

NSW Rapid Assessment Framework Submission

The Rapid Assessment Framework reforms are a chance to improve the low standard of economic assessment in NSW planning processes. Economic assessments have become advocacy documents rather than objective research. A key improvement would be utilising economic assessment at an earlier stage in planning processes when project design can still be modified, rather than the current environmental impact statement phase when proponents are committed to a particular approach.

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Summary

Economics and economists have not served the people of NSW well over the last decade, at least not in relation to major project assessment. They have been complicit in many of the major planning disasters and the ongoing lack of preparation for a carbon-constrained world and a phase out of the coal industry. The Rapid Assessment Framework is a chance to improve these shortcomings.

Despite reforms to economic assessment guidelines in 2015 the quality of cost benefit analyses and other economic tools submitted to planning processes has not improved. Consultants continue to produce reports based entirely on proponent-supplied data and unstated assumptions. The Department of Planning, Industry and Environment has been unable or unwilling to enforce the guidelines and ensure high-standards. Clear examples of cost benefit analyses that have overstated the value of projects include those commissioned for the Bylong coal project, Wallarah 2 coal project and Hume coal project. The value of these projects to NSW is likely to be zero or negative, despite consultant estimates into the hundreds of millions of dollars.

In our view, commissioned economic assessment in the environmental impact statement (EIS) process is not providing any useful information for decision makers. Economic assessments have become advocacy documents rather than objective research. Economic assessment should be removed from the EIS requirements of most major projects and replaced with basic estimates of capital cost, direct employees and direct payments to government. Detailed economic assessment should be conducted at either an earlier or later stage of the project assessment process. If undertaken at an earlier 'gateway' stage, cost benefit analysis and other forms of assessment could help shape the overall form of projects towards proposals that maximise community benefit and minimise risks.

Commissioned reviews have been of varying quality and utility to different decision makers. Unfortunately the Department of Planning, Industry and Environment has a tendency to choose the feedback it prefers from its reviewers, on some occasions it appears to pick a reviewer that will give it the advice it seeks.

The Registered Environmental Assessment Practitioners scheme will not assist with improving the quality of economic assessment as economics has no professional standards and no professional body that attempts to uphold even basic professional ethics. There is no organisation that can meet the guidelines set out in the consultation documents.

Introduction

The Australia Institute welcomes the opportunity to make a submission on the Rapid Assessment Framework reforms to New South Wales' major project planning and assessment system. Our comments relate to the following topics highlighted in the supporting documents:

- 3.1 Efficient lodgement of applications - standardising and strengthening the requirements for all environmental assessment reports submitted to the Department for SSD and SSI projects, including environmental impact statements (EISs), via approved guidelines.
- 3.2 changes to Planning Secretary's environmental assessment requirements (SEARS)
- 3.3 EIA guidelines
- 3.4 EIS contents
- 3.5 Registered practitioners

The Institute has been involved with these processes for many years, particularly in relation to economic assessment of major projects, with a focus on coal mines. While our experience is mainly with resource major projects, we believe our observations are relevant for changing how economic assessment can be used in the planning processes around other state significant developments and infrastructure projects.

Failed guideline reforms

It was The Australia Institute's submissions showing the repeated failure of EIS economic appendices to comply with earlier mining guidelines that led to reforms in this area.¹ These reforms included the 2015 of *Guidelines for the economic assessment of mining and coal seam gas projects* and the instigation of peer reviews of proponent-commissioned economic assessments commissioned by the Department of Planning and/or the Planning Assessment Commission/Independent Planning Commission (PAC/IPC).²

These reforms have comprehensively failed to improve the quality of economic assessment in the major project planning system. Proponents continue to submit commissioned analyses that fundamentally overstate the economic case for projects. The Department of Planning, Industry and Environment has been unable or unwilling to enforce the guidelines and ensure high-standards. Clear examples of cost benefit analyses that have overstated the value of projects include:

- Bylong coal project. Net benefits estimated at \$380 million,³ but project rejected by the IPC.
- Wallarah 2 coal project. Net benefits estimated at \$274 to \$485 million,⁴ ultimately approved by the IPC, but has not proceeded and is currently seeking bids for new owners.⁵
- Hume coal project. Net benefits estimated at \$373 million in 2018,⁶ with a proponent-commissioned review declaring this "reasonable and justifiable" with further refinements just "quibbles" in March 2020,⁷ before the first consultant

¹ Mckenny and Whitbourn (2014) *Mining assessments to be beefed up after scathing review*, <https://www.smh.com.au/national/nsw/mining-assessments-to-be-beefed-up-after-scathing-review-20140616-zs9sd.html>

² Planning NSW (2015) *Guidelines for the economic assessment of mining and coal seam gas projects*, <https://www.planning.nsw.gov.au/-/media/Files/DPE/Guidelines/guidelines-for-the-economic-assessment-of-mining-and-coal-seam-gas-proposals-2015-12.ashx?la=en>

³ Gillespie Economics (2018) Bylong coal project: Revision to project mine plan economic impact assessment, <https://majorprojects.planningportal.nsw.gov.au/prweb/PRRestService/mp/01/getContent?AttachRef=SSD-6367%2120191003T033635.641%20GMT>

⁴ Gillespie Economics (2016) Wallarah 2 coal project: Economic impact assessment, <https://majorprojects.planningportal.nsw.gov.au/prweb/PRRestService/mp/01/getContent?AttachRef=SSD-4974%2120190226T123201.376%20GMT>

⁵ Murray (2021) *Walarah 2 coal mine for sale*, <https://coastcommunitynews.com.au/central-coast/news/2021/02/walarah-2-coal-mine-for-sale/>

⁶ BAEconomics (2018) *Updated Economic Impact Assessment of the Hume Coal project*, <https://majorprojects.planningportal.nsw.gov.au/prweb/PRRestService/mp/01/getContent?AttachRef=SSD-7172%2120190820T023037.745%20GMT>

⁷ Stoekel (2020) *Report on Comments on Updated Economic Assessment of Hume Coal Project: Has R20 by the IPC been completed?*,

revised this estimate down to \$290 million just days later.⁸ Both the Department and the IPC have recommended against the project proceeding.

The value of these projects to the NSW community is likely to be zero, or negative if consideration is given to the resources and time put into assessing and opposing them and the uncertainty they have created in local communities. None of the cost benefit analyses suggested that a zero or negative value was a possible outcome, with values always estimated to be in the hundreds of millions. Examples of net benefit estimates into the billions are also common.

In our view, commissioned economic assessment in the EIS process is not providing any useful information for decision makers. Economic assessments have become advocacy documents, based on untested, client-provided data and often on unstated modelling assumptions. These assessments waste the time and resources of proponents, planners and communities alike. We recommend that detailed economic assessments be removed from the SEARs of most major projects and replaced with basic estimates of capital cost, direct employees and direct payments to government. These basic metrics will give decision makers possibly more insight into the economic size of any project and calculations behind figures should be easier to scrutinise.

Economic assessment should be conducted at either an earlier or later stage of the project assessment process. If undertaken at an earlier 'gateway' stage, cost benefit analysis and other forms of assessment could help shape the overall form of projects towards proposals that maximise community benefit and minimise risks. At a later stage, independent economic assessment could be useful in assisting with evaluating approval conditions that minimise costs to communities and proponents. However, at the EIS stage proponents are already committed to a particular project plan. It is too late for fundamental changes, such as changing an open cut mine into an underground mine, regardless of whether such a change might maximise community net benefits. Instead, the economic assessment documents simply advocate for the proponent's position and seek to mislead decision makers rather than inform.

<https://majorprojects.planningportal.nsw.gov.au/prweb/PRRestService/mp/01/getContent?AttachRef=SSD-7172%2120200424T070327.704%20GMT>

⁸ BAEconomics (2020) *Economic Impact Assessment of the Hume Coal project*,

<https://majorprojects.planningportal.nsw.gov.au/prweb/PRRestService/mp/01/getContent?AttachRef=SSD-7172%2120200424T070426.634%20GMT>

Commissioned review

The Department and the PAC/IPC usually commission separate economic consultants to review the assessments commissioned by proponents. These reviews were initiated because of proponent-commissioned assessments claiming billions in benefits, claims contested by the community but accepted by the Department or PAC/IPC, yet these projects went on to deliver zero benefits or net costs. The clearest example of this was the Cobbora coal project, with \$2 billion estimated in net benefits by the commissioned economist,⁹ but the project was abandoned leaving behind millions in taxpayer costs to restore community infrastructure near Dunnedo.¹⁰

Commissioned reviews have been of varying quality and utility to different decision makers. The Centre for International Economics (CIE) prepared most of the reviews from 2014 to 2018, with useful contributions made around the Centennial Springvale, Angus Place and Airly mine proposals and their economic assessments by sub-standard consultancy AIGIS Group. The CIE also made a significant contribution to the PAC's nuanced decision on the Port Waratah Coal Services Terminal 4 proposal.¹¹

The utility of reviews is limited by their general focus on whether the economic assessments under review have complied with guidelines or general standards, rather being an independent assessment of the merits of the project based on the proponent's economic assessment. As a result, the issues raised often turn into a back-and-forth discussion between parties around technical issues, rather than a strong recommendation to decision makers as to whether they can rely on the proponent's commissioned work, or whether the reviewer has a view on the merits of the project. For example, BIS Oxford Economics reviewed the economic assessment of the Tahmoor coal project, highlighting many shortcomings in the approach taken by the company's consultants, Cadence Economics. Almost as an aside BIS Oxford wrote:

Another risk is growing opposition to the use of coal as an energy source. In terms of pricing, the results appear reasonable but could also be affected by short to medium

⁹ Gillespie Economics (2012) *Cobbora Coal Project Economic Assessment*, https://majorprojects.planningportal.nsw.gov.au/prweb/PRRestService/mp/01/getContent?AttachRef=MP10_0001%2120190805T060247.251%20GMT

¹⁰ Potts (2015) *Dunedoo opens Cobbora Transition Fund projects*, <https://www.mudgeeguardian.com.au/story/3541007/dunedoo-opens-cobbora-transition-fund-projects/>

¹¹ See for example CIE (2015) *Springvale Colliery Mine Extension Project: Review of Economic Impact Assessment*, <https://majorprojects.planningportal.nsw.gov.au/prweb/PRRestService/mp/01/getContent?AttachRef=SSD-5594%2120190227T041215.006%20GMT>; CIE (2014) *Port Waratah Expansion T4: Review of Economic Analysis*, <https://www.ipcn.nsw.gov.au/resources/pac/media/files/pac/projects/2012/09/port-waratah-coal-terminal-4/pac-review/appendix-7--cie-final-reportpdf.pdf>

*term risks such as the impact of COVID-19 on global coal markets. We suggest that the Department may wish to seek clarification on both of these factors.*¹²

It is surprising to say the least that despite two consultants having been engaged to assess the economics of a coal project, that no consideration has been given to how it will be affected by the major trends in the coal market. The Department does not appear to have sought clarification on these issues. In fact, its assessment report ignores this and most of the other criticisms made by BIS Oxford Economics, particularly around claimed benefits to suppliers and benefits to workers.¹³

While the Department picks and chooses the feedback it prefers from its reviewers, on some occasions it appears to pick a reviewer that will give it the advice it seeks. One example of this is the Narrabri Gas Project and the choice of fossil fuel industry-linked economist Dr Brian Fisher to review economic assessment by consultants GHD and ACIL Allen. Despite multiple reports to review and claims to have reviewed key submissions, Dr Fisher's final report was just five paragraphs long and endorsed the assessment of the project and the project itself, despite obvious flaws in the economic case for the project.¹⁴

Overall, commissioned reviews have been useful and have generally improved the information available to decision makers. More useful still would be if the genuinely independent consultants used for the reviews undertook the economic assessment at arms-length to the proponent. Consideration should also be given to developing this capacity within the NSW public service.

¹² BIS Oxford Economics (2020) Peer review of economic impact assessment: Tahmoor South Coal Project, <https://majorprojects.planningportal.nsw.gov.au/prweb/PRRestService/mp/01/getContent?AttachRef=SSD-8445%2120201218T044925.096%20GMT>

¹³ Examples will be provided in a forthcoming submission to the IPC by The Australia Institute.

¹⁴ Fisher (2018) *Final Report on matters pertaining to the Economic Assessment (cost benefit analysis) and Economic Assessment (macroeconomic analysis) of the Santos NSW (Eastern) Narrabri Gas Project*, <https://majorprojects.planningportal.nsw.gov.au/prweb/PRRestService/mp/01/getContent?AttachRef=SSD-6456%2120200611T102053.887%20GMT>;

Ogge et al (2020) *Fast and loose: Analysis of Santos's eleventh-hour Narrabri Gas Project documents*, <https://australiainstitute.org.au/wp-content/uploads/2020/12/P960-Submission-on-new-Narrabri-modelling-Web-FINAL.pdf>

Registered Environmental Assessment Practitioners

The proposal to improve assessment quality by ensuring practitioners are part of a recognised professional scheme will be unlikely to improve the quality of economic assessment. Economics has no professional standards and no professional body that attempts to uphold even basic professional ethics. There is no organisation that can meet the guidelines set out in the consultation documents.

In the absence of such an organisation we suggest that the Department develop internal skills to conduct economic analysis of major projects, and that such analysis always be published for public feedback.

Alternatively, a panel of suitable consultants could be maintained by Treasury. Membership could be reviewed annually with a public consultation process over the suitability of members based on the assessments published through the year.

Conclusion

Economics and economists have not served the people of NSW well over the last decade, at least not in relation to major project assessment. They have been complicit in many of the major planning disasters and the ongoing lack of preparation for a carbon-constrained world and a phase out of the coal industry. The Rapid Assessment Framework is a chance to improve these problems, however improvement will require sustained organisational and political will to ensure independence and improved standards.