

VERIFIED VERSION

PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

Inquiry into budget estimates 2012–13

Melbourne — 10 May 2012

Members

Mr N. Angus

Mr P. Davis

Ms J. Hennessy

Mr D. Morris

Mr D. O'Brien

Mr M. Pakula

Mr R. Scott

Chair: Mr P. Davis

Deputy Chair: Mr M. Pakula

Staff

Executive Officer: Ms V. Cheong

Witnesses

Mr R. Dalla-Riva, Minister for Employment and Industrial Relations,

Mr H. Ronaldson, Secretary,

Mr J. Hanney, Deputy Secretary, Trade and Industry Development,

Mr T. Sharard, Director, Private Sector Workplace Relations, and

Mr J. Strilakos, Chief Finance Officer, Department of Business and Innovation.

**Necessary corrections to be notified to
executive officer of committee**

The CHAIR — I commence this Public Accounts and Estimates Committee hearing on the 2012–13 budget estimates for the portfolios of employment and industrial relations, and manufacturing, exports and trade. On behalf of the committee I welcome the Honourable Richard Dalla-Riva, Minister for Employment and Industrial Relations and Minister for Manufacturing, Exports and Trade. From the Department of Business and Innovation I welcome Mr Howard Ronaldson, secretary; Mr Justin Hanney, deputy secretary, trade and industry development; Mr Tim Sharard, director, private sector workplace relations; and Mr Jim Strilakos, chief finance officer. Members of Parliament, departmental officers, members of the public and the media are also welcome.

In accordance with the guidelines for public hearings, I remind members of the public gallery that they cannot participate in any way in the committee's proceedings. Only officers of the PAEC secretariat are to approach PAEC members. Departmental officers, as requested by the minister or his chief of staff, can approach the table during the hearing to provide information to the minister by leave of myself as chairman. Written communication to witnesses can only be provided via officers of the PAEC secretariat. Members of the media are also requested to observe the guidelines for filming or recording proceedings in the Legislative Council Committee Room, and no more than two TV cameras are allowed at any one time in the allocated spaces. May I remind TV camera operators to remain focused only on the persons speaking and that the panning of the public gallery, committee members and witnesses is strictly prohibited. As previously advised to witnesses here today, I am pleased to announce that these hearings are being webcast live on the Parliament's website.

All evidence taken by this committee is taken under the provisions of the Parliamentary Committees Act, attracts parliamentary privilege and is protected from judicial review. However, any comments made outside the precincts of the hearing are not protected by parliamentary privilege. This committee has determined that there is no need for evidence to be sworn; however, witnesses are reminded that all questions must be answered in full with accuracy and truthfulness. Any persons found to be giving false or misleading evidence may be in contempt of Parliament and subject to penalty.

All evidence given today is being recorded. Witnesses will be provided with proof versions of the transcript to be verified and returned within two working days of this hearing. Unverified transcripts and PowerPoint presentations will be placed on the committee's website immediately following receipt, to be replaced by verified transcripts within five days of receipt.

Following a presentation by the minister, committee members will ask questions relating to the inquiry. Generally the procedure followed will be that relating to questions in the Legislative Assembly.

I ask that all mobile telephones be turned off.

I now call on the minister to give a brief presentation of no more than 10 minutes on the more complex financial and performance information that relates to the budget estimates for the employment and industrial relations portfolio.

Mr DALLA-RIVA — Thanks, Chair, and I welcome committee members as well. As Minister for Employment and Industrial Relations I have acknowledged on many occasions the difficult challenges facing Victorian industry, particularly in the retail and manufacturing sectors. Victoria is not a resource state and faces substantial pressures from the continuing economic and investment uncertainty generated by the strong dollar, falling consumer confidence and economic volatility internationally, yet I am extremely proud to report that Victorian industry has demonstrated great fortitude and resilience in the midst of these multiple challenges.

In the 2012–13 budget the coalition government in Victoria commits to standing by our business enterprises and doing all in our power to help secure, strengthen and expand industry in this state and to get business in Victoria in a stronger position to compete successfully not only in our own markets but also globally. The coalition government is committed to engaging closely with business on new approaches to generate investment and high-value jobs. For example, we have conducted the most rigorous and detailed review anywhere in the country of the state of the manufacturing sector and have identified some key policy priorities to reinvigorate these industries and to make them more productive and competitive. We have also heavily engaged in locating new growth markets for goods and services globally and offering practical support to ensure Victorian business is aware of the opportunities and is then equally equipped to compete in those markets. We feel with commitment, vision and confidence we can secure this state's prosperity and produce the jobs and opportunities

we need for the future, but none of this can happen without raising our workforce productivity and also boosting business competitiveness.

In the 1990s Victoria's productivity growth exceeded the national average, and since 2000 it has fallen below the national average. We need to reverse that position. Lifting productivity and competitiveness are vital for this state and its people to have the economic opportunities they need for a prosperous future. Our aim in the coalition will always be to improve the business environment rather than to hamper or constrain our wealth generators. The Department of Business and Innovation is implementing a new business engagement model, bringing a significant step up in the scale and effectiveness of government's relationship with industry. As has been noted, this budget commits more than \$100 million to two key initiatives: a new strategy to revitalise manufacturing in this state; and a strategy to lift our international engagement so we can assist those businesses in Victoria to find and build new growth markets.

We will continue to be proactive and energetic in our pro-business agenda, because that is what generates investment and real jobs. Yet we must also be vigilant about, for Victoria, the consequences of some of the policy choices nationally which can impact directly and disproportionately on economic conditions here in Victoria. First, we must do all we can to ensure that Victoria is not disadvantaged by the impact of federal workplace laws on our productivity and competitiveness.

As committee members will know Victoria ceded most of its industrial relations powers to the commonwealth in 1996. Since 2009, therefore, workplaces in Victoria have been subject to the operations of the Fair Work Act 2009. The current economic headwinds represent the first test of that act. Business is saying that the laws need reappraisal. I think employees are coming to recognise that there is a need for a change too. To give you one example, Chair, the Australian Bureau of Statistics reported in the September quarter 2011 that there was the highest level of industrial disputes since 2004, and for the year to September there were 50 per cent more days lost to industrial action than over the previous year. I think what this demonstrates is that the Fair Work Act has failed, especially to deliver on Labor's claims it would reduce the frequency of industrial unrest.

We in the coalition government will support reforms in order to improve productivity in this state, but we are not going to support policies that take the state backwards. As many members would be aware, the government supported the case of the national retailers before Fair Work Australia for greater flexibility in after-school work by students — the so-called minimum shifts case. The case succeeded, and the award variation came into effect on 1 October last year. However, this decision was subsequently appealed to the Federal Court by the retail union, and the Victorian government intervened to oppose the union's application. The application was heard on 1 February, and the court has reserved its decision.

Likewise the Victorian government has supported the Bendigo TAFE in an important test case before the High Court on the general protections offered by the Fair Work Act, and in particular the protections conferred on union officials in the workplace against so-called adverse action by employers. The business community has expressed concern about the potential impact of the Federal Court's decision in the Barclay case on an employer's right to take disciplinary action against employees who also perform union activities. The Victorian government funded the obtaining of legal advice for the Bendigo TAFE as the employer in this case, and the High Court heard the appeal on 29 March and has reserved its decision.

Also at the ministerial council of workplace relations ministers in Sydney last year I raised the particular low issue and priority given to productivity in the federal government's approach to its industrial relations framework, and I followed up that correspondence with the then federal minister responsible for workplace law, Senator Evans.

As I have said, all we in Victoria and the Victorian coalition government are seeking is a more balanced, common-sense approach to workplace relations, and that is the approach that we have adopted in our submission to the commonwealth's long-delayed review of the Fair Work Act. Our submission focused very much on the failings of the act to promote productivity and workplace flexibility, which of course is the fundamental imperative facing the Victorian economy today. We believe there is ample scope for reasonable amendments to the act without undermining the safety net guarantees of minimum terms and conditions.

The key concerns in summary are these: flexibility terms in modern awards and EBAs are too rigid, and award flexibility is particularly crucial for small business because EBAs are impractical for many of them, especially

given the act has made negotiating EBAs more difficult. In particular business is troubled by the clauses that regulate the engagement of contractors and labour-hire employees. They complain, rightly, that arrangements for greenfields agreements are encouraging excessive union claims and that good-faith bargaining clauses make negotiations more complex without delivering any meaningful benefits. Also, it is undeniable that the Fair Work Act is proving ineffective in dealing with pattern bargaining. More broadly transfer-of-business provisions are imposing severe constraints on the capacity of businesses to manage.

The net effect of all this is that the new bargaining framework and the rules governing industrial action have contributed to a deteriorating industrial relations climate. We have to get the balance right, because it is evident that industrial campaigns by some unions are creating pressures for real wage increases that are simply unsustainable across the economy. We are not likely to see the commonwealth acceding to any of this, but we fully intend to hold them accountable for the impact that their legislation has on hampering productive workplaces in this state. Unless they take the head of feedback from industry, there will be an adverse ongoing impact on productivity and business competitiveness in Victoria, and ultimately that would mean fewer jobs for Victorians.

The CHAIR — Thank you, Minister. The remaining time until 3.30 — nearly 50 minutes — will be dedicated to questions on the employment and industrial relations portfolio. Minister, given the key growth and efficiency initiatives announced in the budget, can you please outline for the committee the likely impact of the budget on enhancing service delivery, promoting productivity and achieving efficiency gains within your portfolio? In your response could you also indicate how you intend to monitor the portfolio's effectiveness in maximising improvements in these areas?

Mr DALLA-RIVA — Thank you, Chair. The government is committed to working with individual enterprises to lift competitiveness and productivity. The new Victorian international engagement strategy optimises the government's international engagement by coordinating more efficiently a number of commitments, including our skilled and business migration program and employment start-up. The program has been focused so that it directly addresses industry's needs for highly skilled workers that cannot be filled locally.

Our manufacturing strategy also recognises that there are negative impacts of retrenchments on affected individuals as well as state productivity. We have provided \$3 million over four years for the new Managing Transitions for Retrenched Workers initiative. The government will establish a response team that can be despatched to work proactively with businesses facing retrenchment of staff in Victoria, particularly in regional areas. We will also continue to advocate for workplace laws that promote productive and flexible workplaces as well as engage with business and the broader community to reduce the regulatory burden on businesses — for example, through the establishment of a national long service leave standard. These initiatives and activities will help industry to meet the challenges of an increasingly competitive and rapidly changing environment, as I indicated before.

By efficiently addressing skills gaps, our skilled and business migration program helps to minimise productivity losses to employers. Through the managing transition for retrenched workers program our early intervention to support timely transition of retrenched workers to new work options will reduce the negative impact of retrenchments on the individual and the community as well as help increase productivity for new employers by helping to fill skills gaps.

An initiative such as the national long service leave standard will reduce complexity and regulatory burden without increasing costs for employers or reducing benefits for employees. The implementation of these initiatives will be subject to the department's evaluation and monitoring framework, which will ensure that all initiatives are designed through sound logic and appropriate performance monitoring and evaluation strategies that are in place.

The CHAIR — Very briefly, could you please inform the committee what you consider will be the likely impact on industry and community stakeholders in your portfolio of these initiatives?

Mr DALLA-RIVA — The likely impact will be, of course, to promote productivity in the workplace. The likely impact will be to ensure that we can actually address the needs of the industry and, by addressing the needs of the industry, we can promote jobs into that industry. If I can give you one example, the economic

benefits of having a sustainable manufacturing industry — through the reports we have found that for every manufacturing job it would generate five additional jobs supported through other support mechanisms.

The other one that was of most interest through the research was that for every dollar invested in manufacturing there was a net economic benefit of \$3.62 into the local community; in other words, that \$3.62 churns around 3.62 times. There were some good examples of the net economic benefits to communities by having these strategies in place.

Mr PAKULA — I just want to refer to your presentation. You made reference to the productivity measurements through the 90s and through the first decade of this century. You also talked about the commonwealth and whether or not they were giving a high enough priority to improving productivity. I have looked through the performance measures in the budget for the Department of Business and Innovation in budget paper 3. I do not see a performance measure or a target for productivity improvement. Can you tell me if there is one and, if there is, what the target is?

Mr DALLA-RIVA — We have always said that with an increase in productivity there is a greater opportunity for investment in this state. You might recall last year I produced a report, and I am happy to hand it out again —

Mr PAKULA — No, I just want to know what the target is; what your target is for productivity improvement.

Mr DALLA-RIVA — As I said, if you look at the productivity targets in the 90s, productivity was 2.8 per cent. In the 2000s it was 8.7 per cent, so there was clearly an increase in labour productivity performance by the state in that period — 2.8 per cent against 8.7 per cent. If you look at the chart, which I am happy to provide and which we provided last year, you will see that we were above the national average in the 1990s; we were below the national average in the 2000s. What that demonstrated is that we were relying on population growth for productivity improvement, and what we are saying now is that we need to ensure that with the changing way that the Australian dollar has gone, with the relatively high interest rates and the global competition, if we do not support industry to improve productivity then we are not going to be in a position to ensure that those companies are able to generate jobs and provide investment.

I will give you an example. In the recent super trade mission to India, Mr Pakula, we saw the productivity of some of the companies that are operating in India. Maruti Suzuki were producing, and I am sure you would have seen this as industry minister, a Swift motor vehicle every 12 seconds. We also went to Motherson Sumi. They have Six Sigma, and I have mentioned this in Parliament. They were able to produce a 99 per cent performance —

Mr Scott interjected.

Mr DALLA-RIVA — It is a measure of performance for productivity and for ensuring there are minimal defects in the supply chain. Maruti Suzuki had a 100 per cent success rate under Six Sigma for three years. What that means is that our competitiveness — to be productive — is being challenged by what is occurring around the world.

My focus and the focus of the government — and, dare I say, it is one of the four pillars of the state government's initiatives — is to ensure that we have an increase in productivity. Not only do we have a budget surplus — a AAA credit rating — not only do we support export markets, not only do we assist industries in transition, but we also have a focus on productivity improvement, and we have been doing that through various mechanisms. The productivity improvements, as you would be aware through the manufacturing statement, are about improving productivity and competitiveness in our manufacturing sector, and that is very important.

Mr PAKULA — Just to follow up, I take from your answer — you were focused on the fact that we were above the national average in the 90s and we were below the national average afterwards. It seems to me that your goal is to be better than the national average for productivity. Can you tell me what the national average is?

Mr DALLA-RIVA — We are below the national average.

Mr PAKULA — What is the national average?

Mr DALLA-RIVA — I can get that detail. I am sure Jim Strilakos might be able to provide that. If not, we can get it.

Mr PAKULA — It is pretty hard to be above something if you do not know what you are trying to get above.

Mr SCOTT — It is one of your pillars.

Mr PAKULA — It is off a low base with you blokes; that is for sure.

The CHAIR — I call on the secretary of the department.

Mr RONALDSON — Mr Pakula — —

Mr PAKULA — Howard. How are you?

Mr RONALDSON — The performance measures generally move away from macroeconomic totals. I think it is just unrealistic to state total macroeconomic totals in the context of — important as the department's work is — to really move these totals around. So no longer do we have total exports, total workforce figures and, indeed, total changes in productivity, which is the sum of all costs in the state compared to all outputs. I just think — —

Mr PAKULA — It is a good definition.

Mr RONALDSON — We can debate that too. I think that for a department to do specific activities on behalf of a minister or ministers and then, generally speaking, reflect against broad macroeconomic totals is not a particularly productive exercise. That is why, generally speaking, the performance measures there are directly related to the activities that the department does directly, and indirectly to some other activities. There are perhaps two or three things that the minister has mentioned already that a state government can do in terms of improving productivity at a state level. Red tape is one, and that is a very difficult row to hoe, but nevertheless that is true. Better access to infrastructure would be the second. The third one that the minister has talked about at some length is the degree to which skills are readily available to industry.

We can help grow markets as well, but those are the three key activities that a state government can undertake to improve productivity, which with the new engagement model, hopefully the department will pursue. It is a different question, as I said, as to whether you would then report on total productivity performance of the state, which is a macro total and very difficult to shift around.

Mr MORRIS — Minister, continuing this conversation, can I refer you to budget paper 2, page 25, which identifies productivity growth as the key driver of long-term economic prosperity and improved living standards. I am wondering: can you inform the committee how the government intends to promote greater productivity as a fundamental objective of its broadbased economic reform strategy?

The CHAIR — Perhaps the minister might be able to add to his previous answer now.

Mr DALLA-RIVA — Oh, no, it is an important part, because there was a document which was referenced. I might just say that the labour productivity for 2007–08 to 2010–11 in Australia was about 0.6; Victoria for the same period was -0.01, so clearly we were behind what was occurring in Australia. If you take in the multifactor productivity measure, which incorporates both labour and capital inputs, you will see that in fact the Australian multifactor productivity in the 90s was around 3 per cent — average annual percentage change, 3 per cent — in 99–2004 it was 1 per cent; but in the 2000s, 03–08, it was about -0.5; and if you take the last three years, 08–11, it was about -0.9. So clearly there was a need in our commitment, and in the budget there has been a commitment by the department to improve productivity for industry.

As I have said, industry is going through some difficult challenges, and relying on population growth itself is not going to be able to improve productivity performance. So we are ensuring that we are looking at businesses to be proactive and to be innovative. We are looking at them to be more global in outlook. As you know, one of the pillars that the Premier has outlined is ensuring that we have accessibility to new and expanding markets. In terms of how we are articulating that, at budget paper 2, page 25, there is a range of those productivity improvements. They are, I guess you could say, at the macro level, what the Treasurer is achieving.

What we are doing at the department level is trying to improve productivity through innovations like the manufacturing strategy but also with the improved connection that we are having through the business engagement model. Again, this is a totally separate model from what has previously been applied. It applies with the smaller number of programs that we are offering — five programs, which I am happy to outline later in our manufacturing portfolio session. Again, that is about generating productivity improvements throughout Victoria.

We have also been very proactive in demonstrating our commitment to ensuring that we have a stable workforce and that we have an environment where industrial unrest is not front and centre. We were very strong in our commitment for retention of the ABCC. We believe that the removal of that and the overrepresentation of ABCC prosecutions in Victoria for unlawful behaviour demonstrates the need for that to be strong here. But that, of course, has now changed, and we have now implemented our guidelines to the Victorian code of practice for the building and construction industry to ensure that we are able to keep the industry in some form of check.

We have also had the Victorian Competition and Efficiency Commission report on how companies could overcome market barriers so as to increase their competitiveness and productivity. Overall, we recognise there are challenges, but we believe that we have got the right policy framework at a macro level but also at a department level to ensure that we are able to lift productivity and able to meet all the challenges that are confronting Victoria.

Mr SCOTT — Minister, I refer you to budget paper 3, page 88, and the output summary heading ‘Employment and industrial relations’, with which you should be familiar.

Mr DALLA-RIVA — Yes.

Mr SCOTT — I note that it shows a cut of, I think, 14.9 per cent for that item. In the footnote it seems to give the reason for the reduction being due to ‘the completion of various employment programs’. Could you specify which employment programs have ceased or been cut, reduced or lapsed, whichever way you want to put it?

Mr DALLA-RIVA — There is a range of programs that were not continued; they lapsed. I think we had this discussion last year about certain programs that were not continually funded, and of course I have a list of those. I think it is important to put on the record that we have changed the way that we have dealt with our employment programs. I indicated before we are having now a stronger business engagement model program where there is a one-on-one relationship. We also made it very clear that we have changed our approach to employment and industrial relations programs such that we are able to target better organisations and individuals so that they actually get a better result.

The decrease of \$3.3 million in the employment and industrial relations output costs from the 2011–12 expected outcome to the 2012–13 outcome is made up of the following: there was an increase of \$1 million dollars in the 2012–13 target, that being the \$1 million which is outlined in the new funding in 2012–13 for managing transition for retrenched workers program, which I mentioned earlier. These have been offset by a range of areas — that is, for example, a \$0.2 million saving on procurement contractors and consultants savings.

There has also been a \$0.4 million saving from a machinery of government transfer of JobWatch to the Department of Justice, and there has also been a \$0.4 million decrease by lapsing and/or annual variations to the programs.

The following programs have lapsed in the last 12 months — there is a range, and I am happy to provide that to the committee after this meeting.

The CHAIR — Thank you. We will take that part of the question on notice.

Mr SCOTT — By way of follow-up — and this relates to the material, perhaps, that you will provide to the committee after the meeting — could we have dollar figures associated with those programs?

The CHAIR — Fine. The minister has the question and will be following up in writing.

Mr ANGUS — Minister, I refer you to budget paper 2, page 17, where it notes a softening labour market and also projects that unemployment over the medium term will ease back to around 5 per cent. Minister, can you advise the committee what policies the government is adopting to promote business investment, help our industries to become more competitive and thereby generate job opportunities?

Mr DALLA-RIVA — As I have acknowledged today and many times before, there are difficult challenges facing the Victorian industry in the current economic climate. There is a softening demand. There is the high Australian dollar and relatively high interest rates. There is no doubt businesses are feeling the pinch in the current economic climate, and as I have indicated before, there are the challenges facing manufacturing in particular and also retail as well.

In that context, I can report to the committee the Australian Bureau of Statistics labour force data for April, which was released today. Perhaps that is a good move into the question asked. I think the figures released today say a lot about the strength and the resilience of the Victorian industry in the face of multiple challenges across Australia and across the globe. Today's ABS labour force data for Victoria for the month of April showed that the number of Victorians employed rose by 23 200. The number of unemployed fell by 15 600, and the unemployment rate in this state fell by 0.5 per cent. These figures are reasonable, given that there has been an increase in the participation rate and there has also been an increase in the aggregate monthly hours worked.

The jobs growth of 23 200 is the highest for any state. The only other two states that recorded a positive growth were the resource states of Western Australia and Queensland. The figures also show that there are now a total of 2.88 million Victorians in work. These are the second highest employment numbers in the state's history, and it is 20 000 more jobs than the best ever achieved under the former government. In our view these figures reinforce our confidence in the capacity of the Victorian industry to stand strong and face the current economic headwinds.

The high Australian dollar is hurting — there is no doubt. Business lending rates in Australia are also higher than overseas. We know, and I indicated in my initial presentation, that the workplace laws are not helping efforts to lift productivity or indeed flexibility, and we have a federal government, in my view, with its latest budget that has abandoned any pretence of it being a pro-business agenda. On top of that we have what I would call the biggest jobs killer approaching us, and that is the carbon tax. But even in this tough environment Victoria is holding up. As I said, total employment in Victoria rose by 23 200 in April against a net rise of only 15 500 nationally. This was the strongest jobs creation of any state, and I think it is important to put on the record that it also brings the jobs created over the last two months to 34 300 — more than two-thirds of the jobs generated nationally in the past two months. Victoria is now second only to Western Australia in jobs created over the past year.

To put it in some perspective I think it is important to see where our share of national employment in April has us. We are 25.1 per cent. That is above the 10-year average share of 24.9 per cent. Victoria's workforce-to-population ratio was 62 per cent — again above the 10-year average. Aggregate monthly hours worked increased, and that shows a demonstration of increased production and a turning of the wheel, I guess it were, in terms of seeing some hope, with the 0.05 per cent. The participation rate, which is often a telling point, was 65.4 per cent, and that is above the 10-year average of 64.6 per cent. Youth unemployment fell sharply to 17.6 per cent from 23.3 per cent in March.

As I said, much can be said about the doom and gloom about certain industries, and I do not think this has been supported by the data. If you look at the most recent quarterly ABS labour force data in February, in fact it showed that manufacturing employment had risen by 2200 in Victoria over the previous 12 months. None of this means that we do not face ongoing challenges. We recognise that. I have outlined that many times, but we believe we have the right policy framework. We believe this budget sets the right policy framework for generating real jobs and providing real investment in this state into the future.

Ms HENNESSY — Minister, you would be aware today that there has been an announcement about 300 workers across Victoria from Murray Goulburn who will no longer have a job. Just a little over a month ago the managing director of Murray Goulburn stated in respect of the port licence fee that that would cost the company about \$600 000 a year, and I was just wanting to know what your view was or whether or not you accept the proposition that additional state charges such as the port licence fee would have a negative impact on jobs in this state?

Mr DALLA-RIVA — I thank Ms Hennessy for her question. I understand Murray Goulburn has announced a further restructuring of its operations, and I am advised that there will be an additional 227 redundancies beyond those indicated by the company previously this year. It is always disappointing and distressing for the workers involved and their families. I understand many of the reductions are at head office in Melbourne, but there will also be an impact of around 10 to 12 per cent in job reductions at plants in regional Victoria. In terms of the company, my understanding is that the company said it has a stated aim of reducing business costs by \$100 million.

I will leave it to the company to explain why it sees this action as necessary, but I think everyone around this table would recognise that perhaps of all the industries in which you might suggest there is less stress, one would be the dairy industry. It seems at odds, given, as we all know — both country members and members who have previously been in this position — that it is one of those areas that has huge growth potential in the emerging markets.

We have just come back from India, and there is enormous growth potential for dairy imports. There is also enormous growth potential in China. There are enormous opportunities in the Middle East, and we saw that recently, and I think Minister Asher may have mentioned that. It was certainly reported today about the opportunities for dairy exports into the Middle East, and in the next couple of days I will be proud to be undertaking a similar effort to build our dairy exports in the major East Asian markets like South Korea. I am up-front about us going because I think it is important. It is one of the key objectives — to engage.

But I am somewhat perplexed by it because I think there are great opportunities for expansion. We have made efforts to improve the port — there were announcements on the port improving. There are announcements about improving infrastructure. If there was one announcement that shocked me, it would probably have been the announcement, because I see that as perhaps not in the best interests of the future growth opportunities for exports in Victoria. Again, it is a company decision, but we are working as hard as we can and I hope we are able to ensure that there is an uptake in other companies that perhaps see that market as being a growth potential rather than a place for cost cutting.

Ms HENNESSY — Briefly, Minister, by way of follow up, has DPI done any modelling on the impact specifically on jobs of state charges?

Mr DALLA-RIVA — I would have to defer to Mr Ronaldson.

Mr RONALDSON — Which charges in particular?

Ms HENNESSY — Has there been an assessment of state charges and their impact on jobs, but particularly this ports one?

Mr RONALDSON — Not the ports one, no, we have not.

Mr O'BRIEN — In budget paper 3, page 90, one of the output measures listed there, for which there was a 100 per cent target in 2011–12 and 100 per cent reached in that financial year, was in the nature of representation of the state of Victoria in major industrial relations cases. Minister: can you indicate to the committee the nature of the representations before Fair Work Australia or other courts and tribunals that are included in this important performance measure?

Mr DALLA-RIVA — I thank the member for the question, and as I said before, what we have sought in industrial relations in this state is to have a balanced, common-sense approach to workplace relations. We see it as important in terms of providing productivity and competitiveness, and we also see it as important in terms of ensuring that flexibility is made available to companies where they are finding difficulties in the current economic climate.

We have, as I indicated in my initial presentation, been very active and supportive of industry and supportive of ensuring that that balanced approach is maintained. A couple of examples that I guess we have worked on over the previous period: the minimum shifts case — I mentioned that earlier. Why did we do it? Ten point eight per cent of Victoria's workforce is in retail, and in the financial year 2010–11 the retail industry contributed about \$15.1 billion to the Victorian economy. The December 2011 Productivity Commission inquiry report, titled

Economic Structure and Performance of the Australian Retail Industry — which I must say unfortunately was ignored once it was released — did speak about the Fair Work Act's negative impact upon business.

The Productivity Commission found that wages were growing faster than the price of goods sold by retailers. It also noted that there was a cost of compliance with Labor's Fair Work Act, and that had increased. It noted at page XIV that:

Workplace relations regulations may not provide sufficient workplace flexibility to facilitate the adoption of best practice productivity measures in the retail industry ...

So it was no surprise that government assisted in intervening with the National Retailers Association case regarding minimum shifts. We did not believe that the modern award system should be making it more difficult for secondary school students to find after-school work, nor should we be discouraging employers from employing young people after school. In the report and the submission we made to not only Fair Work Australia but also the Federal Court it was demonstrated that the more you get young people into work at an earlier stage, the greater the prospects of them remaining in gainful employment for the remainder of their life. That was part of the submission that we put forward.

I must say that we succeeded in the case with the NRA and the award variation came into effect on 1 October. We had to subsequently argue on appeal, as the decision was appealed by the retail union, and we intervened to oppose the union's application, and as I said, the court has reserved its decision. We have also been involved in what has now become a High Court decision in the Barclay versus Bendigo TAFE case, and I outlined the issue earlier about the adverse action claim. We believe there is great confusion in relation to that particular matter. We provided funding to support the Bendigo TAFE, and we continue to provide that support all the way through the court system. It is now being heard at the High Court of Australia and it will be the test case to determine what 'adverse action' means.

But I do make the point that we did pursue that because we believed that was in the best interests of employers in this state to ensure that they had capability and flexibility in dealing with some very difficult economic conditions.

Mr PAKULA — I am glad, Minister, that you have been talking about the government's submissions. I am also interested in the submission to FWA's annual wage review. I know I do not need to quote you the entire submission, because it is your submission so you will know what is in it, but in part you said:

While the Victorian government considers that minimum wages should provide for a decent standard of living, regard must also be had for those outside of paid employment. The level of minimum wages must not become a barrier to gaining employment, particularly for traditionally disadvantaged groups ...

The government's CPI projection is 2.75. Is the impact of your submission to FWA that the Victorian government's view is that there should be no pay rise for vulnerable workers or the lowest paid workers this year, or is it for something above zero? And if so, what is the government's position in terms of what the rise ought to be?

Mr DALLA-RIVA — In terms of the government's submission, and I do thank the member for the question, do I remember every line of every submission? I would like to think I do, but there is the odd occasion. We have urged Fair Work Australia to exercise caution when determining the changes to minimum wages. We have said it in the face slowing national growth, and we have also said it in the context of the unstable international economic climate. Our submission to the annual wage review has called for a balance between the fair safety net of minimum wages, employment opportunities for all Victorians and the needs of Victorian businesses.

The Victorian economy is expected to grow more moderately in 2013, as indicated in the budget paper, which is consistent with the sluggish international economic climate and a slowing of national growth. Subdued household activity has affected industry, in particular retail and wholesale trade, but it also has an impact on manufacturing and construction, as we have seen. Whilst mining is performing strongly, key Victorian export industries such as manufacturing, tourism and international education are certainly being challenged by the high Australian dollar. We also believe that the carbon tax will be an additional drag on real gross state product growth and will contribute to higher inflation. While the government considers that minimum wages should provide for a decent standard of living, they must not become a barrier to employment. Productivity

improvements underpin the economic prosperity of all Victorians. A sustainable safety net must encourage bargaining between employers and employees that rewards flexibility and productive work practices.

Mr PAKULA — So you are not prepared to nominate a number, but I will take you up on the other thing that you mentioned, Minister. You talked, both in the last answer and in that response, about retail wages. I am just trying to understand. You talked about retail wages rising faster than receipts, but you also talked about the case you intervened in with regard to school kids and minimum casual hours. Is your issue with the retail sector only that one? Is it only about the minimum number of hours for casuals, or is the issue in your view that retail wages are too high generally?

Mr DALLA-RIVA — The minimum shift case was of course a specific case that was raised by the National Retailers Association, and we saw that as important in terms of offering flexibility for employers. All the evidence that was presented to me as minister was that it seemed a fair and balanced approach to offering after-school work to children, so I thought that was appropriate. In terms of our submission, all I say is that we have cautioned the FWA to be aware of any adjustment to minimum wages, bearing in mind the economic and labour market conditions and forecasts. The forecasts are outlined here, and I think if you looked at the federal budget, they would also indicate a softening approach.

The CHAIR — Minister, in a sense I follow on a little. I refer the minister to BP 2, page 17, and the commentary on economic indicators and the reference to the circumstances that have led to the current labour market conditions in Victoria. Can the minister advise the committee on factors that are likely to have an impact on the jobs market in the year ahead?

Mr DALLA-RIVA — I keep on saying this, but it is having an impact. When the Australian dollar is at 80, 85 cents or even 90 cents to the US dollar it is a lot easier for industry to compete on the export markets and indeed in domestic markets than when the Australian dollar is above parity. It means that the challenge for industry to compete on the export markets is very high and very difficult, but it also means the imports essentially just sail in, and it puts great pressure on those industries.

The high Australian dollar coupled with a relatively high interest rate means it is more difficult for us as a government to apply the four key objectives as outlined by the Premier and Treasurer in their report. That economic reform, which is outlined on page 23, talks about the different areas. It is interesting to note that trying to improve, trying to get a positive budget position and trying to get improvement in productivity is made difficult when you see macro-economic issues impacting on the state economy. Whilst we have limited capacity to vary that, we can of course do what we have done with the economic reform, what we have done with the manufacturing strategy, what we have done with the international engagement strategy and so forth.

The Australian economy is still performing strongly relative to many of our trading partners. Domestically, though, lending rates to small business currently hover around 8 per cent to 6 per cent to large businesses. If you look at the euro zone, it is 1 per cent, and in Britain it is about 0.5 per cent. So we have a real price differentiation between cash rates and what is available for businesses to borrow against. I also note of course the interest rates. We welcome the Reserve Bank of Australia's decision to drop the official cash rate by 0.5 per cent, and we anticipate that the easing of the monetary policy will at least have some relief for our businesses.

There is one thing that does raise concerns, obviously, whether it is here in Melbourne or whether it is in the regional centres. We were up at Ballarat last week and we were at Geelong yesterday, and we get the message quite loud and clear, and that is the two issues that they have much concern with, and that is the challenges facing them in terms of dealing with the workplace relations issues. They find it difficult to bring in flexibility at a time when there are great challenges in a more global sense. They have also raised many times the issue of the impact of the carbon tax, and it is not only the impact, it is the uncertainty that it brings in terms of the long-term strategic planning that a lot of these companies need to do. I think they are some of the areas that are confronting us.

Mr SCOTT — Minister, could I refer you to budget paper 3, page 11. At the top of that page there is reference to — you have referenced this yourself in your performance here today — ‘Managing transition for retrenched workers’, and there is \$3 million over four years. I note on the subsequent page, page 12, there is a description of the function that is to be performed by that output, which is to ‘help reduce the adverse impact of retrenchments, particularly in regional communities, by establishing a response team to provide early

information and support to retrenched workers'. Could I just ask: how much funding has been budgeted per retrenched worker as part of this scheme?

Mr DALLA-RIVA — As I have said before, the volatility in global markets coupled with the high Australian dollar has put business under stress, and we are seeing an impact on employment. Nobody would deny that. This government recognises the challenges faced by industries in transition, and it was one of the four pillars — 'supporting industries and employees in transition by providing support services and encouraging retraining'. This is outlined in budget paper 2, on page 23, as well. It is also in more detail on page 33 under 'Supporting industries and employees in transition'. The 2012–13 budget commits funding for the managing transition for retrenched workers initiative. The initiative will provide early, proactive and coordinated information and referral services to workers facing retrenchment. The Department of Business and Innovation will work with businesses that are restructuring their operations and reducing their workforces. We will work to ensure that those affected employees have access to financial counselling and advice on alternative employment options. As I said, these programs are referred to in detail on page 33.

I might add that this budget, through other departments, provides for a range of specialised counselling and support services, including Money Help, a free service that provides independent and confidential financial advice to Victorians struggling to pay their mortgage or rent, or facing job losses. There is also additional investment through Minister Hall's higher education and skills portfolio, called the Workers in Transition program, which provides funding support for the retraining of workers to enable them to take up opportunities in more highly skilled roles.

As a government, we will be working hard to mitigate the consequences of tough economic conditions for some industries. We will be working hard to generate new investment opportunities to build on our economic strengths and provide high-value jobs. In this financial year to date, the Baillieu government has helped to facilitate 110 investment projects valued at over \$1.6 billion, and this is expected to generate over 6200 new Victorian jobs. There are examples of new jobs that have been provided, and I think what it demonstrates is that there is growth, and I indicated that earlier with the recent ABS labour force data.

In terms of some of the areas, if I can give you an example, only last Friday I visited the MaxiTRANS operation in Ballarat. The company put on 120 new jobs in just five months, and they have been working behind the scenes to just get on with the job and try to fill all the orders they have got. Whilst there are significant stresses in the system at present, Victorian industry is proving itself strong and resilient. As Ms Hennessy indicated earlier with Murray Goulburn, there are some industries that you would look at and say, 'That would seem rather odd given the economic growth in some of those markets'.

What we are doing of course is making sure that we are working as hard as we can. We are aware of the carbon tax. I must say there have been some recent announcements. For example, the Morwell briquette factory, Industrial Energy Pty Ltd, issued a statement last week warning that under a carbon tax the business would be unviable and the future of the plant hangs in the balance, and the closure of just that one plant would cost 200 jobs in the Latrobe Valley. Of course if you are asking how much per worker, obviously the dollars will be based on the complexity of the closure. It will depend on the factors such as the skills requirement. It will depend on what other initiatives have been provided by the company. Sometimes a company will have a certain redundancy package as part of that retrenchment.

What I think is important to understand is that we are trying to ensure that we meet with businesses. With the business engagement model that we have put in place, the idea is to actually have engagement with as many businesses as we can to identify any of the risk factors that may precede any subsequent job closures. That is what the intention will be for the first point, and obviously, if it gets to that next level then we do have sufficient money, in my view, with the business development managers to work through those programs in addition to the funding that is provided here.

Mr SCOTT — Just quickly, and I would hope you would be able to answer this because it appears to be the only output under employment and industrial relations, can you identify how many staff will be employed in this area?

Mr DALLA-RIVA — I am happy to talk about our business engagement model. We have doubled the number of people who are — —

Mr SCOTT — No, the output, just the output.

Mr DALLA-RIVA — Yes, I am just telling you how it works. Your model was this. This is our model, and our model is about having more business engagement. The business engagement model is departmental staff who are out at the coalface meeting industry. I will talk about it in the next section, but they have a KPI which they need to meet in terms of meeting individual businesses, so they are the eyes and ears on the ground listening to — —

Members interjecting.

Mr DALLA-RIVA — It is important that you understand this because we are not going to sit by and wait for companies to close. What we are trying to do is to be proactive. Unfortunately there are some companies that I have experienced, and I am sure Mr Pakula experienced in his position, that have made those announcements without perhaps giving an opportunity. What we are trying to do is to identify those before they become an issue. If we can identify those, then we will have engaged the business development managers. However, if there are uncertainties about some businesses closing, then we will have that capacity. I might also add, and you will note in terms of budget paper 3, page 90, ‘Businesses assisted with skills needs’, we put that new measure in to try and skill up as many companies as we can, again so they are not caught short with low productivity and low opportunities.

The CHAIR — Thank you, Minister. We are out of time for this session. I thank Mr Sharard for his attendance. Before we go to the next portfolio, I will call a 2-minute adjournment just so people can reorganise.

Witnesses withdrew.