



Boondoggling Australia

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When politicians are tempted by a big vision, fiscal prudence is rarely front of mind.

Once there are nine or more digits after the dollar sign, the numbers are so ridiculously large that politicians lose their grip on everyday logic and fiscal restraint flies out the window.

In the US they call them boondoggles: big government projects that make politicians look visionary, delivering the proverbial barrels of pork to favoured constituencies.

We might just as well call these boondoggles financial time bombs, as the full bill only becomes due after the current crop of politicians is gone, leaving the debt with future governments and future generations.

In this article, IPA researchers expose five of Australia's biggest boondoggles.

SNOWY 2.0

– *Daniel Wild*

Only politicians could think it's a good idea to spend billions of dollars pumping water uphill to generate electricity in a land with enough coal to last 1,000 years. Yet that is exactly what the Federal Government is doing.

Flying in by helicopter, donning a leather jacket with snow-capped mountains in the background, Prime Minister Malcolm Turnbull revealed his grand nation-building project "Snowy 2.0".

The new Snowy project is essentially an extension of the original Snowy Hydro Scheme, commissioned by the Chifley government in 1949. The original participants were the Commonwealth, NSW and Victorian governments, but in a related move the Commonwealth has recently brought out the two state governments for \$6.2 billion, and become sole shareholder.

The aim of Snowy 2.0 is to pump huge amounts of water from an existing Snowy Hydro reservoir through reversible turbines into a new power station to be built 1km under the mountains, then on to another existing reservoir, via 27km of tunnels. What could possibly go wrong?

There are already more problems than there are shovels in the ground.

Firstly, the cost. It was originally claimed that the scheme would cost about \$2 billion, but Snowy Hydro Limited acknowledged it could be up to \$4.5 billion. The final cost would be anyone's guess.

The feasibility study alone cost \$29 million. And having a feasibility study into a government project is like flipping a two-headed coin. There is no way the PM's preferred option will lose out.

The second problem is the hypocrisy. The government shows no interest in building and nationalising coal-fired assets, but now wants to run and greatly expand a nationalised hydro-electricity project. If, as is claimed, it is an arms-length commercial venture, then what was the PM doing in that helicopter, and declaring it a 'nation building project'?

Thirdly, Snowy 2.0 isn't expected to become operational until 2024-25, assuming no delays. A wildly longer lead time than other alternatives.

Fourthly, Snowy 2.0 will be a net user of energy, as it takes more electricity to pump the water than is generated by releasing it. The way in which this has worked commercially in the past is to buy electricity in off-peak times and sell in peak times when prices are higher. However, there is no guarantee the historic size of the difference between peak and off-peak prices will hold into the future, particularly given the massive changes taking place in the energy market.

Meanwhile, Australians are suffering from high energy prices now. Retail electricity prices have risen by more than 120 per cent in real terms over the past decade, while wholesale prices have tripled in the last three years.

These price rises are primarily the result of heavy-handed government interference supporting renewables though the Renewable Energy Target at the expense of more reliable, affordable coal-fired power. Unfortunately, Snowy 2.0 will only give us more government interference, more

picking winners, and a greater burden on taxpayers.

NAVAL SHIPBUILDING PLAN

– *Gideon Rozner*

The Turnbull government's Defence White Paper was handed down with deliberate fanfare in the lead up to the 2016 federal election. Its centrepiece was an ambitious naval shipbuilding program, the cost of which is currently estimated to be around \$91 billion. But even that figure is a highly problematic estimate, given the government's insistence that the new fleet be Australian-built, with little apparent regard for costs and imperilling the ultimate capability and performance of the yet to be built fleet.

There are three main elements of the program: 12 new submarines, 12 offshore patrol vessels and nine future frigates. Most vessels will be built in South Australia, with some work to be performed at the Henderson Maritime Precinct in Perth. An estimated \$1.2 billion will be spent on South Australia's Osborne shipyard alone, which currently lacks the capacity to undertake the build.

Of course, investment in defence capability is a vital function of government, and ramping up defence expenditure was inevitable after it fell to catastrophically low levels under the Rudd and Gillard governments.

But the Turnbull government's shipbuilding program does not appear to be motivated by strategic concerns. Rather, it has been positioned as a crude (and clearly politically motivated) extension of industry policy, with an emphasis on the Australian build. The government has been eager to spruik the 'benefits' of this wasteful parochialism, claiming that it 'will generate significant economic growth, revitalise industrial capacity and sustain thousands of jobs'.

There is little evidence to support this Keynesian fantasy. Analysis commissioned by the Department of Defence has found that there is 'no consensus on the effect of military spending on local and regional economies'. Limited examples of economic stimulus are 'localised to a large degree, and it is unrealistic to expect that shipbuilders will produce significant favourable spin-offs and spill overs'.

Whatever benefits do exist are outweighed by obscene costs. Defence's own analysis, for example, indicates that when compared with international best practice, naval ships built in Australia may incur a cost premium of up to 131 per cent.

Worse still, the program has been disastrously managed. A scathing report by the Australian National Audit Office (ANAO) in May 2018 identified a litany of administrative bungles. One extreme example is the offshore patrol vessel component which was approved despite the absence of 'reliable cost estimates'. Worse still, the outcome of the tender for construction of the vessels was announced before the commercial terms had been settled.

Needless to say, the ANAO report has foreshadowed numerous 'capability trade-offs'. In other

words, Australia will be left in all likelihood with a sub-standard defence fleet (and a needlessly expensive one at that).

And the government was warned. As early as July 2015, Defence advised that an Australian build carried 'extreme risk'. But incredibly, the ANAO has found that the government's plan for the project 'did not address the management of these risks in any detail'.

NATIONAL DISABILITY INSURANCE SCHEME (NDIS)

– *Matthew Lesh*

Is it possible to spend billions extra to create a worse government program? Welcome to the National Disability Insurance Scheme (NDIS), an expensive failure for which Australian taxpayers will pay for years to come.

The NDIS nationalises Australia's disability support system. In the past, states provided necessary services. Under the NDIS, individuals with a disability are given a lump sum by the Commonwealth that they can spend on service providers of their choice.

The NDIS has much moral attraction. Supporting the most vulnerable is a mark of a civilised society. The idea of creating a 'managed market' in which individuals can choose service providers should, in theory, increase choice and service quality.

But the scheme, which was introduced but not funded or implemented by the Gillard government, is becoming a catastrophically expensive failure.

The NDIS is expected to cost \$22 billion a year when fully implemented from 2019-2020. All pre-existing federal, state and territory disability spending will be redirected to the NDIS, however this only adds up to \$14.9 billion, meaning the NDIS will cost at least an additional \$7.1 billion a year over previous spending. And, like every major government program, this is likely to be a vast under estimation of the final costs.

Journalist Rick Morton has expertly chronicled in *The Australian* how a number of early decisions to expand eligibility for the scheme is costing billions.

To get then Victorian Premier Ted Baillieu on side, the Prime Minister of the day, Julia Gillard, included a broad definition of 'developmental delay'. To get NSW on side, Gillard agreed to support and transfer large residential institutions, a deal described as a 'golden goose' by one NSW public servant.

Gillard also included mental illness in the scheme, which was slammed as inappropriate by former Australian of the Year Patrick McGorry. Most recently, it has emerged that there was a substantial underestimation of eligible young people with autism related disabilities.

Several design issues are also raising costs.

The provision of all ‘reasonable and necessary’ support to NDIS participants has led to arbitrary decision-making. Participants who put pressure on the agency are better supported than others, increasing costs for some and leaving the voiceless relatively underserved.

The creation of artificial markets in disability services has led to service suppliers taking advantage by increasing prices – creating a mismatch between allocated money for NDIS participants and the actual cost of support.

The NDIS has been plagued by operational issues linked to the decision to move the NDIS to Geelong – another move made to placate Baillieu. Many senior bureaucrats refused to make the move, leading to loss of expertise driving a \$180 million spending spree on external consultants in just 16 months.

Despite the massive cost, there is evidence that many with a disability will be worse off. A recent Flinders University study found that as many as one in five current participants reported being worse off because of the NDIS. A third said they were just as well off, and about half believed they were better off.

The NDIS is another costly, ineffectual government program in a field of responsibility that the Commonwealth should have never taken over in the first place. It’s estimated annual cost is massive, and likely to be greatly exceeded within the first few years of operation.

NATIONAL BROADBAND NETWORK

– *Evan Mulholland*

No country has re-nationalised their telecommunications network as Australia has with the creation of the National Broadband Network (NBN), exposing taxpayers to massive costs and unnecessary risks.

The original mandate of NBN Co was to roll out fibre to the premises (homes, offices, factories) to 90% of premises, regardless of the cost. It was established in haste by the Rudd government in 2009, after the failure of its original plan to tender for the creation of a fibre to the node network to the private sector (most likely to Telstra).

The ALP’s original plan, developed in opposition, would have cost \$15 billion with a government contribution of \$4.7 billion partly offset by selling the Federal Government’s remaining shares in Telstra. This was a relatively minor cost compared to the eye-watering figures we see today.

This broadband network would have used fibre optic cable to reach the street cabinets (nodes), and thereafter data would be carried to premises using existing infrastructure. The plan was to deliver a minimum speed of 12 megabits per second (Mbps) to 98 per cent of households, but the fibre to the node tender process failed to attract any compliant bids.

This failure was in part attributable to the Australian Competition and Consumer Commission

(ACCC), which refused to give Telstra the regulatory settings it sought. Telstra was smarting from previous adverse ACCC decisions and would not participate in the tender and commit its own capital to upgrade its traditional copper network to fibre to the node, without some sort of exemption from ACCC regulation.

The ACCC position was that such an regulatory holiday would give Telstra too much market power, but this should not have been an insurmountable hurdle. But instead of further negotiation and market research after the failure of the tender, the ALP abruptly changed course and decided to rollout from scratch a government-built fibre to the premises network to virtually every home. The hastily drawn up plans called for fibre to 93 per cent of the nation's premises by 2021, with the remaining properties to be serviced by satellites and fixed wireless towers, at a cost of \$43 billion.

These heroic goals had no grounding in reality, as the cost to connect fibre all the way to the premises is enormous. In a famous case, the connection to one single Tasmanian home cost the taxpayer \$91,196, which would take 146 years to recoup through user fees.

For most of the life of the NBN, 80 per cent of users on the fibre to the premises network have signed up for plans of only 25 Mbps or less, even though it is 'gold-plated' and capable of much more. Across all NBN technologies (fibre, wireless and satellite) 85 per cent of users are signing up to those speeds, despite being able to purchase higher speeds.

Meanwhile, NBN zealots claim Australia is somehow being held back with inferior internet and must have super-fast speeds regardless of cost.

The 2016 NBN corporate plan estimated the full cost of the fibre rollout could have been anywhere from \$74 to \$84 billion. After the Coalition government made major changes to the scheme, the estimate was revised to \$49 billion, achieved through \$29.5 billion in public equity funding (cash) and a loan from the government of a further \$19.5 billion. This figure is quite a stretch from the total of \$29.5 billion the Coalition promised at the 2013 election as part of its multi-technology-mix approach.

ACCC red tape and bad decision making by governments are the chief reasons this sorry project got off the ground. It would have been better if the Howard or Rudd governments had allowed Telstra a regulatory holiday to build the network. As it is, users and taxpayers will bear the burden for a sub-optimal outcome well into the future, and repayment of the \$19.5 billion loan will potentially leave taxpayers picking up the tab. Because the broadband network is government-owned, taxpayers are exposed to the risk that the next big thing in telecommunications, the so-called 5G network, will deliver equivalent or better performance at lower cost to consumers, siphoning customers away and further undermining the NBN's economics. The sooner the government can tender out and privatise each function of the NBN, the better.

GONSKI 2.0

– Dr Bella d'Abrera



The Turnbull government's funding plan for schools – the so-called Gonski 2.0 – will be an unmitigated disaster. The plan, revealed in 2017, spends \$242.3 billion, plus an extra \$5.1 billion on Science, Technology, Engineering and Maths (STEM) between 2018 and 2027. But this 'Quality Schools Package' will only result in falling standards, embarrassingly low world rankings and general ignorance.

We know this because assessments show that the first wave of changes and funding introduced by the previous ALP Government – Gonski 1.0 – is a failure across all of the priority areas it targeted for improvement.

In 2010, businessman David Gonski AC was commissioned by Julia Gillard, the then Minister for Education in the Rudd government, to chair a committee to make recommendations regarding education funding in Australia. He called for an extra \$5 billion per year, and the government offered \$14.5 billion over six years. In 2012 he released 41 recommendations which accompanied Gillard's promise to propel Australia's school system into the world's top five by 2025.

The exact opposite has happened. Since 2015, Australia's world ranking in reading literacy has fallen from fourth to 16th, mathematics has plummeted from seventh to 25th and science has dropped from fourth to 14th. Yet despite the benefit of both hindsight and cold hard facts, Malcolm Turnbull decided that the solution to this national crisis in literacy and numeracy is to spend even more money, and to ask none other than David Gonski just how it should be spent.

Gonski clearly had no answers back in 2010 and still doesn't have them in 2018. That the government chose to consult him for a second time after his original reforms failed is a mystery that only a politician could unravel. Gonski is a formidable lawyer, banker, and businessman who currently sits on 40 boards, but his entire experience in education is as Chancellor of the University of New South Wales. Remarkably, the government pushed a funding package through Parliament in 2017 which commits taxpayers to grow annual expenditure from \$17.5 billion now to \$30.6 billion over ten years, in *advance* of a panel chaired by Gonski telling them how it should be spent.

The 158-page report of the panel chaired by Gonski, *Through Growth to Achievement: Report of the Review to Achieve Educational Excellence in Australian Schools*, released in March 2018, conceded that the billions of dollars spent on education in Australia resulted in neither growth nor excellence (this report is the source of the figures quoted earlier). The coffers have been going down at about the same rate as the national standards.

Of all the recommendations made by Gonski in the light of this admission, perhaps the most telling is Recommendation Nine. This is to 'establish a comprehensive, national and independent inquiry to investigate and review the objectives, curriculum, assessment provisions and delivery structures for senior secondary schooling, to report within 12 months'. Essentially, the government has paid for a review which recommends that it should really undertake yet another review (while pouring in yet more money, of course).



The entire model is a colossal waste of tax-payers hard earned money and will be of no benefit insofar as the education of Australian children is concerned. Gonski 2.0 is a financial time bomb in ever higher expenditures for no good reason and no discernible results.