Tax & Super Australia

The Taxpayers Research Foundation Limited

2019

Tax & Super Australia – 1919-2019
100 Years of Serving Taxpayers

Special Centenary Publication: Government Waste

Introducing the Galah Awards

CONTENTS

TSA are proudly presenting the inaugural Galah Awards for the most wasteful expenditure programs by governments in Australia. Galahs are pink and grey raucous parrots but as the Australian Museum once provided on its website "we call people galahs if they are acting silly or do something foolish".

These nominations for the Galah Awards are clear examples of what foolish things governments can do.

Introduction

Taxpayers Australia Limited known as Tax & Super Australia is one of Australia's oldest and long standing representative professional bodies, formed over one hundred years ago.

Taxpayers Australia is also one of the founding members of the World Taxpayers Associations (WTA).

Our humble beginnings date back to May 1919, approximately six months after the cessation of World War 1, when a group of businessmen decided to form an Association in Melbourne, then Australia's capital city and the home of the Federal Government.

The Association was created to primarily hold the Commonwealth Government to its word for repealing its "temporary taxes" including a temporary income tax that were being imposed on the Australian citizens to fund the World War 1 initiatives. Notwithstanding the Commonwealth Government's backflip over this issue, the Association came into being.

Initially named as the "The Taxpayers' and Property Owners' Association of Victoria" the Association's purpose later shifted to becoming the voice for ordinary taxpayers. The Association's catchcry was to explain complex tax law in plain English so that ordinary taxpayers could understand their rights and obligations concerning all federal and state taxes. The organisation to this day prides itself on its expertise and the ability to explain complex tax and superannuation laws in plain English.

During late 1920s to mid-1930s similar Associations sprung up in other states adopting a similar naming convention representing their State i.e., "Taxpayers Association of NSW", "Taxpayers Association of Queensland" etc. Concurrently, Regional Branches in each State were also formed.

The Taxpayer

Official Organ of the Taxpayers' Association of Victoria

Vol. 1. No. 1 — MELBOURNE, MARCH 21.

FEDERAL ECONOMY CAMPAIGN

The Taxpayer

"Economy with Efficiency"

MELBOURNE, MARCH 21, 1920

ON THE BUSINESS SIDE

STATE ECONOMY CAMPAIGN

Decades later the various state based organisations amalgamated to form a National body in1966 known as the Federated Taxpayers' Association of Australia. Following this, Divisional Councils for each state were formed to deal with state-based matters.

In the early years the Association communicated with its members and supporters via regular publications of "The Taxpayer" and the annual publication of its "Tax Summary".

From the 1940's to the 1990's for nearly 50 years the Association progressively grew in popularity under the leadership of Eric Ristrom AM. At the height of its operation, the organisation had nearly 10,000 members. With the Association's extensive knowledge of the Income Tax law and its interpretation, it was professed to be an expert in the subject. The Association's opinion was sought by the press, politicians and the general public alike.

In December 1996, The Taxpayers Research Foundation, a wholly owned subsidiary of the Association was established to research public policy issues and the legislation.

Major accomplishments of the Association in 1949 included the introduction of the concept of the Pay-as-You-Go (PAYG) tax to the then Menzies' Government which remains in force to this day.

The "self-assessment" system of tax, introduced by then Treasurer Paul Keating in 1986 and bolstered by a vast body of binding tax rulings in 1992, thrust the importance of the tax professionals' role into the forefront thus prescribing how ordinary Australians would be managing their tax affairs. From this time on, ordinary Australians would become the world's most prominent users of the services of

tax professionals.

The Association, in addition to representing the interests of ordinary taxpayers, became the voice of tax practitioners, nation-wide and came to be known as, Taxpayers Australia Inc. The Incorporated Association was governed by a Board comprising of Board members appointed by various State Divisional Councils.

Soon after this, the DIY Super (now SMSF) industry became prevalent, and a wholly owned subsidiary of the Association, “Superannuation Australia” was established to cater to the needs of our members seeking help in DIY Super.

In 1994 under the sponsorship of Eric Ristrom AM, the Association was invited to join the consultative committee to rewrite income tax law in simple language.

Also, during this period China became interested in forming a similar organisation in Beijing and with extensive help from our Association, established a similar organisation called the “Asia Pacific Taxpayers’ Union”.

In 2014 the Board decided to form a national body and so Taxpayers Australia Limited, a Company Limited by Guarantee was incorporated. This transformation was largely driven by the need for the Association to operate nationally including the various benefits realised from being a corporate identity and the protection this structure provided for its members.

In 2014 Taxpayers decided to become a Recognised Tax Agents’ Association (RTAA) under the auspices of the Tax Practitioners Board (TPB). TAI Practitioners & Advisers Limited was established to provide the opportunity for our members and potential members to join a professional body.

In 2016, the two bodies, Taxpayers Australia and Superannuation Australia combined with the greater importance of the role of tax practitioners, segued again to become Tax & Super Australia.

Today, Tax & Super Australia is a leading professional organisation standing the test of time, with an unwavering mission of being the voice of tax and superannuation professionals and continues to be in the business of educating and empowering today's professionals so they can thrive tomorrow.

Written by Moti Kshirsagar

Editorial

The Taxpayers Research Foundation Limited is an entity within the Tax and Super Australia group. The objective of the Foundation is to enhance the economic and social well-being of Australians by conducting highly creditable public policy research and promoting the outcomes to the Australian community, including policy makers.

For 2019, the Foundation has chosen to sponsor Tax and Super Australia's centenary publication, highlighting examples of wasteful expenditure programs of governments in Australia.

The founding fathers of a taxpayers' association in 1919, that has since become Tax and Super Australia, showed great foresight in including within the aims of the original organisation:

- the repeal of temporary taxes; and
- the avoidance of wasteful spending.

Since 1919, the temporary taxes imposed to fund World War I and the expansion of federal taxing powers during World War II have acquired permanency status in the revenue base of governments in Australia, the outcome being that total income taxes levied on individuals is presently the major source of Federal Government revenue and is over 40% of government revenues in Australia. In more recent times with the introduction of GST, we have witnessed a tardiness on the part of State Governments to reduce and abolish taxes earmarked for elimination in conjunction with the introduction of the GST. The changing nature of governments' revenue base over a century has necessitated a change of emphasis for Tax and Super Australia from the aim to repeal temporary taxes to a focus on assisting governments to formulate revenue policies that maximise opportunities for Australians to benefit from the attainment of fair, efficient and effective growth outcomes.

The founding fathers, in 1919, were also aware of wasteful spending by governments. It is a subject though that has often avoided major scrutiny and rigorous analysis. In 1991 whilst appearing before a Senate Enquiry, Kerry Packer observed in relation to government expenditure that "As a [Federal] Government, I can tell you that you are not spending it that well that we should be donating extra". Presently for many Australians, each day they will either see or hear reports of wasteful projects and spending at all levels of government. This centenary publication draws our attention to some of the shortcomings of governments in undertaking projects that either promote ineffective and inefficient outcomes for the Australian community or are simply wasteful expenditure.

The Taxpayers Research Foundation Limited will revert to publishing its Tax Policy Journal in 2020.

Congratulations Tax and Super Australia on a century of service to Australian taxpayers.

Written by John Brogan

The Galah Award Nominations for New South Wales

Introduction

The nominations for NSW have been selected with two overarching categories. The first three nominations highlight evidence of NSW's most wasteful spending and the final three demonstrate the most ridiculous spending in NSW.

1. The Great NSW Light Rail Sinkhole

Delays, costly and prolonged lawsuits, cost blowouts, financial turmoil for businesses and residents and even a near-death electrocution incident… it's all in a day's work for the NSW government's Sydney CBD light rail project. It's no surprise then that this has been deemed a political headache[1] and 'the worst project in Australian history'[2], amongst other endearing monikers.

Initially projected to cost $1.1 billion,[3] those costs have since ballooned to more than $2.1 billion.[4] With ongoing legal battles against the NSW government and millions in taxpayer dollars at stake, the final bill is still yet to be determined.

Aside from the excessive delays, taxpayers are rightly angry about being persistently lied to about how much they'll have to fork out. Businesses badly hit by construction across George Street and other areas were given $9 million in financial assistance back in 2018. Legal battles have disproportionately inflated the costs for the taxpayer, with the contractor, Acciona, itself engaged in a $1.2 billion legal fight[5] with the NSW Government, arguing that they were induced to sign the contract under false pretences. To add insult to injury, government papers confirm that they were in fact aware that cost blowouts were inevitable.

But that's not all. Instead of showing remorse for these shameful failings, the NSW government is celebrating! Over $300,000 more in public money is being funnelled into a photography project to set up 24-hour cameras that capture the light rail line's development, though we're not waiting on the inconvenient bits or ugly, behind-the-scenes litigation and suffering businesses to make the final cut.

With the State's credit card being maxed out by the Sydney CBD light rail project, the NSW government continues to roll out further light rail projects[6] across suburban Sydney. Perhaps a sneak preview of next year's award winners…

2. Farcical Baby Bundles

In a shameless cash splash with the charming hallmarks of a dirty diaper, The NSW government plans to roll out 'baby bundles' from 1 January 2019[7] as part of their landmark $157 million Parents Package. The bundle will cost taxpayers an initial $7.6 million[8] and will be handed out to new parents.

With over 90, 000 babies[9] born each year in NSW, the costs of funding the bundles will rise to a staggering $13.5 million each year. The government claims that the packages which include pamphlets about baby care and health, wipes, nappies, a sleeping bag, picture books, a grow suit, nappy bag, teething ring and a room thermometer are "lifesaving". Yet the program comes with no means-testing to ensure it goes to the families who genuinely need it- often those who may already be eligible for other forms of financial assistance. It also comes at a high cost that is likely to be borne by hardworking taxpayers who either aren't raising children themselves or are perfectly capable of raising a child on their own incomes without the handout.

Most of the materials in the bundle can be easily purchased in any supermarket or convenience store at a price point that is affordable for most families. It is also likely that most new parents would already have the necessary resources included in the pack, through purchases made beforehand, recycling clothes and other goods used by their previous children, or gifts from friends and family.

If the NSW government is serious about helping young families, then the millions which are being poured into these handouts can instead be used to bolster our strained hospitals or to provide means-tested rebates for household or business electricity, with power bills in NSW skyrocketing over the last decade. If child safety and welfare needs to be addressed, then a better alternative to the bundle would be bassinets or child safe mattresses which may reduce the likelihood of Sudden Infant Death Syndrome, a serious problem in Australia.[10]

This is just another example of how out of touch the NSW government is with the needs of the community and their priorities. The baby bundle initiative is a poorly thought out 'feelgood' policy that allows those who represent us to claim that they are helping families, all while they take more in

taxpayer-funded grants out of our pockets to be splashed on pork barrelling programs.

3. NSW Coalition Government hits record $87 million advertising bill in 2018

The NSW government has spent a record sum of $87 million[11] on advertising in the past year. Public transport advertising campaigns made up a sizeable chunk of these millions. The ads were launched to alleviate commuter concerns about the numerous infrastructure projects across Sydney in a taxpayer-funded PR exercise that did little to actually resolve the problems caused by these projects.

A third of the budget was splashed on road safety campaigns. However, it was the "Tomorrow's Sydney"[12] Transport for NSW Campaign which really takes the cake, Costing the taxpayer $16 million since it first launched in 2015, and $3.45 million in the last financial year alone.

The government has also splurged $1.129 million[13] on market research group – Ipsos, to measure the campaign's effectiveness. Costs have hiked up further due to the government's choice to appoint former SBS newsreader Lee Lin Chin as the face of the ad campaign. Chin recently made waves as the face of the replacement bus service campaign ads due to the seven-month closure of the Epping to Chatswood train link. Now, taxpayers are forking out another $70,000[14] for her role in the current campaign. The government has also drained the public purse of another $1.3 million[15] for advertising campaigns related to the Westconnex project. This supersedes the combined amount spent on bowel and breast-cancer awareness campaigns over the same duration.

The NSW government has claimed[16] that their expenditure choices were vital for spreading information about the changes and disruptions that are associated with the government's $51.5 billion public transport and road infrastructure program. Yet the people of NSW have suffered enough changes and disruptions as it is. The massive cost blowouts from the light rail fiasco have unsettled Sydney commuters, topped with the rampant inconveniences caused by the Westconnex construction- a project that is also radically different and costlier than the one originally recommended by Infrastructure Australia. The coalition government's ad spending is just slightly less than the former Labor government's exorbitant $89 million[17] spent during their final year in office.

It once again shows where the government has its priorities wrong, and how out of touch they are with the needs of their NSW constituents.

4. 5 Million Trees Campaign

The NSW Government is splashing millions of your taxpayer dollars on an absurd environmental campaign with little conclusive evidence that it will even be effective. The plan which involves planting 380, 000 trees every year will take a sizeable chunk out of the $290 million Open Spaces and Greener Sydney package[18] the government has rolled out. The government hopes to curb the "heat island" (built-up or urban areas that are hotter than nearby rural areas) that Sydney is allegedly becoming

$38.7 million[19] will fund the first four years of the project. Within this ludicrous amount, the government has already allocated an exorbitant $6 million from the public purse for the years 2018-19 alone. The campaign is full of hypocrisy as numerous trees are being replanted in locations where they were previously uprooted as a result of other taxpayer-funded projects. One such example were the 400 trees growing along Alison Road in the suburb of Randwick which were bulldozed as a result of the light rail constructions which are straining the NSW budget as it is.

Tree planting is only the first step. A multitude of factors can impact the growth of a tree. The beneficial effects of trees such as its cooling effect[20] can only be enjoyed if soil is of good quality and properly aerated. Trees must also be regularly trimmed and inspected to ensure they are a secure distance from property and do not obstruct safety. These maintenance requirements will blow out costs for both local councils as well as private citizens, particularly if the council declines responsibility for maintenance.

While the government lauds themselves on concocting the Five Million Trees Campaign, in reality they are making a mockery of themselves and punishing taxpayers. Spending an extortionate amount of money on a campaign with no measured benefits and with the risk of the campaign being dependent on tree health and expensive maintenance is not only risky but grossly wasteful.

5. Failed multimillion-dollar rollout of on-demand buses

The rollout of heavily subsidised on-demand bus service trials by the NSW Government has been a spectacular waste of your taxpayer dollars. The trial was meant to help connect people who did not live along standard routes to public transport. Ignoring early indications that many services were taken up by only a few passengers, the government persisted with the project and shamelessly squandered $7 million[21] in just 12 months. The trial was conducted across Sydney, Newcastle and the Central Coast.

A 3km bus journey with the service, costing passengers $3.10 or $1.50[22] (for concession), was heavily subsidised by the taxpayer for at a colossal rate of $2000 per person. A service in the Central Coast was only used by a mere 233 passengers, yet cost a whopping $481,582 to run $2067 per person per trip. Wetherill Park,[23] located in Sydney's South-West, saw only 50 passengers using the service in an entire month compared to the approximately 16,000 passengers who use Sydney's busiest bus routes. With empty buses driving along empty streets, this was one 'service' that truly took hardworking taxpayers in New South Wales for a ride.

The NSW government justified the ridiculous expenditure as being "all about learning and continuous development". Unfortunately, taxpayers are paying a hefty price for the government's 'learning' experience. So poor was the planning of this scheme, that a number of services were concentrated in industrial areas[24] inhabited by few residents.

NSW is gaining a reputation for transport catastrophes with the on-demand bus service adding to the line of other botched projects such as the light rail scheme and the mismanagement of train timetables. All of this goes to show that when it comes to the State government's over-ambitious whims and fancies, taxpayers can be fleeced on-demand.

6. NSW government Squandered $600K on self-help books

Last year, Service NSW spent an extravagant $600,000 on ninety self-help books and a two day training course for its staff.[25]

The book – The 7 Habits of Highly Effective People by business guru Stephen R. Covey, is aimed at enabling staff to decipher its “powerful lessons in personal change”. To splash out such an exorbitant amount of money for a book which can be purchased for as little as $9 from the Australian bookseller, Angus and Robertson,[26] and for even cheaper at online stores, is ridiculous and unnecessary. The program was aimed at improving customer service and teaching employees how to work in teams. Professional development in any industry is important and many companies in the private sector will spend much more to train their staff. But when the public is paying for it, serious review of any professional development program is in order, especially when it involves a widely available and known self-help book that teaches little about the specific priorities and work of the government department in question. The expenditure was later questioned by NSW Premier Gladys Berejiklian and Finance Minister, Victor Dominello[27] who asked the department to justify their reasons for spending and a cost-benefit analysis of the course for taxpayers. Unfortunately, this came out too late.

Unfortunately, all too often massive amounts of public funds are splashed on bizarre and ridiculous projects before the opportunity for prudent review by higher levels of government.

Anjali Nadaradjane is a Research Associate with the Australian Taxpayers’ Alliance.

The Galah Award Nominations for Victoria

Introduction

Over the past decade, successive Victorian governments have spent billions of taxpayer dollars on an under-utilised desalination plant; overhauling rail crossing infrastructure; cancelling Victoria's largest road project; and trying to reduce power bills while boosting the take-up of solar energy.

Yet, each of the related projects has either lacked a compelling business case, value-for-money equation, or adequate benefit-to-cost ratio, and/or has been terribly mismanaged — resulting in the egregious waste of taxpayers' money.

1.The Victorian Desalination Plant (VDP)

In 2007, following the worst of the millennium drought, the Victorian government decided to build the Victorian Desalination Project (VDP), capable of supplying 150 gigalitres (GL) of drinking water — or about one third of Melbourne's annual water consumption.

The government entered a public private partnership (PPP) with AquaSure to fund the construction of the plant, pipeline and power supply, as well as operate the plant for 30 years. Under the contract, costs are being repaid to AquaSure over the 30-year period.

The desalination plant represents extremely dubious value for money, with an initial capital cost of $3.5 billion — notably, far more than the cost of other desalination plants in Australia.[1] The original project report estimated the plant would have a nominal cost of $23.9 billion over 30 years, or a net present cost of $5.7 billion (in 2009 dollars).[2]

However, it is not just the capital cost of the VCP. A desalination plant is inherently expensive to maintain — even when it is not producing any drinking water. Annual service and operating costs have been running at over $600 million annually despite no water being produced.[3] These costs are added on to the water bills of Melbourne residents. Contributing to the high costs is the energy-intensive nature of desalination, which requires much more energy than conventional water treatment process.[4]

Due to higher dam levels following the drought, the desalination plant sat idle for several years following completion in 2012.[5] This means Victorians were paying nearly $1.8 million every day in operating charges — but had not one drop of drinking water to show for it.

It remains to be seen how the plant will be utilised in the coming years. In March 2019, the Victorian government announced it had ordered 125GL following a dry summer, but this is still below the maximum capacity of 150GL (the VDP is by far the largest capacity desalination plant in Australia.[6])

The Victorian government has called the plant 'an insurance policy against drought'[7] but critics have argued there are potentially cheaper or more efficient options — such as water recycling or better regulation of household demand.[8] Instead, Victorians are stuck with funding the desalination plant for at least another 20 years, with no guarantee it will provide value for their money.

2.The Level Crossing Removal Program (LXRP)

In 2015, the Victorian government commenced the Level Crossing Removal Program to remove 50 of the "most dangerous and congested" level rail crossings by the year 2022. The purpose of the program was to improve the safety of the State's train network and reduce travel delays.

The cost of the program was initially estimated as $5-6 billion.[9] However, the aggregate cost of the program has since blown out by more than 38 per cent. By 2017, the expected cost of the whole program had been revised upwards to a total of $8.3 billion.[10]

Despite the cost blowouts, the State government decided in 2018 to extend the program, by removing an additional 25 level crossings. This is likely to further raise the cost beyond the original cost estimates. But cost hasn't been the only problem. A scathing report by the Victorian Auditor-General found that not all the 50 level crossings nominated for removal were among the "most dangerous or congested" in Victoria.[11] In fact, there had been no objective methodology used to identify which crossings were 'most' dangerous or congested. It wasn't until 2018, three years into the program, that the government developed a "site prioritisation framework".

Furthermore, a formal business case for the LXRP was only finalised in 2017 — two whole years after the program was commenced. Not only was the business case finalised after the project commenced, it estimated a benefit-cost ratio of 0.78 (excluding wider benefits), indicating it would return a benefit of just 78 cents for each dollar spent.[12]

However, the benefit-cost ratio is now likely to be even lower, given the blowout in costs to $8.3 billion. Moreover, there is little indication so far of significant benefits; remarkably, the program has only shaved an average of one minute off peak-hour driving times.[13]

3.Cancelling the Melbourne East West Link road

The Melbourne East West Link (EWL) was a major road project that was cancelled in 2015 by an incoming State government before construction had begun. The EWL was to be an 18-kilometre cross-city connection road extending across Melbourne from the Eastern Freeway to the M80 Ring Road.[14]

Shortly before the 2014 state election, the then Liberal government signed a contract with East West Connect (EWC) to finance, construct and operate the road. However, following the election, the incoming Labor government suspended the project indefinitely.

Starting and then cancelling the EWL project involved a monumental waste of taxpayer money. The EWL project was based on a weak business case. Excluding possible wider economic benefits, the base project had an estimated benefit-to-cost ratio of just 45 cents in benefits for every dollar spent.[15]

If the project had proceeded, the EWL project could have cost upwards of $22.8 billion in nominal terms — reportedly, one of the most expensive road projects in Australia's history. In effect, that represents a cost of $1.27 billion for each kilometre of road.

However, the problems didn't end with the project's suspension. While suspending the project was justifiable, it was too late to avoid significant outlays on the projects. The whole project, together with the cancellation costs, ended up costing taxpayers around $1.1 billion.[16] This included the government's final termination settlement with East West Connect, estimated to cost around $642 million.

The former Liberal government was soundly criticised for signing the EWL contact so close to an election, when the project was at high risk of being cancelled by an incoming Labor government.

At the same time, the cancellation process was also flawed. The EWC was not required to provide detailed information on its project expenditure; therefore, the incoming government could not fully guarantee that the termination costs were reasonable and reflected the actual costs incurred by the contractor.[17] This project was nothing less than an unmitigated failure, which wasted over a billion dollars of taxpayer money for no purpose.

4.The Advanced Metering Infrastructure program (smart meters)

In 2009, the Victorian government mandated the rollout of electricity smart meters to households across Victoria. Broadly, the aim of the program was to help households control their power bills.[18] Smart meters, which record electricity usage in half-hour intervals, allow households to monitor their electricity usage and the option to adopt flexible time-of-day pricing.

However, the costs of the rollout have been passed on to Victorian energy consumers through extra charges on their electricity bills. By the end of 2015, consumers had forked out an estimated $2.24 billion in total for the roll-out and connection of smart meters. However, according to a 2015 report by the state's auditor-general, installation costs were not controlled effectively, with total metering costs imposed on energy users 11.4% higher than originally anticipated.[19]

Mandating smart meters appears to have delivered few benefits for Victorians, despite the huge scale of the project (2.8 million smart meters installed). In fact, a review in 2011 found the program could result in net costs to consumers of $319 million (NPV in 2011), in large part due to higher than anticipated roll-out costs.[20]

In other words, Victorians would pay $319 million more in costs than they receive in benefits. The state's auditor-general predicted the net costs could be even higher, as many of the benefits had been overstated and based on optimistic assumptions.

How have the benefits been overstated? First, they rely on a large proportion of households changing their behaviour; for example, by switching to a cheaper energy plan or to flexible time-of-day pricing. Yet, take-up of flexible (or cost-reflective) pricing has been slow.[21] Remarkably, market research in 2014 found that two-thirds of Victorians were unsure how smart meters could help minimise their energy bills.[22] This could partly explain the persistently low take-up of cost-reflective pricing by Victorians.[23]

Second, many of the benefits are based on a complex set of assumptions that smart meters will reduce costs for distributors and retailers, who will subsequently pass on the cost savings to energy consumers. However, these assumptions are far from certain, especially as energy pricing is highly regulated.

5.The Solar Homes Package

State and Commonwealth governments have long provided generous subsidies for households to install solar power, to encourage the take up of greener energy and reduce Australia's emissions.

Yet, governments have rightly come under criticism for trying to 'pick winners' in the renewable energy industry, rather than allowing the best clean energy technology to take hold through market forces and competition. Yet, the current Victorian government has failed to heed these concerns, rolling out a fresh, new round of taxpayer subsidies for solar power.

In August 2018, the Victorian government launched the Solar Homes Package. Households can claim a maximum rebate of $2,225 on the cost of solar panels or a $1,000 rebate for a solar hot water system. Subsidies are also available for solar storage batteries and hot water systems.

From July 2019, Victorian households can also access an interest-free loan to install a solar PV system and pay back the loan over four years.

The solar panel rebates are expected to cost $1.24 billion; while subsidies for solar hot water systems will total an additional $60 million. But taxpayer generosity doesn't end there: there is also a $40 million subsidy for solar batteries and an $80 million subsidy for solar panels for rental homes.

The inefficiency of the solar package is also caused by the duplication of other state and federal policies. The Commonwealth also provides subsidies for solar installation, through the small-scale renewable energy scheme (SRES). And the Solar Homes Package also sits on top of the existing solar feed-in tariff scheme, which pays households a rebate for solar power they export to the grid.

On average, a solar household will receive $538 for the electricity fed back into the grid.[24] However, as the ACCC has pointed out, payments for energy produced by household solar systems have significantly outweighed the actual value of the energy.[25]

The short-term public benefits of solar subsidies are also questionable. As more households switch to solar power and use less grid-supplied electricity, the remaining households are forced to pay higher electricity prices to cover the fixed costs of the electricity network.[26]

Moreover, installing solar panels has become vastly more affordable in recent years, which further weakens the case for subsidies. In 2007, for example, the pre-subsidy cost of installation of a 1.5kW system was around $18,000, compared to just $5,000 today for a 3kW system.[27] Little wonder then that the ACCC has called for the winding back of subsidies for solar energy.

Conclusions

- Victorian's desalination plant stands out as a phenomenally expensive white elephant that will drain taxpayers of more than half a billion dollars annually until 2039.

- The whole EWL road project is an extraordinary example of financial mismanagement. The project should never have been commissioned in the first place, while taxpayers were charged more than $1 billion for its botched cancellation.
- In a similar vein, the remarkably expensive LXRP project has been dogged by cost blow-outs, an overdue business case and a haphazard approach to site selection.
- The latest round of subsidies for solar energy provides yet more unnecessary handouts to select households, while distorting the market for clean energy and returning few public benefits.
- Similarly, mandatory smart meters appear to have done little to help with power bills relative to the enormous costs of state-wide installation.

Eugenie Joseph is a Research Fellow at the Centre for Independent Studies.

Endnotes

[1] http://www.awa.asn.au/AWA_MBRR/Publications/Fact_Sheets/Desalination_Fact_Sheet.aspx

[2] https://www.water.vic.gov.au/__data/assets/pdf_file/0013/54202/Fact-sheet-project-costs-March-2015.pdf

[3] Victorian government. 2018. Budget Paper 5: Statement of Finances. https://www.budget.vic.gov.au/budget-papers

[4] http://www.awa.asn.au/AWA_MBRR/Publications/Fact_Sheets/Desalination_Fact_Sheet.aspx

[5] https://www.abc.net.au/news/2017-03-19/victoria-desalination-plant-finally-delivers-water/8367554

[6] Australian Water Association. Desalination Fact Sheet. http://www.awa.asn.au/AWA_MBRR/Publications/Fact_Sheets/Desalination_Fact_Sheet.aspx

[7] https://www.premier.vic.gov.au/government-provides-water-storage-certainty-2/

[8] https://theconversation.com/better-water-planning-could-avoid-desalination-794

[9] Victorian government. 2015. Budget Paper 3: Service Delivery. https://www.dtf.vic.gov.au/sites/default/files/2018-01/state-budget-service-delivery-bp3-2015-16_0.pdf

[10] https://www.theage.com.au/national/victoria/level-crossing-removal-program-poor-value-for-money-auditorgeneral-andrew-greaves-20171214-h04ed0.html

[11] Victorian Auditor-General. 2017. Managing the Level Crossing Removal Program. Audit Report. p. 7

[12] Business Case for the Level Crossing Program. https://levelcrossings.vic.gov.au/__data/assets/pdf_file/0005/216329/LXRP-Business-Case.pdf

[13] https://www.theage.com.au/national/victoria/just-a-minute-level-crossing-project-resulting-in-small-time-savings-data-shows-20180123-p4yys5.html

[14] https://www.planning.vic.gov.au/panels-and-committees/previous-panels-and-committees/east-west-link-eastern-section-project-assessment-committee

[15] East West Link business case, March 2013. https://www.premier.vic.gov.au/east-west-link-announcement/

[16] Victorian Auditor-General. 2015. East West Link Project. Audit report.

[17] Victorian Auditor-General. 2015. p. xiii

[18] https://www.energy.vic.gov.au/electricity/smart-meters

[19] Ibid.

[20] https://www.energy.vic.gov.au/electricity/smart-meters/reports-and-consultations/advanced-metering-infrastructure-cost-benefit-analysis

[21] ACCC. 2018. Retail Electricity Pricing Inquiry – Final Report. Canberra. p. 176

[22] Victorian Auditor-General. 2015. Realising the Benefits of Smart Meters. Audit report. p. viii

[23] ACCC. 2018. p. 189

[24] ACCC. 2018.

[25] ACCC. 2018. p. v

[26] ACCC 2018. p. 168

[27] ACCC. 2018. p. 217

The Galah Award Nominations for Queensland

Introduction

The Queensland government has the highest level of debt among Australian State and Territory governments. It is currently at around $70 billion and projected to exceed $80 billion in a few years. Expensive and inefficient government spending programs have been a major part of the story behind Queensland's burgeoning debt, a tale I tell in some detail in my 2018 book Beautiful One Day, Broke the Next. In this article, I home in on several expensive and inefficient Queensland government programs over the last decade (2008-09 to 2018-19). The period spans three Queensland governments: the Bligh Labor government, the Newman LNP government, and the Palaszczuk Labor government. These programs are in six policy areas: energy, entertainment, health, housing, rail and water. The sample of programs are ones that are expensive, inefficient or some combination of both.

1. South East Queensland Water Grid

In Beautiful One Day, Broke the Next (Tunny, 2018), I described the panicked response of the Beattie and Bligh governments to the South East Queensland (SEQ) water crisis in the late 2000s. The State government ended up spending in the order of $9 billion on a range of new infrastructure assets, including the Western Corridor Recycling Scheme which has been mothballed, a desalination plant which is rarely used and runs in "hot standby mode", at an undisclosed cost, possibly tens of millions per year, and a new dam Wyaralong, which is not yet even connected to the water grid. As we know now, it eventually rained, Queensland had its worst floods in a generation, and the so-called climate-resilient water assets became expensive white elephants.

Furthermore, the government had ended up spending hundreds of millions purchasing Mary River valley properties near Gympie to build the Traveston Crossing Dam which was eventually stopped by federal Environment Minister Peter Garrett who was concerned about the dam's impact on a threatened species of lungfish. When it had to offload the Mary Valley properties at much lower prices later on, the government lost in the order of $250-300 million. Overall, the SEQ Water Grid has been a colossally expensive public policy failure.

2. Health Payroll Debacle

In March 2010, Queensland Health's new payroll system for 80,000 employees crashed. Many nurses and other hospital staff went unpaid for work they had done and it took months in some cases to properly compensate employees. The payroll system debacle ended up costing at least $1.2 billion. Originally, it was expected to cost $98 million. A blame game ensued, and the State government ended up suing IBM, which had been contracted to develop the new payroll system. But there were problems in public administration. The Payroll System Commission of Inquiry (Chesterman, 2013, p. 12) found that:

"The replacement of the QH payroll system must take a place in the front rank of failures in public administration in this country. It may be the worst."

The new payroll system was a catastrophic failure as all Queenslanders know. The system did not perform adequately with terrible consequences for the employees of Queensland Health and serious financial consequences for the state.

3. First Home Owner Grants

The State government has provided various subsidies for first home buyers, in the order of $10,000 to $20,000, over the years under several different program names, including the First Home Owners Boost, First Home Owner/s (Construction) Grant and Great Start Grant (costing at least $1.7 billion over five years).

The Queensland Competition Authority (2015, p. 157) has observed that the "program aims to reduce the cost barrier to home ownership and support an increase in the housing supply", but it is unclear whether the grant has achieved these aims. It cited a number of credible studies that pointed out:

- most of the new homebuyers would have bought a new home anyway, so the grant encouraged little in the way of new construction;
- the grant has an inflationary effect on house prices; and
- where it does encourage home buyers who may not otherwise have bought a house, these home buyers may be financially vulnerable and may default on their mortgages in the future.

Overall, the new housing grant is an expensive and inefficient policy.

4. Screen Queensland

Screen Queensland (costing at least $150 million over five years) has the objective of supporting the local film industry and provides a range of grants to subsidise local productions. It also acts as a facilitator for special assistance, such as payroll tax concessions, offered to major international productions, such as Aquaman, Dora the Explorer, and Pirates of the Caribbean 5, which were filmed on the Gold Coast.

Successive Queensland governments have been trying to establish a viable film industry centred on Village Roadshow studios at Movie World on the Gold Coast for around three decades. However, substantial subsidies, often labelled commercial-in-confidence and unreported, are still required. The Queensland government has even gone so far as to fund the construction of a new state-of-the-art sound stage at Village Roadshow studios with a grant of $11.5 million and a loan of $5 million.

In its Industry Assistance Review, the Queensland Competition Authority (2015, p. 167) was scathing of industry assistance to the film industry, noting:

"The benefits to Queensland are likely to be localised and temporary, with the majority of the benefits extracted by the international production companies receiving the assistance."

Some of these international production companies, such as Universal and Disney, are generally highly profitable, with billions of dollars of net earnings per annum. International film production companies have been very good at playing governments around the world against each other to extract the best deals for themselves. The Queensland government has been silly enough to play this game. The government should follow the lead of the US State of Louisiana which eventually realised it was being ripped off by Hollywood and abandoned special tax incentives for film production.

5.Electricity Uniform Tariff Policy (UTP)

Under the Uniform Tariff Policy or UTP (costing $1 billion over 2015-16 to 2016-17), the Queensland government subsidises regional electricity prices. It is not only expensive, but inefficient, particularly given it benefits businesses as well as households. The Queensland Competition Authority (2015, p. 224) in its Industry Assistance Inquiry Report noted that:

"Although [UTPs] exist in other jurisdictions, Queensland is the only state to allow large business customers access to uniform retail tariffs."

As the Authority observed, it is difficult to justify such a subsidy to regional businesses, even if you might think there is some equity justification for subsidising regional residential households. Furthermore, the assistance to businesses is not needs-based, benefiting all sizes of businesses.

6.Rail Subsidies

Despite corporatisation of the state-owned Queensland Rail in the 1990s and the privatisation of the profitable central Queensland rail lines moving coal in 2010 with the floating of QR National, later Aurizon, the Queensland government still subsidises some rail operations, including passenger trains in SEQ and regional Queensland, and freight operations in South-western and Northern Queensland. For the five financial years of 2013-14 to 2017-18, the Queensland Competition Authority calculated a total level of industry assistance for rail freight of over $1.1 billion.

It is clearly inefficient for the state government to continue to subsidise inefficient rail lines. In its Industry Assistance Review the Queensland Competition Authority (2015, p. 230) observed:

"The government's objective should be for transport networks to be as efficient as possible, rather than promoting one mode of freight transport over another…"

The Queensland government should urgently review each rail line it continues to subsidise to determine its viability. The Newman government (2012 to 2015) was right to consider selling the Mt Isa-to-Townsville rail line by bundling it with the Townsville port under its Strong Choices package. However, with the change of government in 2015, asset sales are currently not on the agenda in Queensland.

Conclusions

For a State which has had some of the most embarrassing and costly public policy failures this century in Australia—such as the health payroll debacle and the largely unnecessary water grid—it is difficult to limit this review to the six programs identified. There are many dishonourable mentions that could have been made, including the current mega project Cross River Rail, an inner-city Brisbane subway system which will cost at least $5 billion and may end up costing more than $10 billion. The government has never released the full business case for Cross River Rail, most likely because the business case is dubious and the reported benefit-cost ratio of around 1.4 is not defensible under more realistic assumptions. This unfortunately is part of a pattern we have seen repeatedly in Queensland, of inadequate over-optimistic business cases supporting dubious investments and commercial-in-confidence deals hiding the full extent of subsidies from public view. Future state governments need to do much better.

Gene Tunny is Director of Adept Economics, a Brisbane-based economics consultancy firm. He is a former Australian Treasury official. Last year, his book Beautiful One Day, Broke the Next: Queensland's Public Finances since Sir Joh and Sir Leo, was published by Connor Court.

Endnotes

Chesterman, R., 2013, Queensland Health Payroll System Commission of Inquiry Report, Queensland Government, Brisbane.

Queensland Competition Authority, 2015, Industry Assistance in Queensland—Final Report: Volume I, Queensland Competition Authority, Brisbane.

Tunny, G., 2018, Beautiful One Day, Broke the Next: Queensland's Public Finances since Sir Joh and Sir Leo, Connor Court, Brisbane.

Introduction

The past decade in Western Australia has been a troubling time for those concerned with the nature and scale of government waste. Instances of wasted taxpayer funds, where vast sums of money were committed to nefarious policies and pet-projects, can be found across a range of government departments. In this paper three examples of such waste are provided in Royalties for Regions, the sponsorship of Western Force, and the mismanagement of the Swan River Pedestrian Bridge. Royalties for Regions is the focus as it contains particularly frivolous projects and has come at a substantial cost to taxpayers and resulted in serious complications for the state budget. As such, it will provide the basis of the lessons for policymakers.

1. Royalties for Regions

As a highly urbanised nation, Australia has a small but active rural and regional population. While made up of many enterprising and industrious individuals, there are some who believe getting their “fair share” of the economic bounty can justify waste, the Australian version of “bridges to nowhere”. The National Party in Western Australia fell into this camp. They proudly defended their brainchild, Royalties for Regions (RfR), which explicitly redirects funds to a geographical zone in a process shown to be deeply flawed and described by a leading economic commentator as “formalised pork-barrelling”.

The RfR program was an election platform of the National Party in Western Australia that was intended to assist in developing regional WA.[1] Implemented by the Liberal Party and National Party coalition[2] elected at the 2008 state election, the RfR program hypothecates[3] 25 percent of forecast royalty revenue to be spent on promoting and facilitating “economic, business and social development” in the regions.[4] While some beneficiaries and commentators claim that the program has created benefits for the state, their statements are based on belief and lack both economic rigor and publicly-made assessment of social benefit. The facts, supported by subsequent government audits, indicate that it has been a wasteful use of taxpayer funds, creating a number of direct and indirect negative consequences and contributing to the poor fiscal standing of the state government.

This paper draws upon Public Choice theory, which argues that in democracies concentrated vested interests can prevail over broader and less-organised ones, along with economic analyses to show that both the premise and mechanics of the policy are deeply flawed.

Background

WA is a boom-bust resources state exposed to world markets. Historically, the benefits of resource development have been shared mainly through economic multiplier effects rather than being taxed and redistributed directly.[5] In the late 1990s, concerns were raised that these benefits were not realised by the communities where raw materials are extracted, resulting in calls for increased government funding for regional parts of the state.[6] In the lead up to the 2008 election, the Nationals adopted a policy originally suggested by The Greens[7] to address this apparent issue.

The Nationals sought a balance of power at the election, ensuring that this policy, Royalties for Regions, would be implemented by making it a condition of any coalition to form government.[8] In doing so, the Nationals effectively became a lobby group sitting in parliament, having switched their focus from agriculture to regional WA. While a departure from a responsible approach to governing, this move was not out of character.

The ability to establish the RfR program was essentially an act of political opportunism, but one which may cause long-term problems for the WA Nationals. The decade of fiscal disrepute and pork barrel politics may be popular with small sections of regional Western Australia, but it draws into question the future of regional based representatives to govern for the interest of the state.

Waste and the lack of fiscal restraint in Western Australia should not be blamed on only the WA Nationals. Introduction of the RfR program coincided with a lack of fiscal constraint generally.[9] A number of major infrastructure works along with public sector wage inflation put the government into a problematic fiscal position.

Despite favourable economic conditions, particularly the increasing value of commodities, the viability of the state budget soon deteriorated. Prior to the 2008 election, the Department of Treasury and Finance warned that GST grants and transfer duty revenue would decrease significantly[10], offsetting increasing revenue from royalties. If the Coalition had heeded this warning they would not have hypothecated funds which, by its definition, would cause an inflexible fiscal position. By ignoring Treasury’s warning and proceeding with the RfR legislation, the government negligently placed the budget under further strain.

Redirection and Redistribution of Tax Revenue

From 2008-09 to 2016-17, the total hypothecated funds from the RfR program was $9.09-billion, with an additional $260-million in interest and refunds. Of the total $9.35-billion, only $620-million was returned to the Consolidated Account.[11] The allocation of this funding over the lifetime of the program can be seen in Figure 1.

Problems with RfR

The WA National Party shamelessly auctioned off its balance of power in exchange for its regional development program.[12] They effectively forced their policy, which had no evidential basis, into legislation and defended the scheme for a decade despite evidence that it was not working as promised.[13] This sort of behaviour is criticised by some Public Choice economists as a practice “dominated by political interests and likely to load costs on the general public”.[14] Given the availability of funds at political whim, it is no surprise that the program facilitated widespread rent-seeking.

As part of the John Langoulant-led Special Inquiry into Government Programs and Projects, economic consultancy firm ACIL Allen Consulting reviewed a selection of 50 typical[15] RfR projects to assess their social and economic outcomes and the adequacy of their business cases. As can be seen in Figure 3[16] and Figure 4[17], these projects largely failed to provide any benefit or be supported by a business case.[18] These poor outcomes are explored in the following section 'Case Studies' where some specific projects are considered.

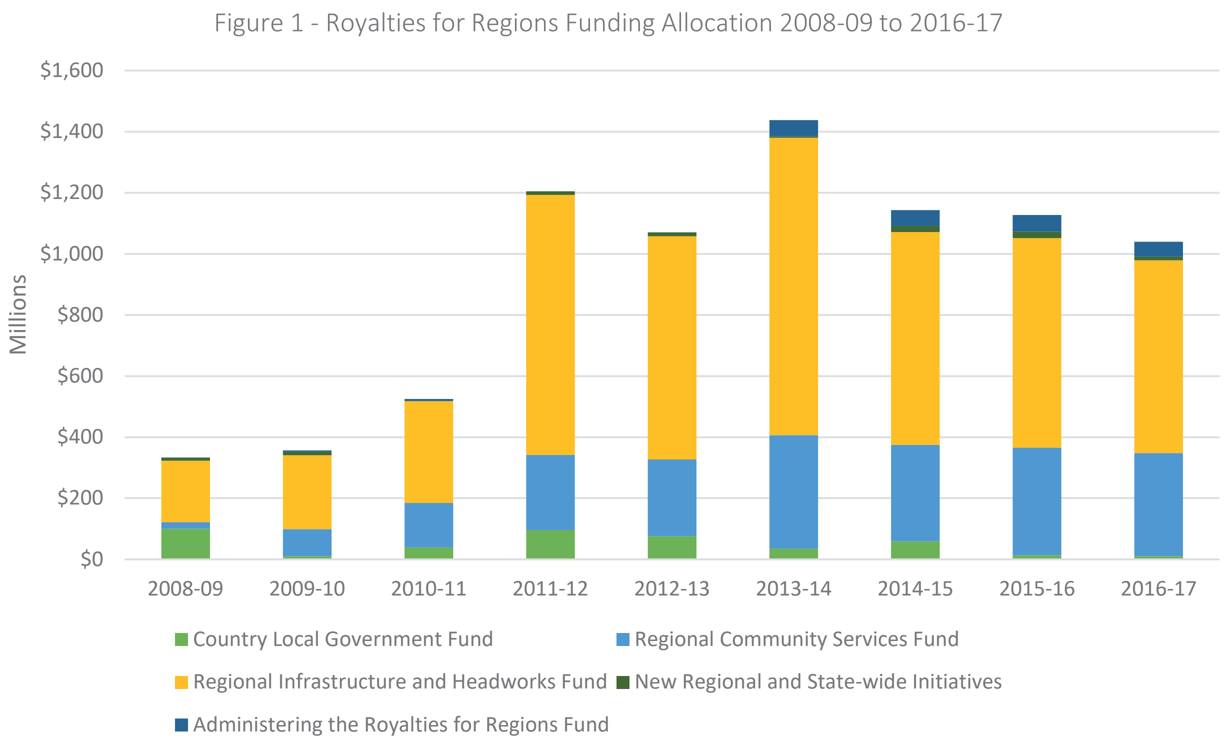
Case Studies

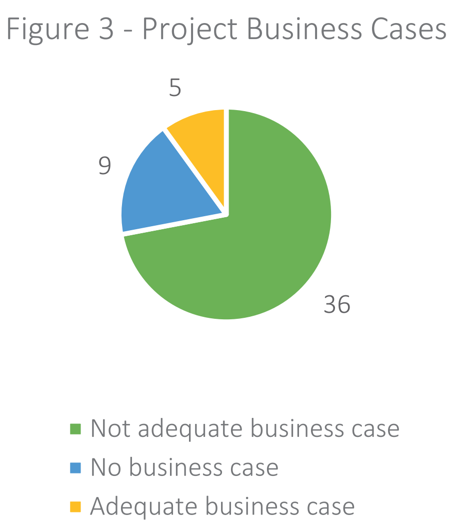
In light of the context and scale of RfR elaborated above, specific case studies grant insight into the abhorrent nature of the program. As discussed previously the premise of RfR is flawed and the examples below are particularly egregious consequences of it.

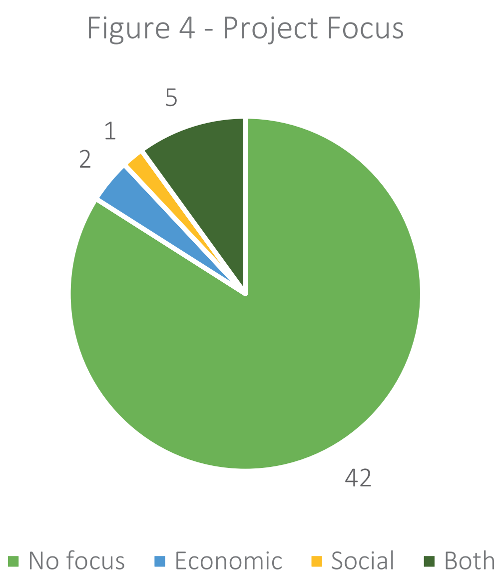
Issues and Findings

The flawed premise of RfR has translated into poor outcomes for specific projects as illustrated above. In addition, there are a number of practical limitations which arise as a result of the specific way that the program works.

- Arbitrary funding amounts are unlikely to ever match the necessary levels of expenditure, and do not take into consideration economic conditions, affordability, competing government priorities, or the quality of projects under consideration.[22]
- We find that arbitrary percentage limits are not an effective policy setting, and that all funding should be based on a sound business case and rigorous cost-benefit analyses.
- Hypothecating funds hamstrung the fiscal flexibility of the state budget[23].
- We find that funding should never be hypothecated as it distorts state budgets and removes the role of Treasury in being responsible for expenditure.







Project	What is it?	Details	Royalties for Regions Funding
The Ningaloo Centre[19]	Facility for aquarium, galleries and a research centre.	Concerns raised that Shire of Exmouth would not be able to fund the ongoing operation and maintenance of the research centre. Centrepiece exhibition, a 55,000-litre aquarium, remains empty after the centre opened in September 2017. Key decision makers are no longer employed at or involved with Shire of Exmouth following a Corruption and Crime Commission investigation in 2016.	$19 million
Pilbara Underground Power Project[20]	Project to replace overhead electricity with an underground system	To protect electricity infrastructure from cyclone damage, an underground system was created in various parts of the Pilbara. No specific business case for initial $100 million RfR contribution, and Horizon Power was not experienced in delivering projects of this scale and complexity at the time. The project will cost $109 million more than originally budgeted, and will take five and a half years longer than originally expected.	$175 million
Wanangkura Stadium[21]	A sporting facility which includes basketball courts, a gym, squash court, kiosks and a crèche	Construction was plagued with delays including design and engineering flaws. Delivered close to budget at just over $35 million, but additional costs due to delays and remediation. Ongoing costs were not considered and the annual deficit to the Town of Port Hedland is $380,000. Use of the facility is at the low end of expectations and there are ongoing issues with flooding. The stadium was closed three days after opening as it did not meet the requirements of the Building Code of Australia.	$11.1 million

Hypothecation limits the ability of governments to respond to changing macroeconomic variables, which is particularly important in resource-exporting economies like WA's.

- Furthermore, legislated hypothecation impacted the GST calculation, forcing the government to borrow from other revenue: "The Grants Commission process causes some tension with Royalties for Regions. Some years, where the GST takes 100 per cent or more of royalties due to the lag, the State borrows money to fund Royalties for Regions". [24]
- We find that legislating RfR created adverse impacts on other revenue streams, namely the GST share. From a cyclical perspective, the timing impact and lag effect exacerbated the poor policy and its effect on taxpayers.
- Projects often fail to fulfil any social or economic goals and are often presented without an adequate business case.
- We find that RfR lacks processes of accountability and due diligence. In addition, it has been noted that while RfR has successfully delivered infrastructure and services to the regions, their necessity and long-term benefits are uncertain.[25] There is a strong incentive for projects to be approved based on available funds rather than demonstrable need, leading to on-the-run funding decisions.
- Local governments are burdened with the responsibility of maintaining services and infrastructure.
- We find that any commitments to fund infrastructure and services should include an analysis of the levels of recurrent expenditure required to fund such commitments and the ability of local government to meet these obligations.
- Government-led attempts to shape regional growth in slow-growing areas are very likely to fail.[26]
- We find that rhetoric surrounding RfR and its ability to shape the regions were flawed and lacked economic and intellectual rigour. A "build it and they will come" approach to development was pursued, which, according to Daley and Lancy (2014), defies economic principles of development and Australia's trend of agglomeration economics.[27]

2. $1.5 Million Sponsorship of Western Force

In late 2016 Western Force, the Western Australian rugby team, were struggling to remain financially viable. In a bid to prevent the team from being removed from the Australian Rugby Union (ARU), a hasty agreement was made between the Road Safety Commission (RSC) and the ARU (then-owners of the Force) whereby the RSC would sponsor the team and provide $1.5 million in funding.[28] Such payments, made from the Road Trauma Trust Account, is reserved for supporting "the development and implementation of sustainable projects and one-off community activities related to road safety".[29] After an initial refusal of the arrangement at the beginning of January 2017, the RSC quickly changed its decision and the arrangement was recommended to and authorised by the Minister by 30 January 2017.[30]

The John Langoulant Special Inquiry mentioned previously discussed the RNU/RSC agreement, noting that: "there are no documents evidencing how or why the Road Safety Commission altered its view over the course of several days… as to the appropriateness of the Western Force sponsorship"; "there was seemingly no assessment of how the proposed arrangement would enhance goals that the Road Safety Commission professed motivated its entry into the arrangement"; and that there was no "cogent explanation… as to why this agreement was entered into in such haste".[31] The payment was also unprecedented in size; with the next-largest pay out from the Fund being worth approximately $50,000.[32]

3. Swan River Pedestrian Bridge

In 2012 the Western Australian state government announced a new pedestrian bridge to be delivered as part of the broader Perth Stadium project. When the project was announced, it was expected to cost $54 million and be completed by the end of 2016, well ahead of the new stadium which was set to open in 2018.[33] The footbridge became infamous in Western Australia for the headaches it has caused both the Barnett and current McGowan state governments and was eventually opened to the public in July 2018, 18 months late and at a total cost of $91.5 million.[34]

In 2015, only a few months after the initial contracts for the project were signed they were changed as the 'landing point' of the bridge had to be moved 19 meters south on one side. This change is estimated to have added between $8 million and $10 million to the total cost of the project and was flagged by the Langoulant Special Inquiry as an avoidable issue that should have been resolved prior to any contracts being signed.[35] In addition to the delays caused by changing the plans and contract, the construction of the steel for the bridge caused significant delays. The bridge was to be constructed in Malaysia and shipped into Perth, with the first shipment expected to be delivered in July 2016. No section of the bridge ever arrived from Malaysia and the McGowan government eventually announced that the bridge would be built in built locally instead.[36] This announcement, made in June 2017, came more than six months after the bridge was supposed to be completed.

Despite its opening in July 2018, the bridge remained unfinished with one journalist noting that there was not proper drainage, surfaces were unfinished, railings were not aligned properly, and dark paint was splattered across white hand rails.[37] According to Main Roads Western Australia, the principle department responsible for the project, work continued at the site into March 2019 to remove construction rock from the river, finish painting the steelwork, and complete a final tidy-up.[38]

Conclusion

In the past decade, examples of misspent taxpayer funds have been rife in Western Australia. Those explored in this paper, from ill-conceived plans to assist a struggling rugby team to blatant pork-barrel politics, highlight some of the most concerning examples where taxpayers' interests appear to have been forgotten by state governments. Shedding a light on this waste is an important part of keeping government accountable, exposing their mistakes, and providing critical insights to advise current and future leaders.

In particular, the Royalties for Regions program and the economic mismanagement it entails can provide a number of lessons for policymakers:

1. Hypothecating revenue prevents governments from allocating funds to areas of greatest need and does not allow Treasury to provide the necessary oversight that is central to responsible governance. RfR functions in exactly this manner, notably preventing the government from reducing state debt as the money is instead allocated to unnecessary projects with little to no oversight.

2. When favours are granted to one group at the cost of everyone else, the essential principle that parliaments are responsible to the whole community is disregarded. This should be a paramount concern as it allows for rent-seeking groups to push for programs such as RfR where the wasteful, patron-style form of distributing funds allows for unchecked misallocations of resources; a boondoggle of momentous scale.

3. Politicians in boom-bust resource states like Western Australia should never take the current economic situation for granted. When fortunes are prone to fluctuate, governments should seek to prepare for the future. When short-term electoral gains are sought through pork barrel programs, the tough times to come are made all the worse. Excess royalty revenues should be used to pay down debt and create a more sustainable economic environment, to the benefit of the entire community.

In the early 20th century, Australian economist Edward Shann warned that reliance on temporary booms to fund economic activity was not a sustainable practice.[39] This remains true and the Coalition needed not look so far back as Shann to realise this as the Treasury department highlighted shortfalls in revenue before Royalties for Regions was even implemented. Rather than the economic mismanagement and corrupting influence of Royalties for Regions, Western Australia should emulate the "Alberta Advantage" where excess royalty revenues are used to pay down state debt and reduce tax burdens.

Andrew Pickford and Cian Hussey

Endnotes

[1] A definition of 'regional WA' can be found in the Regional Development Commissions Act 1993 (WA) Schedule 1, https://www.legislation.wa.gov.au/legislation/prod/filestore.nsf/FileURL/mrdoc_20640.pdf/$FILE/Regional%20Development%20Commissions%20Act%201993%20-%20%5B02-e0-05%5D.pdf?OpenElement, pp.24-25. It is comprised of all local government districts outside of metropolitan Perth.

[2] It was not a traditional coalition, but more of an alliance between the two. National Party members accepted ministries as independent ministers, reserving the right to exempt themselves from Cabinet and vote against the government on the floor of Parliament. Brendon Grylls did not request the deputy Premier position, a hallmark of the traditional coalition between the parties.

[3] This means that the funds were effectively treated as separate from general government revenue. By law, the money was required to be kept in a separate account and not make up part of the Consolidated Account, where all other state government revenue goes.

[4] Royalties for Regions Act 2009 (WA) s4, https://www.legislation.wa.gov.au/legislation/prod/filestore.nsf/FileURL/mrdoc_20645.pdf/$FILE/Royalties%20for%20Regions%20Act%202009%20-%20%5B00-f0-07%5D.pdf?OpenElement.

[5] E. Harman and B. Head, State, Capital and Resources in the North and West of Australia, Crawley, University of Western Australia Press, 1982, pp.167-196.

[6] J. Phillimore, 'The Politics of Resource Development in Western Australia', in Brueckner, M., Durey, A., Mayes, R., Pforr, C. (eds.), Resource Curse or Cure? Framing the Debate, p.36.

[7] Western Australia, Parliamentary Debates, Legislative Council, 7 April 1998, 1486 (Giz Watson, Member for North Metropolitan).

[8] J. Phillimore and L. McMahon, 'Moving Beyond 100 Years: The "WA Approach" to National Party Survival,' Australian Journal of Politics and History, vol. 61, no.1, 2015, p.45, p.52.

[9] This was caused by "large remuneration increases across the public service and strong growth in key service delivery agencies especially Health" which together with RfR-induced "undisciplined ad hoc funding submissions" created "expenditure policies and spending that impacted State finances in the second term in measures never seen before". J. Langoulant, 'Special Inquiry into Government Programs and Projects: Final Report Volume 1', State of Western Australia, 2018, https://publicsector.wa.gov.au/sites/default/files/documents/special_inquiry_into_government_programs_and_projects_volume_1.pdf, p. 44.

[10] Department of Treasury and Finance, "2008/09 Pre-election Financial Projection Statement," Government of Western Australia, 2008, http://www.treasury.wa.gov.au/uploadedFiles/PFPS_2008-09.pdf, p. 1.

[11] Western Australian Regional Development Trust, '2016-17 Annual Report,' The Government of Western Australia, http://www.drd.wa.gov.au/Publications/Documents/WARDT%20Annual%20Report%202016-17.pdf, p. 18.

[12] D. Lague, 'Grylls grills parties over $675m,' WA Today, 13 September 2008, https://www.watoday.com.au/national/grylls-grills-parties-over-675m-20080913-4fpj.html?_ga=2.102154817.1324066750.1545277539-67408494.1545277539.

[13] 'Brendon Grylls Royalties for Regions dollars "wasted",' WA Today, 24 May 2011, https://www.watoday.com.au/national/western-australia/brendon-grylls-royalties-for-regions-dollars-wasted-20110524-1f1wo.html; C. Sonti, 'Royalties for regions or else: Nats,' WA Today, 20 August 2008, https://www.watoday.com.au/national/western-australia/royalties-for-regions-or-else-nats-20080820-3yk2.html; D. Emerson, 'Grylls digs in on Royalties for Regions,' The West Australian, 5 May 2016, https://thewest.com.au/news/pilbara/grylls-digs-in-on-royalties-for-regions-ng-ya-105181.

[14] E. Butler, Public Choice – A Primer, London, Institute of Public Affairs, 2012, p. 73. Available from: https://iea.org.uk/wp-content/uploads/2016/07/IEA%20Public%20Choice%20web%20complete%2029.1.12.pdf.

[15] These 50 projects were a representative sample, comprising of 11 projects that were subject to review by the Special Inquiry and 39 projects selected at random.

[16] Langoulant, 'Special Inquiry: Volume 1', p. 144.

[17] Ibid.

[19] J. Langoulant, 'Special Inquiry into Government Programs and Projects: Final Report Volume 2', State of Western Australia, 2018, https://publicsector.wa.gov.au/sites/default/files/documents/special_inquiry_into_government_programs_and_projects_volume_2.pdf, p. 256.

[20] Ibid.

[21] Ibid, 257.

[22] Economic Regulation Authority, 'Inquiry into Microeconomic Reform in Western Australia: Final Report,' Economic Regulation Authority, 2014, https://www.erawa.com.au/cproot/12778/2/Final%20Report%20-%20Inquiry%20into%20Microeconomic%20Reform%20in%20Western%20Australia.PDF, p. 82.

[23] Langoulant, 'Special Inquiry: Volume 1', p. 9.

[24] Langoulant, 'Special Inquiry: Volume 1', p. 140.

[25] Office of the Auditor General, 'Royalties for Regions – are benefits being realised?,' Office of the Auditor General Western Australia, 2014, http://www.parliament.wa.gov.au/publications/tabledpapers.nsf/displaypaper/3911777a6400f39cb78a51b748257d020012579f/$file/1777.pdf, p. 13.

[26] J. Daley and A. Lancy, 'Investing in regions: Making a difference,' Grattan Institute, Melbourne, 2011, https://grattan.edu.au/wp-content/uploads/2014/04/086_report_regional_development.pdf, p. 47.

[27] Ibid; Agglomeration economics describes the benefits that are realised by individuals and firms when a large amount of economic activity is concentrated in one place.

[28] Langoulant, 'Special Inquiry', p. 570.

[29] Road Safety Commission, 'Community Grants', Government of Western Australia, 11 March 2019, https://www.rsc.wa.gov.au/About/Community-Grants.

[30] Langoulant, 'Special Inquiry', p. 570.

[31] Ibid, 571.

[32] Ibid, 468.

[33] 'Perth Stadium's $54 million footbridge revealed', PerthNow, 7 June 2015, https://www.perthnow.com.au/news/wa/perth-stadiums-54-million-footbridge-revealed-ng-b9ce30d4908c71c2b3c0ecad7709136b.

[34] J. Zimmerman, 'Matagarup Bridge mess: Perth stadium project late but did it open too early?', PerthNow, 28 July 2018, https://www.perthnow.com.au/sport/perth-stadium/matagarup-bridge-mess-perth-stadium-project-late-but-did-it-open-too-early-ng-b88907381z; Langoulant, 'Special Inquiry', p. 443.

[35] Langoulant, 'Special Inquiry', p. 455-6.

[36] Ibid, 447-8.

[37] Ibid, 455-6.[38] Main Roads Western Australia, 'Optus Stadium – Matagarup Bridge', Government of Western Australia, 8 March 2019, https://project.mainroads.wa.gov.au/home/eastmetropolitan/Pages/matagarupbridge.aspx.

[39] E. Shann, The Boom of 1890 – and now: A call to Australia to put her house in order lest drought and falling prices for wool and wheat overtake us again, Sydney, Cornstalk Publishing Company, 1927, p. 1. Available from: http://nla.gov.au/nla.obj-189331136.

The Galah Award Nominations for South Australia

Introduction

With a long history of being a leader in social reforms the South Australian Government set its cap to leading reform in an area that is dear to the hearts of social activists and the Government's supporters. The government decided to set the pace for a rush into renewables which has had disastrous consequences for Industry and consumers in the state.

Governments struggle with health which consumes a huge proportion of State Budgets and South Australia has struggled more than most. From cost overruns and delays at the new Royal Adelaide Hospital to the failure of the Electronic Patient Administration System (EPAS) there is a litany of failure to deliver.

Governments are good at solving the previous crisis. Following the drought in the first decade of this century State governments rushed to build Desalination plants to protect future water needs. SA was no exception and has been running this plant at 10% capacity since 2016 rather than mothballing it.

Out of scope for these awards are those things that Government have failed to do. In SA's case that would include their inability to secure the future of the Murray River and an ideological aversion to anything nuclear resulting in missed opportunity to take advantage of the state's geological stability and remoteness as a prime location for storing the world's waste.

1. Desalination Plant

Premier Rann announced the construction of this plant in September 2007. It was supposed to ensure Adelaide's future water supply. Originally designed to supply 50 gigalitres per annum the capacity was doubled to 100 gigalitres when the Federal government came on board. Although the project was delivered on time and on budget it is still considered a failure. Desalination is economically inefficient because of the huge energy demands required to operate the plant. And SA has very expensive energy as discussed elsewhere. Consistent with the Government's energy objectives all of the power used in the plant is drawn from renewable sources. The plant has been running at 10 percent of its capacity since 2016, not because there is a need for the water, but to avoid mothballing the plant and the resumption costs in the seemingly unlikely event that its output is actually required.

2.New Royal Adelaide Hospital (NRAH) Delays and Overruns

The new RAH had been described as Australia's most expensive building even before cost overruns were included (and at the time the third most expensive in the world). It has 800 beds, replacing the 680 beds spread over the old hospital's site. The building eventually cost in excess of $2.44 billion, but that included around $250 million of medical equipment. The original budget was $1.7 billion.

The Institute of Public Affairs estimated that this would have been $750 million over budget at completion (includes additional costs since their estimate).

Construction commenced in February 2011 with completion due by April 2016. But there were a number of obstacles, including a claimed $69 million to remediate site contamination. After several delays and announced completion dates for May 2016 and June 2017 were missed with handover finally occurring in September 2017 and followed settlement of litigation between the builder and the government over the remediation costs and defects.

As might be expected the hospital design is quite high tech and includes robotics in the services areas and was to include an advanced patient administration system that was to be rolled out across the public hospital system. This project has been such a disaster as it has earned a separate nomination. Its failure has added to the teething problems of the new hospital.

Amongst the teething problems have been claims that the resuscitation rooms are too small and unfit for purpose and that fixing this has meant additional costs. It has already been claimed that the new hospital is too small to meet current demand, let alone projected demand, with up to 40,000 expected outpatient appointments per year that are unlikely to be accommodated.

3. Tram to old RAH precinct

Almost as an aside to the NRAH issues is the tram extension along North Terrace to the old RAH site. The extension covers a distance of 1 kilometre and cost $44 million. There is also a promise from the current government to make it possible for trams to make a right turn from King William Street at a projected cost of up to $37 million. With the RAH now moved and activity at the East End precinct currently in decline there appears to be little to be gained from this project and the most likely users are university students saving a couple of minutes on their walk from the Railway Station. Certainly not a large project, but one of doubtful value.

4.Electronic Patient Administration System (EPAS)

Typically, health systems have maintained good administrative systems and more chaotic and localized medical records systems. The admirable intent of SA's EPAS system was to create an integrated system with great benefits to the clinical as well as the administrative management of patients.

It is also typical that IT areas would rather build systems than buy them off the shelf, and if they are purchased then as a second best, they have a preference to modify those systems to the unique requirements of their organisation. And therein seems to lie one of the major difficulties of the implementation of EPAS. Having purchased the system from the vendor, Allscripts, the final review of the system that was released on 30 January 2019 noted:

"SA Health chose to implement the system without the assistance of expert organisations, including the Allscripts vendor, experienced in electronic workflow design and the change and adaptation complexities associated with implanting EMRs…"

By January 2019 the project had taken six years, was not ready for the opening of the NRAH, 80% of the $421 million budget had been spent on rolling out to 28% of all public hospitals and the coroner had criticized the system as preventing him from "establishing the truth" in an enquiry. Governments are not good at dealing with "sunk costs", but the SA Government decided to kill off EPAS, but largely by rebranding it to Sunrise EMR and Allscripts PAS after modification of the existing software, which will require even more funding.

It might be a case of "watch this space".

5. Energy Policy

There are a number of policies and projects that group together under this one nomination – even if they might individually justify separate consideration. They are all connected to the same blinkered commitment to an ideological position on the appropriate response to climate change issues.

In combination these policies have resulted in SA's electricity prices being the highest in Australia/the World

Power Station Shutdowns.

Unlike other states, South Australia does not have high quality (and potentially clean) coal resources.

SA's last Coal Fired Power Station was shutdown by Alinta Energy on 9 May 2016. For some time it had been restricted to operating only in summer as rising use of wind and solar generation, and the operating costs when carbon pricing under the Clean Energy Act was in operation had eroded the viability of the power station.

The same factors are influencing the viability of the first-generation gas fired power stations at Torrens Island which were built in the 1960s. In 2014 the oldest units were taken out of service and were to be mothballed in 2016. However, after the SA blackouts of September 2016 AEMO demanded that the turbines be brought back online and they are now scheduled to be mothballed in mid-2019 through 2020 as the new Barker Inlet station comes online.

Interconnectors and the September 2016 failures

With heavy reliance on solar/renewables energy SA is left reliant on the national grid from time to time. In September 2016 the fragility of the system created by extreme weather and this heavy reliance on interconnectedness through the state into darkness, with much of the state losing power for several days.

As storms moved though the mid-North of the state, once in 50-year winds caused pylon failures and damage to three out of four of the interconnectors in the region. There was then a cascading throughout the network as surges in demand eventually tripped the Heywood interconnector.

Renewables

The previous government had adopted a policy of generating 75% of the state's electricity requirements from renewable sources. As noted above this policy has impacted on the viability of non-renewable sources and there has been no direct use of coal sourced power since 2016. The Energy Market operator has projected the state will achieve 73% in 2020/21.

Given the progress so far the Marshall government has chosen to manage energy policy without actually changing these aspirations but by trying to contain the impacts on business and consumers – but much of the damage has already been done. SA is acknowledged as having the highest retail electricity prices in the country (and 50% higher than the cheapest), but claims that they are the highest in the world are disputed.

The other element of electricity supply that SA has lagged the rest of the country on has been the security of that supply. Renewables reliability has been one of the influences on the need to fallback on interstate supply, and that has its own vulnerabilities.

Solar Farm Stop Press

One of the elements of the abovementioned forecast achievement of renewables aspirations was the Aurora Solar Thermal Power station with a 150Mw capacity and 8 hours of battery storage. Despite a $110million commitment from the Commonwealth government the successful tenderer for the project has been unable to fund the full $650 million cost and the project was abandoned on 5 April 2019. The anticipated contribution from this project should be removed from the renewables shares in the calculations of the previous section.

6. Forestry SA Sale

All privatisations tend to have their critics and all jurisdictions have had privatisations. In SA's case the 2011 sale of the future rotations of SA Forestry products is such an example. For a price of $670 million the state sold 70 years of future rotations to Onefortyone. Both the price and the process used have been criticised with the Auditor General pointing to conflicts of interest in the selection process. The price was above the reserve that was set for the sale which was based on previous dividends from Forestry SA. The most recent annual report of the purchaser however has suggested that under private management the assets have generated about four times as much profit.

Anonymous author.

The Galah Award Nominations for the Northern Territory

Introduction

The nominations for the Northern Territory have been selected on processes or projects which have either lacked a compelling business case, value-for-money equation, or adequate benefit-to-cost ratio.

1. Northern Territory Budget Process

The current Northern Territory finances are a disaster of the first-order. It is not any specific spending programs that are causing the disaster but a general failure throughout the government to have any discipline or prioritisation of spending projects that can deliver for taxpayers.

A report late last year by the Northern Territory Auditor General brought this to the forefront when she pointed out that "If Territory Government spending continues to grow as it has in the past, the Territory's net debt is projected to increase tenfold from $3.0 billion in 2017-18 to $35.7 billion by 2029-30."

The recent Northern Territory budget has net debt levels for this year at $4191m and rising to $6206m next financial year. The debt is rising by $230,000 per hour or nearly $4,000 per minute.

The Northern Territory Government commissioned former WA Under Treasurer John Langoulant to pronounce the department heads will have to restrain their expenditure growth from 6.2% to 2.9% and it's suddenly now the fault of senior public servants, not Cabinet, for the Government's undisciplined overspending.

A reduction of 3.3% of expenditure growth is way too little way too late. This level of restraint will do next to nothing to fix the hole we are in. With so little discipline being imposed upon spending the Northern Territory is nearly beyond recovery.

The most recent budget provided the forward estimates for net debt only out for the next four years and it is still escalating with only guesstimates that they might get on top of the budget. No forecasts were made for when the net debt would start declining.

For all of the former CLP Government's failings, and it had many, budgetary management wasn't one of them. Financial competence isn't just another issue for Government. It is the issue.

When it comes to money there are two considerations in the Northern Territory. Firstly, the budget and secondly, the economy.

The budget is the amount of money that the government spends. The economy is the amount of money that is generated in the Northern Territory of which Territorians are beneficiaries. In many state jurisdictions the government's budget is merely important because it contributes in a relatively restrained way to the state's economy. In the Northern Territory the size of the government means that the government's budget forms a substantial slice of the economy. In fact, it forms such a substantial slice of the economy, cuts in government spending cause real anguish because many businesses, directly or indirectly, rely on Government spending.

This is where the Northern Territory Government is on the horns of a dilemma and is in a damned if you do, damned if you don't, position. In 2012 to 2016 the Northern Territory Government made a number of decisions to cut spending, raise fees and charges and sell assets. This included raising power prices by 30%, selling TIO (Territory Insurance Office), leasing the Darwin Port to China for 99 years and axing the Arafura Games to mention a few.

Politically these decisions were as popular as cancer, but they had to be made. In those years the Northern Territory's projected debt fell from $5.5 billion to $2.5 billion. Much of the political pain was endured because it was clear that the Northern Territory's income would be adversely affected by future cuts to the GST. Nevertheless, the forward estimates saw surpluses ahead.

The latest Northern Territory budget is not addressing fundamental problems. This failure and the fact that the rising debt problem eventually falls to the Commonwealth unlike State Governments will inevitably lead to the Commonwealth stepping in and shutting the Northern Territory Government down.

The Northern Territory will be placed into effective administration and any ambitions for self-government will be cast to the four winds forever. The Northern Territory will end up being managed by a Commonwealth department. Avoiding this was why the Northern Territory was anxious for self-government in the first instance.

Once this occurs the Northern Territory will no doubt stop developing because in taking over the Commonwealth will seek to recover its losses, and there will be pain, real pain.

To get to a position of genuine recovery and to contain recurrent expenditure at least 10% of the Northern Territory's public service has to go. The Northern Territory Government simply doesn't have the fortitude to do this. If they did know, some 2,000 extra dwellings would hit the Northern Territory real estate market simultaneously. If you think your house price is bad now wait until that happens.

To avoid spilling jobs the Northern Territory Government will cut infrastructure spending. This intention is already obvious in the forward estimates. This means there will be more public servants managing fewer projects.

Infrastructure projects that will proceed won't aid the economy. Government will build a new art centre while remote roads will continue to resemble world war one trenches. The horns of the dilemma are If the Northern Territory Government does act, they will hurt many people and destroy many businesses. There are no signs yet of any effective strategy to minimise the financial damage to taxpayers and voters while ensuring the viability of an economy that is so necessary for all the people in the Northern Territory.

2. Palmerston Regional Hospital

Palmerston Regional Hospital was initially estimated to cost $110 million and was announced by the previous Labor government. By the time of the Northern Territory election in August 2012, 100% design development, full plans and construction tender documentation had been completed.

After that election I became Minister for Health. I had reservations on the proposal but because money had already been spent on the hospital and it had been promised in the election I did not try and kill the project.

The first issue I dealt with was that, additional site assessments, due to traffic and expansion concerns, had to be undertaken.

The Auditor General noted that $4.7 million had already been spent on the original unsatisfactory site, with sunk costs estimated at $2.5 million. That was only the beginning of the increased costs

On my watch, the cost estimates increased to $150 million.

The actual costs increased after my tenure to $170 million and also necessitating an additional $30 million for costs of commissioning.

That is not the end of the story on excess expenditure as the Auditor General noted that "The budget identifies there are insufficient funds to cover the operation of Palmerston Regional Hospital”.

It is not always the Minister who makes the mistakes in government. For Palmerston Regional Hospital the Auditor General has stated that she was “unable to obtain sufficient appropriate evidence to demonstrate that the financial information produced (both budget and actual) is sufficiently complete and accurate to effectively monitor, manage and report the cost of delivering the project.” and

“I recommended the full costs of the project be determined and communicated to enable those responsible for governance to effectively monitor and understand the true cost of the project.”

The Auditor General also found that the terms of reference for an inter-agency Executive Program Board established to make decisions and provide oversight on the hospital project did not exist as of January this year (2018) and that meeting minutes were not provided to show the group had met every month as required and that Top End Health Services' senior management team also could not provide minutes of meetings.

3. $74 million on a Royal Commission based upon misinformation

In July 2016, ABC 4 Corners went public with a program called Australia’s Shame. In that program thyerelied on footage that had been leaked to them showing what they claimed to be abuse of several boys in custody. The aired allegations of “torture”, “barbarism” and described the Don Dale juvenile detention facility as “Abu Ghraib”.

Footage of a boy in a spit hood was screened around the world as concrete evidence of all of those claims. Other footage showed the use of tear gas during a disturbance at the old Don Dale facility and several instances of the use of force against inmates of the facilities.

What 4 Corners did not broadcast, but what they were told, was the fact that these matters had already been investigated by police and in one instance charges had been laid. That matter led to a not guilty verdict which was upheld on appeal to the Supreme Court

4 Corners program was designed to generate and did generate outrage. By that evening the then Prime Minister had spoken to the Chief Minister of the NT and it was announced the next morning, to have a Royal Commission into child detention and child protection in the NT.

The reporting of the time speculated that Ministers and Youth Justice officers would be going to gaol. Including the money spent on doing the hoovering of information by the NT Government and the cost of the Royal Commission itself the bill for to the taxpayer amounted to $74 million.

The number of criminal prosecutions arising out of the Royal Commission. None.

The NT Supreme Court declared the use of the tear gas to be reasonable.

There was no doubt in 2016 there were issues in juvenile detention in the NT. Those were being attended to and the Old Don Dale, in which these events had occurred, had been shut down a year before 4 Corners went to air.

The Government of the day had reviewed juvenile detention in the NT. The resulting review made 16 recommendations to fix the issues and they were being rolled out long before 4 Corners arrived. The New Don Dale was declared to be fit for purpose by the author of that report, an expert in the field. 4 Corners had in correspondence noted that there were substantive steps being taken to remedy these issues. They never made that observation in the program. 4 Corners also filmed the improvements being made in the new Don Dale.

Those improvements were never broadcast.

Having rolled those dice 4 Corners' reputation now hung on the resulting Royal Commission to collect scalps. The Royal Commission discovered that matters had been investigated, that there were no cover ups and it did not make findings of "torture" or "barbarism" nor did it make any finding that the NT Government was running "Abu Ghraib".

The Royal Commission did make a number of findings that there were problems in Child Protection and Child Detention in the NT. Hardly surprising and hardly a secret.

Accordingly, the Royal Commission made a number of recommendations including the replacement of the New Don Dale with a purpose-built facility.

Many of the recommendations of the Royal Commission have been implemented and nothing has changed. In fact, the last incident in the New Don Dale was not only put down using tear gas, but it introduced the new suppression element of shotguns.

Now the NT Government has announced that it will not proceed with the planned new facility saying that it will build one elsewhere. No site, no money and no time line has been allocated. The likelihood is that the "new" facility will be an extension of the existing New Don Dale.

This brings the NT to exactly the same place as July 2016 and the Government will have to rely on the existing Don Dale as being fit for purpose. This journey has taken two and half years and $74 million to arrive exactly where the Government was.

The journalists at the ABC are federal public servants. They have a duty quite apart from the rest of the media to uphold the truth. 4 Corners misled a Chief Minister and Prime Minister into spending $74 million on a Royal Commission that uncovered very little that wasn't already in the public domain.

(Declaration: The author of this article was the Corrections Minister when 4 Corners went to air.)

4. Death and Taxes

As a general principle, people die. Over the past few centuries we have found ways to make that journey a healthier experience. We wash our hands, get vaccinated, and we pasteurise our milk. We can transplant hearts and cure many cancers. We live longer and healthier lives than ever.

And then it ends.

Before it ends, we discover the two certainties of life, namely, death and taxes.

In the context of this article death and taxes are not only certain they are also intimately interrelated.

Currently in the NT there will be more than 30 hospital beds with patients in them that will cost the taxpayer about a million dollars each to maintain because of the staffing and support those beds need. These beds are not palliative care beds; they are hospital beds in hospital wards and in the case of Darwin a single dedicated ward. These beds are often occupied by people who, because of their dementia or advanced mental decay coupled with their particular symptoms, cannot be housed in aged care facilities.

Because they are in hospital wards, they are treated as though they were any other type of patient. If they were in an aged care facility, they would be treated with the respect and dignity afforded to any other person who is approaching the end of their lives, particularly the last few months of their lives. They would be made as comfortable as possible and the course of nature would proceed. If these patients were in a palliative care ward, they would be treated the same way. Palliation means that the inevitable has been accepted and the conversation moves from notions of when a person passes toward how a person passes. Again, the dignity is offered in a way that the transition is made as comfortable as possible.

In a hospital ward however, the default position remains that life should be extended at all costs. If a patient who has advanced dementia presents with another condition, pneumonia for example, all efforts will be made to cure the patient of pneumonia.

As a community the time has come to speak of the unspeakable and reflect on why we ask the community to pay for the medicalisation of a natural process that has an utterly inevitable consequence. The cost of that extra six months or a year grows exponentially as that time passes.

Worst of all it is stripped of dignity.

It is important to impress that this is not about euthanasia. Euthanasia is a process of actively assisting in or causing a death and has nothing to do with allowing death to come naturally and without an active intervention.

The health budget in the NT accounts for a third of all government spending and it still cannot adequately cover the field. At the same time children are born in the NT who have real and unattended needs. The money to assist them is not there because they are often not in the hospital system. Their needs may well be serviced by other departments like Child Protection or Education but they will not have those needs adequately met because Health sits in the middle of the budget like a bowling ball in the middle of a trampoline.

Health is the department that spends millions of dollars every year keeping people alive who will be visited by death soon in any instance and whose faculties are so deteriorated that those people are often not even conscious of being alive.

Communities need to talk about death and taxes in the same sentence. But to have that conversation communities also must reconcile themselves to the uncomfortable reality that there are occasions that allowing the inevitable to occur is a consequence of that conversation and moreover, should form part of government policy.

The Commonwealth Department of Health undertakes economic evaluations for assessing many medical interventions. Their most widely used approach for estimating quality of life benefits in economic evaluations is the quality-adjusted life-year (QALY).

The QALYs gained from a given health care intervention are estimated by considering the difference in progression, through the various health states, with and without the intervention concerned.

The main advantage of the QALY approach is that it provides one combined measure of the benefits of a program that both extends life and maintains quality of life.

With limited resources in all health systems around the world not just Australia, we must recognise that hard choices have to be made in trying to give the greatest benefit to the greatest number of people.

If the principle that ‘death follows life’ is a generally accepted principle then it should also follow that management of that principle is a natural consequence of that acceptance. But that consequence isn’t accepted, it is currently at best avoided, at worst resisted.

It means communities need to be less squeamish about the inevitability of death and government policies need to stop pretending to be gods.

The really unpleasant part of that conversation is that it needs to be had in the same breath that acknowledges that it is also a conversation about money.

5. Arafura Games

When Labor won office, for reasons that are not clear, they chose to reintroduce The Arafura Games.

In their campaign promises for the 2016 election, they budgeted $4 million to cover the costs of staging the games. Earlier this year, the government doubled its contribution to $8 million to cover the costs of the Games without making any public announcements.

It has become reminiscent of Rome in 140BCE where to keep the votes of citizens the government of Rome introduced grain dole and laid on entertainment, leading a satirist of the time to note:

“Already long ago, from when we sold our vote to no man, the People have abdicated our duties. For the People who once upon a time handed out military command, high civil office, legions…everything, now restrains itself and anxiously hopes for just two things: bread and circuses.”

Did the games make a contribution to the Northern Territory economy? That is unknown as it is only now that the Games are over; the government will undertake a cost benefit analysis to see if they will fund a continuation of them in future years.

Normally you would expect government to undertake the cost benefit analysis before spending taxpayers’ money on schemes.

Written by John Elferink, former Attorney General, Minister for Health, Minster for Corrections, Minister for Disability Services, Minister for Mental Health Services

The Galah Award Nominations for the Australian Capital Territory

Introduction

Only two nominations are made for the ACT. This is not to suggest that there is any paucity of expensive and inefficient projects, or that all other expenditure commitments have a sound basis.

To put the ACT nominations in perspective:

- The Territory's population comprises approximately 1.7 percent of the total Australian population. Economic output (as measured by Gross State Product) is $39.8 billion representing 2.2 percent of the national economy.
- The economy is marked by a relatively large public sector (30 percent of the total workforce), high participation rates and relatively higher incomes (median household income of $2,087 per week compared to $1,438 nationally). Revenue raising capacity is limited due to the relatively narrow economy, and inability to tax the Commonwealth Government.
- The overall prosperity, as reflected in such comparisons, however, masks pockets of severe disadvantage and poor socioeconomic outcomes.
- A significant proportion of the population is on Australian average incomes in a city-state functioning for high incomes. For those people, housing is severely unaffordable. Median rents are the highest in the country.
- Apparent educational achievements, as measured by raw NAPLAN results, are the best in the country, however, students from disadvantaged backgrounds fall 2-3 years behind. Waiting times in the emergency departments and for elective surgery are the longest in the country. Relative Aboriginal incarceration rates and recidivism rates are the highest in the country. Aboriginal Child removal rates are the highest in the country.
- In summary, prioritisation challenges to achieve the best socioeconomic outcomes from public expenditures are not dissimilar, indeed more acute, compared to other jurisdictions.
- Urban rail and tram projects can be effective in addressing road congestion and reducing travel times. However, they also generate a high level of excitement among planners, engineers, contractors, workers in construction and transportation, consultants, landowners, lawyers, and developers. For politicians, such projects can be symbols of a vision, cause or ideology. Conflation of these interests has resulted in a commitment to a mega project with early lock-in of a problematic project at a highly questionable time.
- Health infrastructure projects generally present unique challenges – developments are typically brownfields, over specified and may miss evolutions in models of care. It is however unusual for a greenfields facility conceptualized and designed over a period of more than a decade to be mothballed from day one. The second nomination presents such a unique case.

1. Light Rail – Stage 1

The project connects Gungahlin (one of the 5 towns within the ACT) with the city centre through a 12 km light rail link. Construction of a light rail network was a commitment in a parliamentary agreement between Labor and the Greens following the 2012 Election which allowed Labor to form a minority government.

The project, delivered under a Public Private Partnership (PPP) has a whole of life nominal cost of $1.78 billion and present value cost (2016) of $939 million discounted at 7.52 percent. However, these costs do not include estimated agency costs associated with the construction and operation of the light rail, i.e., costs for managing the successful consortium over a twenty□year period. Under the partnership, the Government will pay $375 million in capital contribution, $1.27 billion in availability payments over 20 years, and retain $129.7 million of risks. The Government will also carry the patronage and fare box risk.

A Cost Benefit Analysis prepared in 2012 estimated a BCR of 1.02 for the light rail project, and 1.98 for a bus rapid transit. The BCRs were reported in a submission to Infrastructure Australia, however, the ACT Government did not purport at any point to rely on the BCR as the basis for its decision for choosing the light rail alternative in preference to the bus rapid transit.

A subsequent business case released in 2014 estimated a BCR of 1.2 for the light rail option, and 2.4 for the bus raid transit alternative. The BCR estimate for light rail, however, was misleading. It included land value uplift and wider economic benefits, which are notably excluded by Infrastructure Australia in its assessments of the benefits of such projects. Excluding those benefits, as they should be, the BCR for the light rail project was, according to the Auditor-General in a specific report on the project in 2016, a mere 0.49.

Patronage estimates as included in the business case are approximately 3,900 passengers in the AM peak and 3,600 passengers in the PM peak hour in 2021 (two years after the services commence).

To proceed with a project where the return is less than 50 cents for every dollar spent is simply not consistent with the nationally accepted cost benefit rule. Notably, the BCR reported by the Auditor-General was likely an overestimate as the Audit pointed out that apart from the excluded agency costs, considerable work for the business case had not been completed including, but not limited to, the Utility Services Management Plan that identifies all the utility services which needed to be relocated. In an ACT Legislative Assembly hearing, project officials advised that those costs could be in the order of $200 million. Further, the business case revealed that costs of park and ride facilities, associated bus interchange works and road works are also excluded from the cost estimates.

Financial analysis of the project released after the project was committed to indicated that significant development along the entire corridor would be required, along with land sales, value capture mechanisms, and an increase in taxes in order to recover the financial costs of the project. Changes to the then existing zoning and planning provisions would also be required. Residents along the corridor and adjoining suburbs were not informed of the proposed changes.

Along the corridor, 1,288 public housing dwellings were demolished, causing major displacement for long term tenants. The Government allocated $192 million in 2016 for the replacement of the lost stock. These costs were not included in the business case or the CBA.

The project was completed in April 2019, some six months late, and the services commenced on 20 April with a street party costing in excess of $100,000. At the time of inauguration, the Transport Minister stated that the final costs of the project will not be known for some time.

Concluding Comments

- Transport benefits of the project are minimal.
- The costs were significantly underestimated, substantial costs associated with the project were excluded. The benefits were significantly overestimated. The final costs of the project are not known even after the project is complete and services commenced. The BCR of the project is likely to be just a fraction of what has been reported.
- The project is around one and a half times higher than the national NBN project proportionate to the relative sizes of the economies.

Faced with the political problem of the project only benefiting the northern Canberra population, the Government, in the lead up to the 2016 Election, announced commitment to a city-wide network of more than 90 kilometres. At the time of that commitment, no cost estimates were available.

Funding for planning of Stage 2 of the network has been allocated in the budget, the costs of which are unknown due to uncertainties around the route alignment. The Government has not made any commitment to making the project subject to a cost benefit analysis or a business case. The absence of a business case has not, however, inhibited Federal Labor in committing $200 million to the project.

2. Ngunnawal Bush Healing Farm

In November 2007, the ACT Government announced a commitment of $10.8 million, with the Australian Government contributing an additional $1 million in June 2008 for a residential "alcohol and drug rehabilitation service that will address the complex issues related to drug and alcohol abuse for the ACT Aboriginal and Torres Strait Islander community".

An Advisory Board with representation from Aboriginal elders, a number of Aboriginal service organisations and ACT Government agencies was formed in 2009 to develop a model of care for the facility. Secretariat services were provided by ACT Health.

The Model of Care was developed through consultations in 2009 and 2010 with:

- Aboriginal and Torres Strait Islander community people in the ACT and region including potential service users;
- Staff in Aboriginal and Torres Strait Islander Incorporated organisations and some Board members of these organisations;
- Aboriginal and Torres Strait Islander representative bodies;
- Therapeutic Community workers;
- Drug and Alcohol, Health, Housing and Correctional Services sector staff;
- Members of the Drug and Alcohol Service Advisory Board and sub-committee;
- ACT Government agencies including some ACT Government funded agencies;
- Non-government agencies;
- Architects and Designers; and
- Transitional accommodation, housing and detoxification services.

A detailed Model of Care for a culturally appropriate residential alcohol and drug rehabilitation facility was released in October 2010.

Traditional smoking ceremony was held in March 2015 with the project anticipated to be completed by end 2016. In October 2015, ACT Health called for tenders “to manage an eight-bed Ngunnawal Bush Healing Farm (NBHF) Alcohol and Other Drug Aboriginal and Torres Strait Islander Residential Rehabilitation Service”. The 8-bed facility was physically completed in 2017. The design and construction of the facility allowed for an increase in capacity to 16 beds once the services were established.

In February 2017 Winnunga Nimmityjah Aboriginal Health Service was engaged to prepare a Model of Care in collaboration with the Alcohol and Other Drug Association ACT. Both organisations were funded with $75,000 and $400,000 respectively for this purpose.

In May 2017, the Government announced that the facility could not be used for residential rehabilitation services due to zoning rules. The Government also then contended that a residential alcohol and drug rehabilitation facility was never intended, to the surprise of the stakeholders involved with the development of the facility from the initial concept to final stage, and in apparent contradiction of the Appropriation Act 2007-08 (No. 2). The facility is currently being used as a non-residential daytime meeting space for the occasional delivery of life skills programs.

In February 2019, the ACT Liberals announced their commitment to the construction of a residential drug and alcohol rehabilitation facility as part of their election policy platform. The Labor/Greens Government followed by committing to work with the Aboriginal and Torres Strait Islander Elected Body to progress such a facility.

Conclusion

The project, which took almost 14 years from initial conception to completion, involving extensive consultation with stakeholders, service providers and the general community, the development of detailed models of care, the construction of a $12 million purpose built residential facility has embarrassingly failed to meet any of its objectives.

Both the Government and the Opposition have as a consequence recognised that in order to meet the original objectives a new facility will have to be built.

Jon Stanhope is Professorial Fellow at the Institute of Governance and Policy Analysis (IGPA), University of Canberra.

Khalid Ahmed was Executive Director, Policy Coordination and Development Division, ACT Treasury. He is currently Adjunct Professor at IGPA, and works in the private sector.

The Galah Award Nominations for the Commonwealth

Introduction

This essay highlights six instances of recent shortcomings in budgetary policy at Commonwealth level in Australia.

The first three have involved wasteful outlays so large, they have been, and will continue for many years to be, a burden that significantly impairs the national economy.

The final three involve smaller outlays, perhaps less important for national economic performance, but they have been cases where proper allocation processes were overlooked and needless costs were incurred.

1. Defence Spending on Local Procurement

Several recent defence decisions have involved the expensive domestic provisioning of equipment. They have included expenditures on ships, submarines, aircraft and armoured vehicles. With ships and trucks at least, wholly or largely domestically-built versions have been favoured ahead of off-the-shelf imported models – supposedly to allow for domestic skilling to provide Australia with its own capacity for repairs and maintenance. The decisions have committed the country to hundreds of millions of dollars of additional expense over the next 30 years. The additional expense over off-the-shelf options is commonly said to be at least 30%, even assuming that having such equipment makes sense.

Apart from the direct cost, the decisions have crowded-out our capacity to make other defence and non-defence outlays, whether they might have been furnished locally or imported. Competitive conditions in local activities, defence or otherwise that have to compete for resources to make the target equipment, are bound to be worsened. Finally, in defence terms, some defence strategists consider that the long delivery times caused by the insistence on local construction, and the failure to update using more modern equipment, have actually detracted from our defence capability.

The purchases have continued a long history of extravagance in these areas.

The most memorable example of wasteful decision-making in the defence arena in recent years has been the Collins class submarine episode. After contracts were let in 1987, construction of six Collins vessels by Kockums in Sweden (bow section) and the Federal Australian Submarine Corporation in Port Adelaide was continually plagued by design faults, break downs and repeated high-level inquiries. The first of the vessels (HMAS Collins) was commissioned in mid-1996. Between 2009 and 2012, only one or two completed vessels was available for deployment. By 2008, the total cost appears to have been about $5b, and the cost blowout above the inflation-adjusted contract value was said by reviewers Yule and Woolner to have been 'only' about 20 %, 'a smaller increase than other contemporary defence projects' (p325). In a January 2012 'Conversation' article (Hamza Bendemra, 'In deep water, where now for the Collins class submarine'), it was said they cost taxpayers $630m a year to maintain.

After all that, it is hardly surprising, the decision to replace the Collins after 2030 with 12 locally-built diesel-electric powered submarines converted from a French nuclear design (Barracuda class) has been widely criticised, with one simple question being as to where all the diesel fuel is to be stored on the submarine. A contract has been agreed to build around 60% of the vessel domestically in partnership with the French firm, stretching from the mid-2030s till 2050. The expected cost is $50b, much dearer than US Virginia class nuclear submarines, which could be bought and made ready for service much quicker, for a cost of about $40m each (see for example, ANU's Clive Williams, 'Sinking billions on an outdated weapon' Canberra Times, 5 March 2019)

For most of us the construction timetable is almost too far into the future to contemplate and the alleged need for the project, including the idea of combating the growing threat to us of Chinese influence beyond the China Sea, seems a little fanciful. In the meantime, the Collins class fleet they will eventually replace will need to be upgraded to extend their life by 10 years. Besides being concerned about their defence effectiveness, citizens should doubt the proposed outlay will ever occur on budget.

2. The NBN

A decade ago the Commonwealth government established a public agency to provide a communications network to supply wholesale broadband communications services to all Australians for a gross outlay of $80 billion. No cost benefit study of the project was prepared, let alone released. Recent (sometimes impressionistic) reports suggest, that even in the less expensive form committed to by the subsequent government, the cost of the NBN project is unlikely to be more than half-recouped from users. The informed view is that it will be a big loser.

Details of its planned design remain secret, behind standard provisions requiring facts relating to public enterprises which are intended to be eventually commercialised (and thereby regarded as 'off-budget'), to remain 'confidential in confidence'.

Doubts about the NBN's eventual commercial viability persist, in spite of the fact that parallel with NBN's establishment, its monopoly as the wholesale supplier was guaranteed by an edict forbidding the entry of other wholesale players, reinforced by the compulsory acquisition soon after its start of existing high bandwidth terrestrial resources (coaxial cable, ADSL and other) of the two existing competing broadband suppliers, Telstra and Optus. Finally, as part of NBN's brief, in terms of its cost, it is important to know NBN has been required by its brief to provide services of a certain minimum quality (bandwidth) of broadband services to the whole Australian population, allowing that a certain small proportion of the population would receive their broadband services via 'wireless' rather than terrestrial technology, ie via satellite, and/or some other non-terrestrial form of delivery such as microwave. Only a handful of countries, all much smaller geographically than Australia, have committed to such a thing.

From a budgetary point of view, NBN's existence is remarkable partly because of the absence of a cost benefit study at the start (or even the absence of one after modification of the NBN project by the subsequent government). The NBN project is also remarkable because of the absence to date of any estimate of the huge transfer of expenditure between urban and regional Australian consumers to be involved in meeting the requirement that all Australians obtain NBN services at a certain, equal, minimum price.

It might be reasonably thought that both a cost benefit study and, given the deliberate departure of its design from a user-pays model, an estimate of the huge transfer from users, would both have been prepared by the Department of Finance or by the Department of Communications.

No such luck.

Members of the team undertaking the analyses of the modified NBN project during the term of the current government have told us they were instructed NOT to conduct either a cost benefit study or an assessment of the size, or sense, of the massive consumer transfer.

The Vertigan report, for example, contains no such details. Nonetheless, a version we have seen of the report on pages 100-102 does contain some commentary on the strange one-price feature of the NBN, noting that the NBN's massive consumer transfer is both a source of inefficiency and a contradictory way to deliver any income-support objective to a target group.

3. Outlays to Ride-out the Global Financial Crisis

As significant in economic terms as the Defence and NBN examples already outlined, were the extravagances undertaken by the Federal Government for the alleged purpose of combatting the GFC.

The two most infamous Commonwealth GFC management projects were the Building Education Program and the Home Insulation Program. If space permitted, we would also cover under this heading the abandoned Cash for Clunkers scheme, although it was allegedly introduced mainly to reduce the age of the Australian car fleet for environmental purposes, so a summary of it has to be left for another occasion.

The Building Program lasted much longer than would have been reasonably required to counter the local downturn in activity associated with the global GFC. It left a legacy of excessive school building projects on libraries, shade covers and sporting facilities that dot towns and suburbs throughout Australia. Similar excesses across the country, and some tragic installer deaths, were suffered through the poorly conceived Home Insulation Program.

4. Outlays on Sporting Stadiums

Australia is considered by many observers to have an obsession with sport. Certainly, sporting contests are a significant pastime for many, and for individuals, prowess in sport can yield considerable personal wealth and public fame. In public debate, the role of governments in promoting sporting contests like the Olympics and Commonwealth Games and other tournaments is rarely questioned and the sporting bodies dominating them have been tax free since 1936. Yet the benefits of success are overwhelmingly private, with excellence being rewarded by paying audiences, media outlets and sponsors who seem happy to pay to have the winners endorse their products. Whether the public gains more than it pays through attendance fees and broadcast advertising seems unlikely.

In particular, the stadiums where sporting contests are held in Australia are often publicly built and owned, much as one imagines was the case in Ancient Rome. Hoping to be elected to government, the main political parties in Australia routinely promise major investments in such facilities, and promise to set aside land to accommodate them, often by excising portions of public parks or demolition sites that might have been used for something else. Such investments are commonly made in addition to annual subsidies, which in turn tend to be partly justified on an alleged 'public-health' pretext.

It is difficult to avoid the conclusion that recent Federal outlays on these items, whether paid directly or as grants matching state or municipal contributions, have been out of proportion with their public benefits. Meanwhile, the apparent neglect of equivalent support for some sporting types raises a question of whether the outlays have been arbitrary rather than even-handed. Consistent treatment of sports, let alone the consistent subsidy of sporting relative to non-sporting uses of public resources, via a model that somehow coherently linked supply to demand, remains a dream.

One of the best exposés of sports subsidy extravagance was that prepared by Adelaide University's Richard Pomfrey for a volume of essays on Australian exceptionalism edited by ANU's William Coleman in 2016. Pomfrey's article includes a table showing promised public contributions from 2002 to 2014 on sports stadium projects. Though already a little out of date and possibly inconsistent with final outlays, it identifies in Table 11.2 Federal grants of $280m for Suncorp stadium in Brisbane in 2002-3; $25m and $50m for Sydney Cricket Ground in 2006-07 and 2012-14; $15m for Melbourne Cricket Ground in 2006-07; $25m for Adelaide Oval in2007; $10m for Newcastle in 2008-09; $14m for Geelong's Skilled Stadium in 2008-09 and 2012 (part of a $175m redevelopment); $12m for Sydney Showground in 2012; $30m for Adelaide Oval in2014; and $690m of state/ federal money earmarked for a facility in Perth.

Among the more recent Commonwealth Government grants not mentioned above was $100m earmarked in 2016 for Townsville's North Queensland Stadium which, with state funds of $140m, is enabling a build expected to be complete 'before the 2020 football season'.

Why any public funds should be used and why the Commonwealth Government has seen the need to complement state largesse on sporting facilities in Sydney and elsewhere with funds from the national purse on behalf of all Australians is a mystery.

This list of Federal investments given above, albeit incomplete and probably understated, certainly leaves several unanswered questions.

5. Support for Steel Making

The manufacture of steel in Australia has a long and tangled history of government support. The recent subsidisation of steel making has included various government instruments including:

- targeted protection of various categories of Australian steel via anti-dumping tariffs against imports from other countries, mainly China, which work by levying imports with whatever import duties (recently as much as 80%) deemed sufficient to raise the value of imports to a mandated price;
- a procurement requirement that certain railway-building projects the, most especially the fully federally funded $252m Adelaide-Tarcoola 600km re-railing project (73,000 tonnes of Whyalla steel is being used on a 3 year project to end in mid-2019), must utilise Australian-made steel. (Similar domestic procurement requirements in support of local steel making apply to some of the naval equipment projects discussed earlier);
- subsidisation of a rescue operation for the financially stressed Arrium steel plant in Whyalla.

Only the third of these instruments takes the form of a transparent subsidy. The generosity of the other two is not visible because they are not the kind of interventions recorded in either state or federal budgets.

The outlays in terms of transfers from users and taxpayers are travesties of common sense.

6. Artificial Support for Renewable Electricity Generation

In the ordinary course of events, some electricity in some locations in Australia would be generated from renewable sources like wind, photovoltaic cells, batteries, wood, biofuels and so on.

Electricity suppliers in Australia in every jurisdiction have to abide by a Renewable Energy Target (RET) of some kind. The details vary, and as anyone who cares to trawl through what is presented under the renewables subject on the internet will confirm, the accumulation of rules are bewildering. Many treat the promotion of electricity using renewables as a self-evident virtue, without any reflection on the accompanying twisting of resource use. But in general sellers have to ensure that a minimum proportion of the power they sell comes from mandated 'renewable' sources, which in essence means they have to bill their customers enough to pay for that enforced mixture. As a species of intervention, this kind of protection is known in economic jargon as a 'mixing regulation'. Since the cost of suppliers' compliance is sometimes hard to disentangle, the burden finally loaded onto consumers is obscure and difficult to calculate across the electricity sector. A recent estimate of the burden of the RET on Australian consumers in the form of higher electricity suppliers than otherwise in 2015-16 was $2.1 b (BAEconomics website 2018).

Beyond this intervention, suppliers of power deemed renewable (whether in the form of batteries, hydroelectric facilities, photovoltaic cells, biomass or windmill technology) get cash start-up subsidies and ongoing output subsidies from Commonwealth and State agencies. Again, the rates of subsidy vary.

Finally, the use of renewables is relentlessly promoted using public expenditure by government agencies in public media carrying the message that for generating power more renewables are more worthy than the use of coal-fired plants. The hope, evidently, is to influence consumer preferences further in the renewables direction.

The upshot is that by virtue of a series of government measures, some of which are regulations involving non budgetary outlays together with others involving direct public expenditures, electricity supply based on renewables has been boosted, while that based on non-renewable resources has been penalised. In terms of what would be efficient, the emphasis on renewables has been excessive.

Supporters of this state of affairs sometimes allege a discriminatory rate of support for renewables is warranted to offset, reverse or counter the assistance advantages governments are giving to mining and electricity activities. That idea is contradicted by assistance data contained in the Productivity Commission's (PC's) Trade and Assistance Review publications showing that the assistance rates for mining are the lowest of any industry sectors. Other data indicate that renewable subsidies have raised the assistance rates for electricity generation as a whole, but not for the coal fired proportion. Through the discrimination in favour of renewable generation, the average electricity prices paid by consumers have been driven far higher than otherwise.

Another reason, indeed the main one usually claimed as a purpose for the raft of measures that discriminate in favour of renewables, is that generating electricity using non-renewables allegedly creates much more pollution per unit of power in the form of CO_2 and other greenhouse gases, than will generation using renewables, leading, the proponents say, to a net abatement of global warming. Neither a $ value of any such abatement, nor any demonstration that it would be worth the money, is offered by proponents. It is sometimes conceded that, given Australia's relatively small economy, as a possible contribution to global greenhouse-gas abatement, the schemes' worth is trivial. The extra panels, hydro schemes, batteries and windmills employed for mandated renewable generation, added to the extra infrastructure required to connect them to the national grid, are bound to be more expensive to establish and operate on average per unit of power output than the technology-mix electricity suppliers and consumers would choose if left to their own devices, so their life-time polluting burden is not obviously better than the current arrangements.

In short, unless the benefits in terms of reduced greenhouse warming due to locally-reduced CO2 emissions were noticeably significant for Australia, let alone for the whole world, and delivered in a reasonable investment timeframe, the government-driven fetish with supplying electricity generated from renewable resources would have to be inefficient from both national and international standpoints. That prognosis would hold, even if one did not address the distributional question of whether the indirect impact of the interventions on power prices was fair on poorer classes of people at home.

Nationally, the huge net cost in GDP and jobs terms of the further government promotion of renewables that has been proposed by the ALP for the years ahead, has been explained in economy-wide analysis by Brian Fisher published in February and March 2019. The cost to the nation of the lower target (about 26-28% renewables by 2030) adopted by the Coalition Government is shown to be much less. The study shows the burden of the ALP target could be halved if Australia's over achievement of the Kyoto target were credited to us and coal-fired generators were allowed to engage in international trading of abatement certificates.

Much of the blame for this state of affairs lies with selective expenditures of Commonwealth government origin. In large measure, the Commonwealth government's failure to properly assess the merit of its own expenditure programs has been at fault.

Written by Gregory Cutbush, visitor ANU Arndt Corden School of Economics

The Galah Award Nominations Tasmania

Introduction

Political chatter about Tasmania becoming the Battery of the Nation requiring a second electricity interconnector across Bass Strait fills Tasmanians with parochial pride and self-interested anticipation. However, any discussion about the costs and benefits of the existing Basslink, an albatross around the State's neck, are avoided.

Health spending dominates all State budgets. Tasmania is no exception. The Royal Hobart Hospital redevelopment is an ongoing fiasco never far from the headlines.

Every jurisdiction has a tale to tell about privatisation falling well short of its lofty goals. The Hobart Airport is a case study of how the greed of the financial sector subjugated sensible public policy.

There is no better example of the rise and rise of consultants' fees than the costs of providing IT software services to government owned electricity companies. The staggering amounts of public assistance to the native forest industry have failed to halt its massive decline.

1. Basslink

Whilst this piece of infrastructure commenced operations 13 years ago, the enormity of the debacle has only come to light in the last decade.

Basslink is an electricity interconnector linking Tasmania with the National Electricity Market It was built by British firm National Grid which sold it 18 months after operations commenced to Keppel Infrastructure Fund a Singapore listed entity part owned by the Singapore government. The government owned Hydro Tasmania has a 25-year agreement for exclusive use of the cable. Unlike some other public private partnerships Hydro will not acquire an ownership interest. At the end of the term the cable will still be owned 100 per cent by Basslink, a wholly owned subsidiary of Keppel. The facility fee is based on the actual cost of the cable including interest during construction. The fee allows Basslink to earn a 12 per cent return on its 25 per cent equity interest plus repay its debt which financed the balance of the cable's cost. The fee is indexed and is adjusted for changes in interest rates. All financial risks are with Hydro. Even if the cable has zero value at the end, in 2031, Basslink will have got all its money with interest.

Over the past decade Hydro has paid Basslink $788 million for the use of the cable. Only in two of those years, the carbon tax years of 2012/13 and 2013/14, when there were significant net exports of electricity, did the cable make money. The first of those years saw a run down in storages as planned. The second year fortunately coincided with record annual rains for the decade. Average inflows have been at least 10 per cent lower than the business case. Changing rainfall patterns were evident even then but were ignored.

When Hydro originally entered a MOU with Basslink to build the cable the cost was $480m and the estimated fee about $40m per year. Hydro had the perfect hedge arrangement. It could walk away from the deal if it got too expensive.

But Hydro was determined to proceed come hell or high water, both of which eventually occurred. It locked in arrangements with Macquarie Bank to hedge interest and foreign exchange relating to construction costs and interest rates relating to the 25-year facility fee. Construction costs doubled and interest rates have halved. By the time operations commenced in 2006, Hydro owed Macquarie $190m. Over the last decade Hydro has paid Macquarie $300 million in hedging costs, or swap fees as they're more accurately described. At June 2018 the liability had grown to $308 million. Macquarie created a magic pudding.

Without the hedging deal Hydro would have walked away from the Basslink deal before it started as National Grid started to do in 2002 when costs blew out. National Grid believed the project was no longer viable. Up till then they didn't know about the Macquarie hedging deal. National Grid agreed to come back to the fold after shifting all financial risks to Hydro. Duke Energy encouraged by the government to build a gas pipeline from Victoria was also blindsided by the hedging arrangement. They wouldn't have built the gas pipeline had they known. Hydro management managed to get Hydro's Board to approve the deal in November 2002.

Hedging is supposed to protect businesses. In this instance hedging costs perversely acted to prevent Hydro exiting, to keep hiding the losses, rather than walking away before the tide went out, which would have left Hydro management skinny dippers with nothing to show but a huge amount payable to Macquarie?

Macquarie's payments, buried deep in Hydro's accounts, will cost over $600 million by the time the deal ends. The rush of blood to enter into a hedge arrangement with Macquarie a week after signing the MOU with National Grid, and then to keep it a secret for as long as possible, has had dire consequences for the state of Tasmania.

Counting both payments to Basslink and to Macquarie, Hydro has outlaid $1.1 billion over the past decade for a cable it will never own, and which has comprehensively failed to pay its way except for two aberrant years. And there's still another $1.6 billion to be paid over the remaining period of the half-completed dud deal.

2. Royal Hobart Hospital (RHH)

The hospital which occupies a prime city block in downtown Hobart first opened in 1938. Rebuilding and renovating, which imposes additional costs and constraints on continuing operations, chosen in preference to building on a greenfield site, has failed to keep pace with increasing demand and the requirements of modern hospitals. For instance, when the emergency department was updated in 2007, demand was about 38,000 presentations per year. The government built a facility for 45,000 presentations. By 2016/17 the facility was overwhelmed with 62,000 presentations. It has since got worse.

The almost completed K Block, the centrepiece of the redevelopment project, is now being reconfigured, before it has even been used, to cater for the more urgent needs which have arisen. The 2011 hospital masterplan was a four-stage development. The latest updated masterplan now lists six stages, one of which is fully funded and nearly complete, a second which has just been given the green light although only partly funded, and another four stages, including a major development at another campus, which are currently just pretty pictures on an architect's computer, but will be tackled sometime between 2020 and 2050 as and when capital funding is secured.

Therein lies the problem. The Tasmanian government has few borrowings because it can't service them and is not willing to consider tax changes to help build a hospital which everyone wants and a lot of people need, well before 2050. The government received $340 million from the Australian government as a grant for the project. This grant was a perilous offering as subsequent GST receipts were reduced accordingly, and the money quickly spent on other things.

The government has forsaken sensible public policy by trying to build a $1 billion project from current cash flow. Budget forward estimates don't even include extra amounts needed to run the expanded facilities. Each year the government's underfunds hospital budgets by allocating less than actuals from the year before, enabling it to claim an overall budget surplus. It subsequently allocates more and boasts of its extra spending by comparing it to the budget figures rather than to the previous year's actuals. It would be funny if it wasn't so serious. To date Tasmanians have uncritically accepted this line, but for how much longer? Tasmania has the lowest health spending as a proportion of GST receipts and significantly lower than other States.

Providing a crucial community facility is proving to be beyond the wit, wisdom and wherewithal of those in control. Funding renovations from cash flow is like keeping an old truck on the road rather than scrapping it and buying a new replacement.

3. IT by Government Electricity Companies

Tasmania's electricity industry is almost 100 per cent dominated by government business. Hydro Tasmania is a generator, Tas Networks is responsible for transmission and distribution and Aurora Energy is a retailer. At one stage the latter owned the distribution network before it was added it to the transmission network to create Tas Networks. Aurora is now just a paper shuffler buying and retailing electricity.

Over the past ten years Hydro has spent $185 million on computer software. Tas Networks has $270 million of computer software on its books (at cost), and Aurora $65 million. That's a total of $520 million spent by the government electricity companies on business software over the last ten years, mainly asset management systems. Regulated prices particularly in the case of transmission and distribution encourage gold plating.

4. Hobart Airport Privatisation

Buoyed by the success of its hedging arrangement with Hydro Tasmania, Macquarie Bank returned to Hobart in 2007 for the Hobart Airport privatisation. A Macquarie managed consortium bought the airport from the Tasmanian government on 1st February 2008. In 2007 the airport had turnover of $17 million with EBITDA (earnings before interest tax depreciation and amortisation) of $11.3 million. It was a tidy little business, but the sale price of $352 million staggered everyone. The government was pleased. The twist to the tale arose because its own employee Retirement Benefits Fund (RBF), part of which consisted of a wholly underwritten defined benefit fund, acquired a 49.9 per cent interest in the new owner.

Over the next 5 ½ years the business generated operating cash flows of $105 million. That's what's was supposed to be available to pay capex and finance charges etc. Unfortunately finance charges and associated fees totalled $174 million for the period. The largest component was exit fees of $74 million to bail out of a fixed interest arrangement, following a halving of interest rates, which would have bankrupted the company had it continued for the original contracted period of 15 years. Shareholders had to put in another $121 million on top of their initial equity contribution of $200 million. The Commonwealth government also came to the rescue with a grant of $38 million to upgrade the airport which would have been done much earlier using borrowed funds in the normal commercial manner.

RBF eventually transferred its accumulation fund to Tas Plan, leaving it with only the defined benefit fund. The interest in the airport was transferred. The transfer price was not disclosed. But one thing for sure is the transfer would have been at market price as the Tas Plan trustees would not have agreed to a price which disadvantaged its existing members.

The losses from the investment were borne by the Tasmanian government as underwriter of RBF's defined benefit fund.

5. The Tasmanian Forest Industry

The Tasmanian forest industry is a well-oiled gravy train. Since 1989 the industry has received $1 billion in direct cash assistance from governments, 85 per cent from the Commonwealth government with the remainder from the State government.

During that time the State-owned Forestry Tasmania, recipient of $385 million of that assistance, racked up cash losses of $454 million including spending on capex and new plantations which completely failed to increase its asset base. It also suffered huge balance sheet losses of $750 million as native forests under its stewardship lost $750 million or 90 per cent of their value. Direct government assistance wasn't enough. Plantations funded by governments to future proof the industry were sold to help fill the bucket continually drained by selling native forest at a loss. For years Forestry Tasmania allowed woodchippers like the recently departed Gunns Ltd to torture the timber and strip all the land and write it all down as the progress of man.

It is only possible to give forests a positive value by ignoring the future costs of access roads and mandatory regeneration. When the forest value is then split between land, roads and trees, the only way trees can have a value is if land is given a zero value. Many important environmental values which attach to land are lost when logging occurs and conveniently ignored as the land is valueless. Trees grow again so what's the problem?

In the past ten years an Inter-Governmental Agreement (IGA) between the Commonwealth and Tasmanian governments poured $379 million into the native forest industry to compensate participants who had wrecked it by logging at unsustainable rates and selling mainly low value woodchips into shrinking markets. The largest privateer was Gunns Ltd which hastened the inevitable demise of the industry by surrendering take-or-pay contracts with Forestry Tasmania. The latter was insolvent and only continued because of government backing. Gunns too was in difficulty when the prospect of IGA handouts appeared. A rapid volte-face occurred as compensation was unlikely if the wood supply contracts had already been surrendered. The contracts were 'reinstated' and $23 million then paid as compensation for their surrender. The funds were needed to excavate a pulp mill site before the permit expired two months later, its last desperate attempt to keep trading. Gunns' bankers weren't forthcoming with funds. Forestry Tasmania had explicitly advised the government the appointment of a Voluntary Administrator (VA) to Gunns was imminent. The pulp mill site was cleared using IGA funds but no white knight appeared as a partner. A VA was appointed a year later. Whilst only a small amount, the $23 million encapsulates the pattern of the industry over a long time where large amounts of government assistance has reaped nil benefits.

Conclusion

- To put Tasmania in context, it has 2% of the nation's population. Its gross state product share is slightly less at 1.7% of national GDP. Relative to Tasmania, NSW's economy is 20 times bigger, Victoria 14 times and the ACT 1.3 times larger.
- When seen in this light, payments of $1.1 billion over the last decade for Basslink make it a very expensive deal. Payments will be $2.7 billion over 25 years.
- The RHH is a project where the goalposts are constantly being shifted. The source of future funding and the time frame for four on the six project stages is a giant unknown.
- If adjusted for constant prices the amount of $520 million spent on IT software by government electricity companies would be one RHH equivalent.
- When it comes to inefficient projects where government spending has found its way into the pocket of hustlers and rent seekers, one is likely find financiers' fingerprints. So it was with Basslink and the Hobart airport privatisation.
- Last but certainly not least is the Tasmanian forest industry. It has a peerless record for raiding the public purse for little overall social benefit.

John Lawrence is a public policy researcher and blogger at www.tasfintalk.blogspot.com

The Taxpayers Research Foundation Limited
GPO Box 3102 Hendra
QLD, 4011
Tel: 03 8851 4555
Email: info@taxsuperaustralia.com.au