

# Liars and clunkheads fail budget test

## Canberra observed

Laura Tingle

There are two possible explanations for how an opposition presenting itself as an alternative government could end up with an \$11 billion hole in the cost of its election commitments.

One is that they are liars, the other is that they are clunkheads. Actually, there is a third explanation: they are liars and clunkheads.

But whatever the combination, they are not fit to govern.

Going back to the federal election in 1987, the cost of election promises has always been hotly disputed.

Labor's chance of winning the 2004 election, for example, was derailed by AMA claims that its Medicare Gold policy would cost \$2.9 billion more than it said.

But what has occurred in Canberra this week is in another sphere altogether.

Treasury and the Department of Finance, when finally given the chance to scrutinise the Coalition's policies, have not just found huge discrepancies in the costings of individual policies, but what can only be described as a systematic exercise in creative accounting.

The picture that emerges from the econocrats' report is that the opposition very purposely created a dodgy set of numbers which were never expected to withstand any scrutiny and would require the intervention of the Australian Securities and Investments Commission if it was a company.

The opposition simply hoped it could bluff its way into office by refusing to allow the figures to be scrutinised before polling day.

But what is more extraordinary is that now, having been caught out, Tony Abbott, Joe Hockey and Andrew Robb are continuing to try to bluff their way through, suggesting there is nothing more than a gentlemanly difference of opinion between them and the bureaucracy.

The brazenness of the three men



From left, Joe Hockey, Tony Abbott and Andrew Robb's policy costings were more than 90 per cent wrong. Photo: NIC WALKER

only becomes really clear when they claim the bureaucrats' document actually proves the budget would be \$7 billion better off under the Coalition.

There is no other term for any of this except "complete bullshit", to use one of Abbott's favourite terms. Let's just go through some of the numbers.

For a start, don't believe this idea that the black hole lies somewhere between \$7 billion and \$11 billion.

The miscosting figure is \$10.6 billion. That is, the Coalition said it would take \$11.5 billion off the budget bottom line over four years. Treasury has demolished all but \$863 million of those savings. That is, the figures were more than 90 per cent wrong.

The idea that the black hole may "only" be \$7 billion comes from Treasury bending over backwards to be polite to the Coalition and including a figure of net savings of \$4.5 billion before it gets into the vexed issue of \$3.3 billion of spending promises made out of a series of so-called capital funds.

The opposition pledged to spend this capital fund money either without knowing this would have a bottom-line effect on the budget, or deliberately lying about it.

When it was caught out, it claimed it could simply cut back other spending from the funds. But it wouldn't specify what it would cut back, since it didn't know what had already been committed.

So it is now simply asserting it will be able to find the \$3.3 billion.

Then there were the holes in individual policies: \$1.15 billion in alleged pharmaceutical benefits scheme savings, for starters, which could only be explained by the Coalition misreading a 10-year cost forecast by the accountants PricewaterhouseCoopers as a four-year forecast.

(Oh, and the government had already included the four-year savings in the budget anyway.)

There was the \$956 million hole in the Coalition's employment participation policy, and the \$235 million blowout in the education tax refund.

Of course the cost of the paid parental leave scheme (already set to cost \$8.8 billion) is forecast to blow out by another \$500 million, and there was a \$627 million blowout in "all other recostings".

But of most concern is the debate about the "conservative bias allowance adjustment".

The Coalition is claiming savings of \$2.5 billion from this adjustment, which comes from changing the basis on which the budget contingency reserve is calculated.

This reserve is the allowance for cost overruns during the four-year life of government budget-making.

It is set now at 1 per cent of the budget for the first two budget years and 2 per cent for the second two of the four budget years in each budget document.

The Coalition said it would reduce this to 0.75 per cent and 1 per cent in the budget out years, "saving" \$2.5 billion in the process.

The Coalition argues both sides of politics had fiddled with this number in government. This is true.

But under the Charter of Budget

Honesty, the secretaries of Treasury and Finance are legally obliged "to certify that the estimates of the fiscal outlook reflect the best professional judgement of the departments", including the conservative bias allowance.

Ken Henry and David Tule did this in the pre-election fiscal outlook just last month. This left them no option but to reject the Coalition's assertion of what it would do if it got into government.

It would in effect mean rejecting their own professional judgement.

It also means that Treasury and Finance's advice, if the Coalition gets into office, is that it should not tamper with the reserve.

But the Coalition's response to this is to say, "We can do whatever we like if we are in government."

That would be fine — after all, it is governments that put their names to budgets, not bureaucrats — if it wasn't for the fact that the Coalition has just demonstrated it is quite prepared to cook the books.

This exercise has given us an insight into how happily the Coalition would ignore the advice of Treasury and Finance to produce a rubbery budget which would inevitably blow out further down the track, meaning a whole new round of spending cuts or broken promises.

If you had to choose who to believe between bureaucrats having to deliver bad news to people who might be their bosses in a week's time and politicians desperate to cover up their stuff-ups, it should be an easy choice.

After all, Abbott called a \$10.6 billion blowout yesterday "an arcane argument about costings" which didn't really go to economic credibility.

No wonder Andrew Wilkie was dubious about his offer of \$1 billion for a Tasmanian hospital.

Parliament's uncommitted independents have a lot to weigh up. But you'd hope \$10.6 billion would weigh very heavily indeed.

■ *Laura Tingle is the AFR's political editor.*

# Combine energy and climate change policies

The creation of one portfolio would provide balance and an organising principle for the economy, writes **Ziggy Switkowski**.

As the country waits for the formation of the next federal government, each major party leader must be planning the shape of and assignments for the next cabinet. I would like to suggest the formation of a portfolio that includes resources, energy, climate change and environment (RECCE). Here's why.

When Kevin Rudd formed the Department of Climate Change in 2007, it was to be a transitional structure for cross-portfolio policy development. The major deliverable, an emissions trading scheme — being another financial market — would become the responsibility of Treasury, and international negotiations would revert to Foreign Affairs and Trade. Labor's carbon pollution reduction scheme (CPRS), renewable energy targets, energy technology development and energy efficiency programs became a complex economic framework, with greenhouse gas reduction as its goal.

But they were developed as an answer to an environmental question, not an energy supply one.

The next term of government will neither endorse climate change as an organising principle for our economy nor restore it to policy pre-eminence. The recent election campaigns of both major parties have confirmed this. Yet climate change policy cannot be developed in isolation. The CPRS experience showed how wide-ranging and costly the policy consequences can be of any carbon abatement program that has ambitious targets but is disconnected from key stakeholders. The resource super profits tax has run into similar difficulties.

The accord on Wednesday between Labor and the Greens, to set up a climate change committee of parliamentarians and experts, is a step in the right direction and a vast improvement on the citizens' assembly proposal. But it seeks to shape climate change policy substantially around environmental outcomes. Energy supply and economic consequences are not adequately weighted.

In contrast, former United Kingdom prime minister Gordon Brown created a Department of Climate Change and Energy in 2008, which recognised the critical

interactions between climate initiatives and the main source of greenhouse gases, stationary energy. Energy-related emissions contribute 80 per cent of carbon dioxide production, the main cause of anthropogenic global warming. The new coalition UK government has preserved this structure but appointed as its head Liberal Democrat Chris Huhne, who brings strong environmental credentials to that role. The UK, often considered a beacon of global climate change leadership and a reference standard

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for Australia, has found a formula that seeks to balance climate change, energy and environmental imperatives. Balance is the pragmatic objective — the UK government acknowledges that energy security can be a higher priority than climate change.

After the depletion of North Sea oil and gas, the UK economy has no analog to our resources industry which otherwise might also have been included in Mr Huhne's portfolio.

The outlook for Australian energy demand is a doubling by 2050. Today's starting point is 90 per cent coal and gas as fuel for electricity production, and approaching 100 per cent oil for transport, so no practical near-term scenario anticipates substitution of fossil fuels by clean alternatives to a meaningful extent.

It's inevitable that we will join in the global effort to reduce emissions dramatically. Beyond an ETS with a price for carbon, the main game is to design an evolutionary path along which the Australian economy reduces its dependence on fossil fuels while enhancing its productivity and competitiveness.

We must have an integrated strategy. Any such plan must connect fuel mix, energy production and electricity infrastructure (generators and utilities), mining activities, and environmental imperatives — with climate change metrics among the key performance indicators. And its time horizon must be 2050 with explicit milestones, not one electoral cycle nor even the mid-horizon of 2020.

Many companies today produce a risk matrix where the horizontal axis plots likelihood of a risky event, and the vertical axis the severity of the event. For most energy and mineral companies, the

top right hand quadrant is labelled carbon price. It is not possible to decouple energy, mining, and a carbon price — key to meeting our climate change challenge.

The Environment Department has a significant influence over the development of our resource and energy industries, and increasingly over water policy, through the Environmental Protection and Biodiversity Conservation Act (1999). A Department of Resources, Energy, Climate Change and Environment would assemble the capabilities for coherent energy and environment policy development. It should progress the long-awaited energy white paper. A RECCE portfolio would ensure holistic strategies and balanced recommendations, presented by one minister for cabinet discussion.

While the PM's office always has the authority to direct certain outcomes, complex energy and environmental issues will be analysed and harmonised by a competent bureaucracy alert to collateral or unintended consequences. How sensible, even exciting, would that be?

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