues, then you would not expect

09.10.89

ABEY - CHALLEN - XXN

MR CHALLEN:

the quantum of costs that have to be met from one year to the next to change very greatly.

09.10.89

ABEY - CHALLEN - XXN

MR ABEY: Isn't it true that certain public authorities such as TAA, as it then was, got into great difficulty on precisely this sort of issue?

MR CHALLENGE: I don't know.

MR ABEY: Is it adding to our indebtedness each year?

MR CHALLENGE: No, what it is doing though is adding to our contingent liabilities that will ultimately have to be met. I mean there is a whole range of those. This is just one example.

MR ABEY: It appears from your estimate that payroll tax will ... revenue will increase by over 10% this year. That's in excess of the inflation rate and in excess of the anticipated level of wage increases. Do you have any observation on that?

MR CHALLENGE: Yes, I'd need to refresh my memory to provide you with full details, but there are three reasons for that. One is that we are getting a full year effect of the introduction of the 7% payroll tax tier that was introduced in the course of the last financial year.

MR ABEY: Mm.

MR CHALLENGE: Secondly and most significantly we're getting the full year effect of the decision by the Commonwealth Government a year ago to require Commonwealth authorities like Telecom and Australia Post to pay payroll tax to the States that previously they have been exempted, and thirdly there is the usual growth in the tax base that arises because of growth in employment and the level of wage payments.

MR ABEY: Thank you, I've no further questions.

PRESIDENT: Mr Lennon.

MR LENNON: Thank you, Mr President.

09.10.89 PRESIDENT - ABEY - CHALLENGE - XXN - LENNON

MR LENNON: Mr Challen, in your capacity as an economist and given the state of the Government finances, do you believe the Government should be making an application on incapacity to pay grounds here?

MR CHALLENGE: No.

MR LENNON: Thank you. Mr Challen, can you break down the growth in operating expenses ? From our reading there is a growth between 1988-89 and 1989-90. Can you explain what that growth is?

MR CHALLENGE: In the numbers that I gave?

MR LENNON: We understood (well certainly I did) from evidence that you gave to Mr Willingham that a large percentage of operating expenses was wages and salaries.

MR CHALLENGE: Correct. Yes, okay, yes I can break that down for you.

The figure for '89-90 for operating expenses was 841.1 million. The figure I gave for '90-91 was 872.7 million. The difference comprises 5.7 million growth in non-wage expenditures, and that's an estimate based on the 7% inflation rate. And the 25.9 is the figure that we have estimated as the likely outcome from what I understand to be the ACTU CPI-based claim ... is likely to impact on our budget next year. It's only those two items.

MR LENNON: What about the growth in operating expenses this year? From 80 ... so let's take you back a year. In the '88-89 financial year operating expenses were at 'X' level, this year they're budgeted to be 'X-plus' level.

MR CHALLENGE: Yes.

MR LENNON: Well what's the increase for? How much of that increase has been earmarked for wages and salaries?

09.10.89 LENNON - CHALLENGE - XXN

MR CHALLENGE: Well I don't have in front of me ...

MR LENNON: Is it reasonable ...?

MR CHALLENGE: Well wait a minute, yes we do, yes we do. Excuse me just a moment if I may. I'll endeavour to answer your question.

Yes, if you could turn to page 44 of Exhibit W.4 - that's the supporting budget information, the fattest of the three exhibits - you will see there the balance of operating expenditure figure of 841.1 that I referred to for the current year's budget and indeed you can see the break-up of the non-discretionary items.

Now the comparable figure for last year was 796.9.

MR LENNON: Mm.

MR CHALLENGE: The difference between those two figures ... I haven't got a breakdown I'm sorry, but the difference between those two comprises wage and salary increases that have occurred in the course of the two budgets and the ordinary impact of inflation on all other items that the government is obliged to pay: computing charges, rent of buildings, pens and pencils, all those kinds of things.

09.10.89

LENNON - CHALLENGE - XXN

MR LENNON: What was the budgeted item for operating expenses for the year '88-89?

MR CHALLENGE: I can't tell you that. I don't have the figures with me. All I can tell you is that the actual figure, the actual result, was 796.9 million.

MR LENNON: That's in the paper there.

MR CHALLENGE: Yes.

MR LENNON: But was the budgeted figure?

MR CHALLENGE: Well, as I say, because I don't have the breakdown from last year's budget on this basis, I do not have that figure available to me.

MR LENNON: To your knowledge, was it the same as the actual figure?

MR CHALLENGE: I think it is most unlikely that it was the same.

MR LENNON: What discrepancy would you think would be normal?

MR CHALLENGE: I couldn't put a figure on that, Mr Lennon. It would depend on the degree of certainty with which our budget estimates were formed at the time the budget was brought down, the extent to which unexpected things occurred during the year, and the extent to which the Government was prepared to make policy decisions that impacted on expenditure during the year.

MR LENNON: Well, let's put the question another way then. What was the budget deficit forecast for the financial year '88-89 at the time that the budget was announced? What was the forecast, not the result?

MR CHALLENGE: Normally that would be an easy question to answer. This year it is a little difficult because we have changed the basis on which the budget is presented.

09.10.89

LENNON - CHALLENGE - XXN

MR CHALLENGE: Let me see if I can ...

MR LENNON: It would be a figure of fact, '88-89. What was the forecasted budget deficit when the then Treasurer Robin Gray handed down the Budget?

MR CHALLENGE: Yes. I mean, I have a number in my mind. I can tell you roughly what the number was if you like?

MR LENNON: Well, tell me roughly what the number was?

MR CHALLENGE: I think it was about 6 million.

MR LENNON: Right. What was the actual deficit?

MR CHALLENGE: On the same basis of that 6 million and, again, I'm going on my memory, I believe there was a small surplus of about half a million dollars.

MR LENNON: So the Government figures for '88-89, as evidenced by you, were at least 6 million out, at least, perhaps more?

MR CHALLENGE: Well, the actual outcome differed from the budgeted results because certain events occurred during the year that impacted on that bottom line.

MR LENNON: Yes. It is reasonable to presume that events might impact this year which will alter things as well?

MR CHALLENGE: Undoubtedly.

MR LENNON: Thank you. Perhaps we can go back in history. My recollection, Mr Challen, is that you've been with the Treasury since at least 1986/'87?

MR CHALLENGE: Yes. I joined them on 1 July 1986, Mr Lennon.

MR LENNON: Well, isn't it true that a similar argument was put by the then government in 1986?

MR CHALLENGE: You understand that I am not here as an advocate for the Government. I'm giving evidence.

09.10.89

LENNON - CHALLENGE - XXN

MR LENNON: You are here as an economist, as I understand it.

MR CHALLENGE: That's correct. So I don't know what argument the Government is running. What I do know ...

MR LENNON: Perhaps we can move to the next question. I think you've answered it.

MR CHALLENGE: I would be more than happy to do that.

MR LENNON: What I am trying to deduce from you, Mr Challen, is that this is a forecast and nothing more than a forecast.

MR CHALLENGE: That is absolutely right.

MR LENNON: And, as such, the weight that the Commission should place on your submissions should be taken in that context; that all of your submissions relate to forecasts and not to realities.

MR CHALLENGE: Yes. And, of course, when one considers how realistic a forecast is, one should ask the forecaster what his assumptions are, and then make one's own judgments about the realism of his assumptions.

MR LENNON: Well in view of the result from last year's budget it is reasonable to assume that the forecasters weren't too good at forecasting last year, is it not?

MR CHALLENGE: No, I think that assertion is incorrect. When one takes into account that there was an unexpected \$8 million of revenue that came from certain negotiations with the Commonwealth that was brought into last year's budget, I think it is a remarkable testimony to the quality of the estimates.

MR LENNON: Could you tell me what the average wage in the Public Service is, please?

09.10.89

LENNON - CHALLENGE - XXN

MR CHALLENGE: Yes. On an annual basis, our average wage cost is \$29,000 - about \$29,000. Yes, \$29,000. I emphasise that's an average.

MR LENNON: And how many people are in the direct employ of the State Service?

MR CHALLENGE: About 24,000.

MR LENNON: And what contribution to efficiency and productivity has Treasury estimated that the major restructure of the State Service will provide?

MR CHALLENGE: We haven't formed an estimate of that figure.

MR LENNON: In your judgment, what's it likely to be about?

MR CHALLENGE: I can't say. Our method of budgeting these days makes it an unimportant number.

MR LENNON: Productivity?

MR CHALLENGE: No, I didn't say productivity.

The amount of cost savings that will be released as a result of the reconstruction isn't a number that is important to us in forming our budget, because what the Government does is it makes a decision about the total amount of expenditure that it can support, given its resources. It then makes a decision about how it wants to allocate that total pool of resources between various portfolios, and having done that, a process occurs whereby the agency and the Minister together decide what their priorities are within that pool of money that's been allocated to the portfolio.

09.10.89

LENNON - CHALLENGE - XXN

MR CHALLENGE: So there's an incentive that process provides to ministers and agencies to maximise the efficiency savings from the amalgamation to provide freed-up funds for them to deliver more services or higher quality services or whatever.

MR LENNON: Better wages and salaries?

MR CHALLENGE: Well that might be one, yes.

MR LENNON: Well, in your view, do you believe that the major ... as an economist, the major restructure of the Public Service, as announced by the Government, is a good thing or a bad thing?

MR CHALLENGE: I think it's a very good thing.

MR LENNON: In your view, do you believe that it will produce efficiency and productivity improvements to the State Service?

MR CHALLENGE: Yes, over a period of time I'm certain it will.

MR LENNON: Do you believe that those improvements could come about without the support of the State Service employees?

MR CHALLENGE: I think that's very unlikely.

MR LENNON: I come back to the question, in closing, that I asked initially. Given that as an economist you don't believe that the Government is in a position where it needs to argue an incapacity to pay, what's the point of your submission?

MR CHALLENGE: I haven't made a submission. I've answered some questions that were put to me.

MR LENNON: Well what do you believe we've gained this afternoon ...

MR CHALLENGE: Surely ...

MR LENNON: ... in light of the fact that you

09.10.89 LENNON - CHALLENGE - XXN

MR LENNON: don't believe that the Government needs to argue incapacity to pay?

I think your silence ...

MR CHALLENGE: Are you asking me what the point of my evidence is?

MR LENNON: Yes, in light of the fact that you don't believe that the Government needs to argue incapacity to pay.

MR CHALLENGE: The point of my evidence is that the Government has a serious budgetary problem. I believe that ...

MR LENNON: But not a problem such that it needs to argue incapacity to pay before this Commission?

MR CHALLENGE: No. No.

MR LENNON: Well, what's the point of your evidence?

MR CHALLENGE: Well, are you going to let me finish?

MR LENNON: Well, the point of your evidence has to relate directly to our applications. That's what I'm trying to deduce.

MR CHALLENGE: Yes. But, Mr Lennon, every time I open my mouth to take breath you interrupt me.

MR WILLINGHAM: Mr President, if Mr Lennon would just allow the witness to answer the questions instead of talking over and through him, I'm sure we'd finish this just a little bit quicker.

PRESIDENT: Yes. I rather think, Mr Lennon, that Mr Willingham called Mr Challenge. Mr Challenge didn't call himself in any case. Well I don't think he did.

MR CHALLENGE: I'm happy to attempt to answer the question if you wish, Mr President.

I'm sorry I'm a slow thinker. Mr Lennon is jumping in on me each time

09.10.89 PRESIDENT - LENNON - CHALLENGE - XXN - WILLINGHAM

MR CHALLENGE:

I pause just to collect my thoughts.

What I was going to say is that the evidence is that the Government has a very serious budgetary problem. It must do something about it.

If the result of these proceedings is that there is a 6% wage increase, it has to be funded at a cost, in a full year, of \$42 million and there is not a serious program of productivity and efficiency savings that offset a very substantial part of that total cost, then the Government will have a very, very much more severe problem in next year's budget than it already has.

MR LENNON:

What do you believe that we've put before the Commission which prevents that from happening?

MR WILLINGHAM:

Mr President, I don't believe that Mr Challen is in a position to answer that question ...

MR LENNON:

Oh, I beg to differ, Mr President.

MR WILLINGHAM:

... because he's not been part ... since he has not been part of the negotiations that have taken place, I can vouchsafe, without any contradiction at all, that he wouldn't be aware of the elements of either our package or that of Mr Lennon's in any detail whatsoever.

MR LENNON:

Mr President, I draw your attention to the fact that Mr Challen was here this morning at the time that I presented TTLC Exhibit No.4 to this Commission and he has a copy. In fact, he referred to it during the cross ... the examination of him by Mr Willingham.

PRESIDENT:

I think he said that it could have an impact, but he hadn't had an opportunity to cost it. Is that right, Mr Challen?

MR CHALLENGE:

Mm.

09.10.89

PRESIDENT - LENNON - CHALLENGE - XXN - WILLINGHAM

MR LENNON: Well how can he make the statement that he is ...?

PRESIDENT: Don't ask me, ask him.

MR LENNON: Well I just wonder how the statement can be made, Mr President, in the flippant manner in which it was.

I mean, as I understand it, Mr Challen, the whole point of you being examined here today and giving evidence is to somehow implore upon the Commission the need for productivity and efficiency increases in the State Service to offset the cost of wage increases, particularly in the '90-91 budget. That's as I understood from what you said.

What I'd like to know is, where you believe, as an economist and having regard to all the experience that you have, that TTLC Exhibit No.4 is deficient? You must believe it is otherwise you wouldn't need to make the statement.

Where does it disallow productivity and efficiency improvements to occur in the State Service?

MR CHALLENGE: Mr President, I have some difficulty answering that question because it is not my job to advocate the Government's case and, in effect, Mr Lennon is asking me to do that. I'm not here to defend the Government's case. I'm here to answer questions that are put to me.

PRESIDENT: Well didn't you, in response to a question from Mr Willingham, indicate that it could be costed?

MR CHALLENGE: Yes, it can be costed.

PRESIDENT: Yes. But that you hadn't yet had an opportunity to do so.

MR CHALLENGE: Well I haven't but, Mr President, I haven't been involved in the negotiations. It may well be that the Government's negotiators have

09.10.89 PRESIDENT - LENNON - CHALLENGE - XXN

MR CHALLEN:

costed the package. I don't know.

PRESIDENT:

Well perhaps if you could frame an answer ... a suitable answer to Mr Lennon he might be satisfied.

09.10.89

PRESIDENT - LENNON - CHALLEN - XXN

MR CHALLEN:

Mr Lennon has asked me what is wrong with the list of productivity and efficiency proposals that are included in Exhibit TTLC.4. I have already said that I have done no more than quickly scan that document, and I haven't looked at it carefully.

I would say, from my quick reading of it, that the chances of achieving \$42 million worth of savings from that list would be very slim indeed.

COMMISSIONER GOZZI:

But, Mr Challen, if I could come in here. I, in fact, asked you whether you had an opportunity to look at TTLC.4, and you quite rightly indicated that you haven't had time; you have only just seen it today.

But you are not looking for 42 million, are you? You are looking for half that. You are looking to pay for the first instalment and in return you want to have in place, for the second instalment, offsets so that the second amount doesn't cost anything.

MR CHALLEN:

That wasn't quite my interpretation of the national wage decision, but I would defer to your view.

COMMISSIONER GOZZI:

No, but what you said ... no, no, I am just quoting back to what I understood you to say in respect of how the 6% ought to be treated. I understood that the first instalment was to put into place (this is what I thought your evidence was) initiatives which would enable the second instalment to pay for itself.

MR CHALLEN:

No. I think what I actually said, Commissioner Gozzi, was that we had provided the amount that we thought it was prudent to do in this year's budget to meet the cost of this decision. We have not provided any amount in those 1990-91 numbers that I gave you because at this stage we believe that there shouldn't be

09.10.89

COMMISSIONER GOZZI - LENNON - CHALLEN
- XXN

MR CHALLENGE: any additional cost in 1990-1991. I don't believe I said any more than that.

COMMISSIONER GOZZI: Well, look, I just want to get it clear because I had it slightly different. I thought you indicated that the flow-on to the State public sector of 3% in two phases. The first at the end, or towards the end of this year, and an agenda would have been agreed that by the time the second instalment was available, that the cost of the second instalment, or the second 3%, would be nil. So that the efficiency and productivity measures would balance out the cost of the claim.

MR CHALLENGE: Yes ...

COMMISSIONER GOZZI: So I understood you to indicate that if there were efficiency and productivity measures that could be put into the awards, if you like, as part of the first instalment, you would have to be satisfied that that process would achieve results whereby the second 3% would be offset, so to speak.

MR CHALLENGE: Yes, well, I don't differ from anything you are now saying.

COMMISSIONER GOZZI: Well, if that's the case, isn't it important therefore, or isn't it a legitimate question of you, as an economist, to solicit what the package is actually worth that is in TTLC.4. I mean, how are we to know where we are going if we don't know what benefits, if you like, in the context of your proposition, TTLC.4 provides.

MR CHALLENGE: Yes, no, I agree, one can't proceed unless you know what the costing of those proposals is.

COMMISSIONER GOZZI: Thank you.

MR LENNON: Mr President, the point of my question was simply to get an

09.10.89 COMMISSIONER GOZZI - LENNON - CHALLENGE
- XXN

MR LENNON:

indication from Mr Challen, as an economist, as to whether or not he believed that TTLC.4 and indeed, as I indicated this morning, in conjunction with TTLC.3 (because we don't detract from anything we put to the Commission) provided the opportunity for restructuring to occur within the State Service.

And I would have thought - Mr Challen sorry, I'm going to come back here - that it would have been reasonable to assume that the Government believed that it was going to achieve in excess of \$42 million from the major restructure of the State Service. But you as an economist have indicated to us today that you don't believe that even that will occur.

I mean, after all, in our proposal we are committing ourselves to our continued cooperation with this major State Service reorganisation.

MR CHALLENGE:

Yes, no, I didn't say that there wouldn't be that quantum of savings from the reorganisation. What I said was I don't know what the quantum is. It is not the same thing.

MR LENNON:

Well, you did at one stage, I believe, say, that you didn't believe that the TTLC exhibit provided the opportunity for \$42 million worth of savings to be made. I am sure I heard you say it. If you didn't, well, that's fine.

MR CHALLENGE:

Well, you can read the record, presumably.

MR LENNON:

Well, you don't believe that's the case?

MR CHALLENGE:

Can you just repeat the question for me to make sure I understand what you are saying.

MR LENNON:

The question I asked was that do you believe that contained within the TTLC proposals for restructuring in

09.10.89

LENNON - CHALLENGE - XXN

MR LENNON: the State Service is the opportunity for productivity and efficiency improvements to occur which will offset the wage increases.

MR CHALLEN: As set out in that document TTLC.4?

MR LENNON: And 3, yes, but mainly 4.

MR CHALLEN: I am not aware of the content of 3. I have never seen ...

MR LENNON: Well, TTLC.4 in the main.

MR CHALLEN: Well, as I said, from the quick scan that I have given TTLC.4, I don't believe so. Now it may well be that when I sit down and look very carefully at that document I find I am wrong. But, you know, I gave it 2 minutes' attention this morning.

MR LENNON: I followed on from that - and this is where I will close - with the supplementary question that was: you therefore don't believe that the major reorganisation of the State Service announced by the Premier will deduce savings of at least \$42 million?

MR CHALLEN: I didn't say that.

MR LENNON: Yes you did, before ...

MR CHALLEN: No, I didn't, no, I didn't say that. I said I didn't know.

MR LENNON: Well, do you believe, in your opinion, as an economist, that the major reorganisation of the State Service will attract productivity and efficiency savings in excess of \$42 million?

MR CHALLENGE: As I explained to you earlier, I've done no analysis on that question whatever. I wouldn't hazard a guess.

MR LENNON: Well, that's been around for a lot longer than 5 minutes.

MR CHALLENGE: Yes, but as I also explained to you earlier, it hasn't been necessary for me to do that analysis. It hasn't formed part of the budgetary process I've been involved in.

MR LENNON: Okay. No further questions. Mr Vines might have a few questions.

PRESIDENT: Thank you. Yes, Mr Vines?

MR VINES: With the leave of the Commission at this time, sir, I only have a couple of relatively brief ones for Mr Challenge.

Firstly, Mr Challenge, in your evidence-in-chief you were talking about the structurally unbalanced budget. When was the last time Tasmania had a structurally balanced budget?

MR CHALLENGE: I can't say with any authority. We haven't had one, I would say, for a number of years, but to answer your question properly I would have to go back and do some analysis I haven't done.

MR VINES: In recent history, have we had one in the last 5 or 6 years?

MR CHALLENGE: Probably not.

MR VINES: Thank you. In your reference to W.3, the Consolidated Fund financing requirement for 1989-90, I think in your evidence-in-chief you indicated that basically the bottom line on page 3 of that is the dollars that appear next to the financing requirement. Is that correct?

MR CHALLENGE: Yes.

09.10.89 PRESIDENT - LENNON - CHALLENGE - XXN - VINES - CHALLENGE - XXN

MR VINES: I notice for 1989-90 estimated there are \$134 million in round terms?

MR CHALLENGE: Yes.

MR VINES: They were a bit more than that last year at \$150 million?

MR CHALLENGE: Yes.

MR VINES: A little bit more ... not on that figure, but would you agree that they were a little bit more in 1987-88 at \$164 million?

MR CHALLENGE: No. Where does that number come from?

MR VINES: It's not on those documents, it's on other information that I was just referring to.

MR CHALLENGE: No, I think that's almost bound to be incorrect. I haven't seen figures for '87-88 presented on this basis, but I have seen figures presented on another basis which ought to be broadly comparable, and the financing requirement has been growing every year since about 1983-84.

MR VINES: That quote with the figures I have. In fact it's ...

MR CHALLENGE: No. You said that it was \$164 million in '87-88.

MR VINES: I'm sorry.

MR CHALLENGE: It couldn't possibly have been. It has to be less than \$150 million if my understanding is correct. I would be astounded if I'm wrong on that point.

MR VINES: The figures I have refer to the net financing requirement from the ABS government financial estimates, 1988-89 ...

MR CHALLENGE: Yes.

MR VINES: ... which gives a figure for the

09.10.89 VINES - CHALLENGE - XXN

MR VINES: net financing requirement of \$164 million ... sorry, preliminary figures they were, for '87-88.

MR CHALLEN: No. Can you tell from that table what sector? Does it say 'budget sector' somewhere?

MR VINES: Tasmanian State public sector, financial operations '81-82 to '88-89.

MR CHALLEN: And does that come from ABS publication 5501.0?

MR VINES: Yes, table 33.

MR CHALLEN: I don't have the document in front me. If you give it to me I will look and confirm, but I think the figure you're reading is for the total State, whereas the figures that are in the documents that I've referred to are for the Consolidated Fund only. Your figures differ from these in a very substantial way for two reasons.

First of all, they include all the off budget authorities like the Tasmanian Development Authority, the Hydro-Electric Commission, the Rivers and Water Supply Commission and a number of others. In addition to that, the Bureau of Statistics defines the budget sector slightly differently to the way we now define the Consolidated Fund. So the figures aren't comparable.

MR VINES: So it depends on which figures we look at to what answer we get?

MR CHALLEN: No. What we're talking about is the budget of the State Government. Right? The budget that the Consolidated Fund has to pay for. What you are doing is looking at the budget for the State public sector as a whole as the Bureau of Statistics defined it, which includes a whole lot of authorities that are outside the immediate short-run financial and budgetary control of the Government.

09.10.89

VINES - CHALLEN - XXN

MR CHALLENGE: The Government's budgeting does not include, for instance, the problem of carrying out the Hydro-Electric Commission's budget. That's the Hydro-Electric Commission's problem.

MR VINES: Yes.

MR CHALLENGE: Likewise, the Tasmanian Government Insurance Office would be included within the Bureau of Statistics definition, but not within the Consolidated Fund and so on.

MR VINES: Well, I'll retain my comments to the figures on the ones that you've handed up, seeing I don't have copies of the others to distribute.

MR CHALLENGE: If I may just help you. The other point, if you look at those numbers that you've got in front of you, were they rising between '83-84 and '88-89?

MR VINES: No, dropping.

'82-83 was \$151 million, '83-84 was \$86 million.

It's not material. We can leave that one for now.

The fact is, with the document that you had handed up, there's been a \$16 million reduction in that financing requirement over the last 12 months. I think later, under a question from Mr Abey, you indicated that possibly even more important was the ratio between that figure and the total receipts figure on the same page.

MR CHALLENGE: Yes, almost. When I was answering Mr Abey's question, I was actually referring to the ratio that our total interest payments represent to our total recurrent revenues.

Now, there is a close relationship between the two, but it is stability in the proportion of recurrent revenues that have to be earmarked for interest which I was saying to

09.10.89

VINES - CHALLENGE - XXN

MR CHALLEN:

Mr Abey was important, and it is
that figure that at the moment is
growing.

09.10.89

VINES - CHALLEN - XXN

MR VINES: But the figure on this, the financing requirement ratio to total receipts, is in fact dropping, or has dropped from last year.

MR CHALLENGE: From last year to this, yes.

MR VINES: Yes. Thank you.

The \$700 million wages bill that we have referred to, do you know what percentage of that is State awards before the Commission today?

MR CHALLENGE: No, I don't. No, I don't, I am sorry.

MR VINES: But it wouldn't be the full \$700 million?

MR CHALLENGE: No. My understanding is that some State employees are under federal awards, but equally I believe there are relatively few of them. I don't know.

MR VINES: And, therefore, it most probably wouldn't be the full \$28 million that has been estimated as a result of this case that we are looking at?

MR CHALLENGE: Well, I think we are looking at \$21 million, are we not - 3% of 700?

MR VINES: Well, I am sorry, this total wages case, if you like.

MR CHALLENGE: Well, in that case, we are looking at \$42 million in a full year - 6% of \$700 million.

MR VINES: For this financial year I was referring to.

MR CHALLENGE: Well, I don't recall ever mentioning a figure for what the cost in this financial year is going to be. Indeed, I have been careful not to do so.

MR VINES: Didn't ... in discussion with Mr Gozzi before, you estimated ... sorry, with the President before, it was somewhere between 3.1/2% and 4%,

09.10.89

VINES - CHALLENGE - XXN

MR VINES: when you indicated you were doing a bit of mental arithmetic?

MR CHALLENGE: Yes, it is true that the President drew me on some mental arithmetic. That's right.

MR VINES: Yes. And if we are looking at somewhere between 3.1/2% to 4% we are looking at somewhere between about \$24 and \$28 million dollars?

MR CHALLENGE: Yes. While I am not prepared to trust my mental arithmetic, that sounds about right. Yes.

MR VINES: Thank you. Just to clear the record, you also indicated before that the average salary in the State sector is \$29,000. Does that ... or what does that include?

MR CHALLENGE: Well, it's total wage and salary costs divided by the total number of employees. I mean, it is not a very clever number. It is 700 million divided by 24,000 employees.

MR VINES: Well, that includes more than their award salary?

MR CHALLENGE: Yes, most certainly. It includes overtime payments and all manner of other allowances that are paid.

MR VINES: Yes, I thought so. I knew that the TPSA was an effective union, but I didn't think we'd quite reached \$29,000 as our average salary.

MR CHALLENGE: Well I did emphasise, Mr Vines, that it is an average and, of course, there are many employees paid less than that and many employees paid more than that.

MR VINES: Just in relation to structural efficiency, what do you understand is meant by that term when we are talking about structural efficiencies?

PRESIDENT: I think we should all listen carefully to his response.

09.10.89

PRESIDENT - VINES - CHALLENGE - XXN

MR CHALLENGE: It refers to the production of goods, or the delivery of services, with the minimum usage of resources. And by 'resources' I mean the minimum inputs of labour and raw materials and capital.

MR VINES: So would it be fair to say that such things as the State Service restructure would fall into that category?

MR CHALLENGE: Certainly they would improve the structural efficiency of the delivery of government services, yes.

MR VINES: So in your opinion, would actions that reduce the duplication and overlap in the public sector result in those sorts of structural efficiencies?

MR CHALLENGE: Yes.

MR VINES: Were you aware that that is how the Treasurer explained the State Service restructure in his Budget Speech of this year?

MR CHALLENGE: Yes.

MR VINES: Yes. Thank you.

Also the Government's proposed Financial Management Improvement Program (the FMIP), would you also consider that to fall into your category of structural efficiencies?

MR CHALLENGE: Yes, I think it does, perhaps less centrally than those other things we have been talking about, but it will contribute to structural efficiency.

MR VINES: Well, if I could help again, the Treasurer in the same speech has described that as 'developments planned for the program will lead to the provision of better information to assist with the management of resource, enhance capability to respond to, and anticipate changes in the financial and policy environment, and more flexibility for agency

09.10.89

VINES - CHALLENGE - XXN

MR VINES: managers'.

MR CHALLENGE: Yes, I agree. That contributes to structural efficiency. The reason I was a little hesitant is that the FMIP program is also designed to improve parliamentary scrutiny over State Government expenditures, to improve the parliamentary control over authorities, to improve reporting processes which contribute to the public interest without necessarily having a financial impact.

MR VINES: Just finally in relation to the State Service restructure, am I right in recalling that you are a member of the Government's transitional task force?

MR CHALLENGE: You are wrong in recalling that, because I am not.

MR VINES: Have you participated in that transitional task force in its early days?

MR CHALLENGE: No.

MR VINES: I am sorry, you've got somebody who looks very much like you.

MR CHALLENGE: There is a wonderful opportunity for a flippant remark there, Mr President, but I will resist the temptation.

MR VINES: In relation to the proposals that have been put by the Government, or have been put in negotiations I will say, just to select one related to the abolition of allowances to public sector employees when they travel intrastate in a day, would you see the abolition of such allowances as falling into the structural efficiency category?

MR CHALLENGE: Yes, to the extent that the abolition of those allowances isn't replaced by some other cost, and as a result the total cost of delivering the services for which the travel is associated

09.10.89

VINES - CHALLENGE - XXN

MR CHALLENGER: falls, then, yes, it contributes to structural efficiency.

MR VINES: Similarly, would the abolition of expensive office allowances for senior employees in the State Service contribute to structural efficiencies?

MR CHALLENGER: You're drawing a long bow, but yes.

PRESIDENT: He is also living very dangerously.

MR VINES: I have no further questions, Mr President.

PRESIDENT: Any further cross-examination?

MR WILLINGHAM: Mr President, I was just going to seek the indulgence of perhaps the Commission and all the parties and I think I could probably be through in about 5 minutes and we could stand Mr Challen down.

PRESIDENT: I think it would be a good idea so that we could release Mr Challen.

MR WILLINGHAM: Mr Challen, can I just ask you very quickly, in relation to a question put to by Mr Lennon when he was suggesting that the accuracy of the forecast for the previous year wasn't as great as it should be, in that we were out by about \$6 million, am I correct in saying that's \$6 million in 1.5-odd billion?

MR CHALLENGE: Yes, that's the order of magnitude.

MR WILLINGHAM: What does that percentage work out to? Error. What percentage of error ...

MR LENNON: 1.5% of wages for 12 months.

MR WILLINGHAM: What percentage of error is that?

MR CHALLENGE: It's .4 of 1%.

MR WILLINGHAM: .4 of 1%. Mm.

I was going to ask you a couple of questions. Much has been made by Mr Commissioner Gozzi as well as Mr Lennon and Mr Vines about TTLC.4 and your inability to, at this point in time, present a costing estimate on the value of TTLC.4. We won't at this time go to TTLC.3, but let me give you free rein, Mr Challen.

If I take the sick leave offset contained in the 'without prejudice' document, TTLC.4, what the TTLC has agreed to do is to acknowledge that the Government wishes to undertake a review of sick leave entitlements with the objective of ultimately

09.10.89 PRESIDENT - WILLINGHAM - CHALLENGE - LENNON
RXN - LENNON

MR WILLINGHAM: establishing common entitlement and accrual across the public sector work force.

And in terms of what the TTLC conceded, which is that it acknowledges that the Government wishes to undertake that review, what would you cost that at?

MR CHALLENGE: Zero.

MR WILLINGHAM: Thank you.

In terms of shift work, the TTLC has given their agreement to review the operation and incidence of shift work etc. What would you value that offset at?

MR CHALLENGE: Zero.

MR VINES: Withdraw our offer.

MR WILLINGHAM: We thought you had, Mr Vines.

Teachers: let me go to page 3. All of these are much the same. But teachers: the parties will participate in a review of resources and their management, etc. What would you cost the tangible value of that offset at?

MR LENNON: Be careful.

MR CHALLENGE: I would certainly give them something, Mr Willingham.

MR WILLINGHAM: Would you? How much?

MR : Oh, too much.

MR CHALLENGE: I think I'd probably buy them lunch.

MR : All of them?

MR WILLINGHAM: Well on the current State Service meal allowance, which we're seeking to abolish, that won't be very much.

MR : You've got an expensive office allowance though probably.

09.10.89 WILLINGHAM - CHALLENGE - RXN - VINES - LENNON

MR WILLINGHAM: Mr Challen, would you please take a ...

MR CHALLENGE: Am I allowed to answer interjections?

MR WILLINGHAM: No, they're disorderly.

Would you please take a few moments to examine that document so that you are able to at least locate those matters which the Trades and Labor Council has given positive undertakings ... positive undertakings which produce instant tangible outcomes, and tell me, please, if you are able to identify one such offer.

MR CHALLENGE: Proficiency allowances on page 1, I don't believe is worth anything in its present form. Obviously it may lead on to something of value.

MR WILLINGHAM: Please, Mr Challen, to save you time, don't actually answer them one by one. Just see if you can locate for me one tangible productivity or efficiency measure which is agreed in that document.

MR LENNON: Surprise surprise, none.

MR WILLINGHAM: Goodness gracious.

MR LENNON: I've just answered the question.

MR WILLINGHAM: No prompting the witness, Paul.

MR LENNON: As least you've got him reading it now, Clive.

MR WILLINGHAM: You may be interested, Mr Challen, in that aside from my colleague Mr Lennon that he sought to answer the question for you saying that there were none. If you're prepared to accept that prompt, we can close today's proceedings with the leave of the Commission.

MR CHALLENGE: Well I'd prefer to try and take your questions seriously, Mr Willingham.

On nurses certificate allowances and

09.10.89 WILLINGHAM - CHALLENGE - RXN - LENNON

MR CHALLENGE:

sick leave, I don't understand what underlies that so I can't comment.

In virtually all of the other cases, they're drafted in terms of agreement to review or an acknowledgement of something or other and until one sees the outcomes of those reviews or the processes, obviously they're worth nothing.

There are one or two areas in which, with the time you're giving me, I really haven't got a great deal of opportunity to think seriously about it. But I can't, at this moment, see any. It is possible that the one on contract employment might, but that is itself highly conjectural.

I should acknowledge that the State Service reorganisation has, undoubtedly, produced some savings. As I've already said in answers to questions from Mr Lennon, I can't quantify that, but I would have thought that the relevant point there is that the employees could hardly claim the State Service reorganisation as an efficiency saving that they have inspired. It's a management-inspired saving.

MR WILLINGHAM:

That's probably a matter of some conjecture that I'll maybe take up at another time.

MR CHALLENGE:

I do beg your pardon.

MR LENNON:

Might be best to move on, Clive, we'll see who does inspire it.

MR WILLINGHAM:

Thank you for your answers, Mr Challenge.

Thank you for your time, Mr President, I have no further questions.

09.10.89

WILLINGHAM - CHALLENGE - RXN - LENNON

PRESIDENT: You are excused again, Mr Challen.
MR CHALLEN: Thank you, Mr President.
PRESIDENT: We'll adjourn until 2.15 tomorrow.
HEARING ADJOURNED