

Chief Executive Officer
Hobart City Council
GPO Box 503, Hobart 7001

Dear Hobart City Council,

The Australia Institute Tasmania is pleased to make a submission on the major development application number PLN-19-345, Proposal Cableway and associated facilities, infrastructure and works from Mount Wellington Cableway Company (MWCC).

The proposal for a cableway to operate between a base station and the pinnacle of kunanyi/Mount Wellington includes a four-storey building at the summit, with viewing facilities, interpretation, café, restaurant and function space, amenities, office, and associated plant and infrastructure. The three towers, between 36m - 55m high, with two 80-person cable cars, will pass directly over the face of the mountain and the organ pipes.

In summary, our submission relates to the economic aspects of the proposal and addresses:

1. Inadequate cost-benefit analysis
2. Inappropriate use of multipliers
3. Economic impacts in the construction phase
4. Induced economic activity may be lower than expected
5. On-going benefits
6. Crowding out
7. Jobs
8. Tasmanian government revenue
9. Missing elements of the analysis

Please find attached a detailed submission on behalf of the Australia Institute Tasmania.

Yours sincerely,

Eloise Carr
Director, The Australia Institute Tasmania

1. Cost – benefit analysis

In its section headed “Key summary of impacts” the document *Community Benefits* summarises the net economic benefits as:

Net Economic Benefit:

- *Up to \$99 million net new cash injected into the state economy each year of operation (in today’s terms), through increased recreational and tourism use of the Park.*
- *Operating lease provides new income source to better resource park management.*
- *Cost-savings for park authority via joint data monitoring and site storage provisions.¹*

For a fuller account of the economic benefits we are referred to a document, *Economic Impact Report*, whose results it says “have been endorsed by respected economist Saul Eslake.” We understand Mr Eslake has since distanced himself from the project in response to those who exaggerate the degree of his endorsement. That endorsement it has to be said reads like faint praise when he says he believes the “project is worthy of serious consideration...”

An economic impact report might be expected to fully discuss all of the benefits and costs of a project and come to some assessment of the net benefits. The assessment we find ourselves studying seems to avoid that and is instead merely a list of the new spending that is supposed to take place in Tasmania. To say that a certain amount is to be spent in Tasmania is far short of assessing the net benefits of that spending. To look at items like the wages bill and the project’s receipts is to vastly overstate any actual benefits to the State as we will see below. A proper assessment of the economics of this project should look at net costs and benefits and come to some conclusion as to where the balance lies. As we will demonstrate below, this report falls far short of that.

Like the consultants we assume we are only interested here in the impact on Tasmania. Hence, we assume here that the decision-makers in Tasmania give little weight to any benefits to people outside the state.

2. Multipliers

A good deal of this report relies on the sorts of multipliers that are generated by the input output (I-O) tables published by the Australian Bureau of Statistics. The latest issue of the relevant ABS publication carries a number of warnings about the use of these sorts of multiplier estimates. The ABS says:

While I-O multipliers may be useful as summary statistics to assist in understanding the degree to which an industry is integrated into the economy, their inherent shortcomings make them inappropriate for economic impact analysis. These shortcomings mean that I-O multipliers are likely to significantly over-state the impacts of projects or events.²

¹ <https://www.hobartcity.com.au/files/assets/public/development-applications/pln-19-345/pln-19-345-100-pinnacle-road-mount-wellington-tas-7054-advertised-document-community-benefit-analysis.pdf>

² ABS (2021) *Australian National Accounts: Input-Output Tables, 2018-19*, 28 May.

That is important. Of course, the consultants did not have the advantage of seeing this publication from May 2021, however the ABS has published similar warnings in the past. We do not need to go into all the details but these comments were made in relation to multiplier exercises that related to the Australian economy. The ABS makes a particular point about applying multiplier estimates to parts of Australia when it said:

[Multiplier exercises are] Not applicable for small regions: Multipliers that have been calculated from the national I-O table are not appropriate for use in economic impact analysis of projects in small regions. For small regions, multipliers tend to be smaller than national multipliers since their inter-industry linkages are normally relatively shallow. Inter-industry linkages tend to be shallow in small regions since they usually don't have the capacity to produce the wide range of goods used for inputs and consumption, instead importing a large proportion of these goods from other regions.

With these warnings in mind we should be especially cautious about the results of this report. We should bear in mind that the ABS's motivation for these warnings has been the number of studies that made unsustainable claims for particular projects and implied ABS endorsed their results and method. The ABS even went to the length of not publishing some tables that were especially misused.

3. Economic impacts in the construction phase

During the construction phase MWCC is expected to spend \$54 million to complete the project. The consultant's approach is to take that \$54 million and apply a low multiplier to it and so assert that it generates an "economic impact" of \$50 – 75 million. However, if we work through all the mechanisms the effect is much smaller.

We are told there will be up to 200 workers. At average weekly earnings 200 workers would be receiving \$18.4 million over a full year. They say up to 200 jobs during construction and suggest a high employment multiplier because that is what the input output tables show. The I-O tables generate a high employment multiplier because the initial recipient of the spending employs people to work directly and subcontracts a lot of other work. The employment effect of the latter divided by the direct employment gives a high multiplier. But if the question is how many people are employed on the site then someone has gone to the trouble of adding up all of the prime contractor's workers and the workers employed by the subcontractors. All the on-sight multiplier effects will have already been included in the 200 jobs estimate.

On this basis it is not possible to give the project credit for a higher number of workers through multiplier effects as any multiplier effects seem to have already been included.

4. Induced economic activity might be lower than expected.

The report suggests peak employment during the construction phase might be as high as 200 jobs. Let us work with the 200 jobs figure for construction. On the face of it, at average weekly earnings for full-time adult private workers, the figure of 200 workers implies a wages bill of \$18.4 million per annum. However, we can halve that if we assume half the wages bill is paid to workers who have come from interstate or abroad. Perhaps another quarter would have been working elsewhere in

Tasmania thereby nullifying any net benefit to them. Suppose the remainder, another quarter of the workforce would be unemployed singles receiving jobseeker and the rental allowance. It is those Tasmanians who receive a net after-tax benefit and that sums to \$2.59 million. This illustrates how the claimed economic impact can be very different from the net economic benefits.

As we go through the arguments, the employment benefits seem to disappear. Arguably any savings on government income support could be treated as a benefit to Tasmania. Based on the relative size of Tasmania its share of any savings in Commonwealth Government income support would be about 1.7 per cent of that value. This is likely to be a rather small amount.

The assumed induced effects will be the result of spending out of that \$2.59 million on local goods and services as well as the consumption of the new members of the Tasmanian workforce from interstate or overseas. The assumed 100 workers from outside Tasmania on average weekly earnings will have after-tax incomes of \$7.17 million. So all up there are additional net earnings of \$9.76 million. By the time those workers spend their money and adjusting for GST we could get additional employment in the second round of 18 full-time equivalent year-jobs throughout the whole of Australia.³ Those jobs may take quite some time to materialise and the numbers in Tasmania are problematic. There is also a possible second round of induced spending - as the workers spend their money at the butcher's the butcher may spend her additional income on other Tasmanian goods and services in a second round of spending. That process can go on for quite a while but quickly gets very small. However, what we find is that the induced effects on employment may be quite small and can be appreciated intuitively. Suppose all the additional workers' incomes are spent on canned food imported from the mainland. Retail tends to have significant spare capacity so that there might be no induced employment there and any employment effects from the manufacture of canned food takes place in the rest of Australia.

Labour content in the materials used in construction has not been included. From the input output tables we know that in the case of the different construction industries,⁴ material input was 19 per cent of the value of the production. The present project is expected to cost \$54 million which might then be expected to have a material cost of around \$10.3 million. We know a lot of that will be imported from overseas and inter-state. Supposing \$4 million of the \$10.3 million is spent locally on building supplies we might expect perhaps another 8 additional year-jobs might be ultimately created with much smaller flow-on effects after that. Assuming half would be new jobs that would not have otherwise occurred then at average weekly earnings there is an additional benefit of perhaps \$0.4 million extra in wages.

Going through these exercises it can be appreciated that the true benefits are smaller than seems the case at first.

So far we have ignored those payments that go to profits. About half of everything spent in Australia is non-labour income. It is not clear how to treat profit and other non-labour incomes in this particular project. A lot of it will accrue to only a few people who will be able to profit from exclusive

³ We assume a marginal propensity to consumer of 90 per cent, and the Australia-wide ratio of workers to output.

⁴ Residential building construction, Non-residential building construction, Heavy and civil engineering construction, and Heavy and civil engineering construction.

use of what could be considered the state's most valuable piece of public land – the pinnacle of kunanyi/Mt Wellington.

The consultants do not appear to treat profit as a benefit and it is not clear that profit on the project is a net benefit for Tasmania. Without this project the funds would have been invested elsewhere and, we can assume, would have earned the normal rate of return. If funds invested in a project are making more than normal returns we might suggest they are making monopoly profits at the expense of consumers. Rip offs involving monopoly profits are hardly a benefit to the state.

This is an important issue that could be followed up if we had more information. As it is we will follow the lead of the consultants and not discuss profits any further.

5. On-going “benefits”

This report, especially in the discussion of impacts when MWCC is operational, relies a good deal on calculations and “guesstimates” of multipliers as we have mentioned already. Multipliers are described as giving us the answer to the question: for every dollar earned directly in tourism, how much additional extra economic activity is generated in the rest of Tasmania. By presenting the results of the analysis of multipliers and little else the consultants are effectively saying that all the new spending on tourism as well as the multiplier effects are benefits to Tasmania.

Our assessment of the benefits claimed is hindered by the tendency for important financial information to be blacked out in the documentation. Generally it is only aggregate results that are presented.

The long term impacts are said to be:

1. An ongoing \$79M to \$99M net positive impact to the Tasmanian economy, once operational.
2. Likely pull factor extending or increasing new and repeat visitation to the state.
3. 80 new jobs (50 Full Time Equivalent positions) once operational in engineering, hospitality and tourism sectors.
4. 200 jobs during construction.⁵

The last point has already been dealt with.

The first point is simply the amount spent on the cable car itself together with associated facilities along with any multiplier effects. The consultants mention that their overall multipliers are consistent with the lower end of other estimates in the literature that they put at 1.75 to 1.90.⁶ That suggests the MWCC is expecting ongoing sales (cable car itself plus fast food etc) of around \$45 to 57 million.

6. Crowding out

To suppose there are positive multiplier impacts suggests there is little or no crowding out of other spending. In their discussion of local patronage (p 14) they acknowledge spending by locals means “any indirect gains are offset by a loss of spending on other activities”. What they should have said is that any spending on MWCC facilities is likely to mean a fall in other spending so that the actual multiplier is less than one and would be zero if spending at MWCC is fully offset by less spending

⁵ <https://www.hobartcity.com.au/files/assets/public/development-applications/pln-19-345/pln-19-345-100-pinnacle-road-mount-wellington-tas-7054-advertised-document-community-benefit-analysis.pdf>

⁶ They express this as multiplier effects of “between 75c and 90c” (Economic impact, p. iii)

elsewhere. In that case the net new spending in Tasmania has to be zero as well. The consultants are confident that there will be net benefits from other categories of visitors. However, they also mention that cruise ships tend to stay in Hobart for a certain length of time. Hence any time spent on one activity is likely to be at the expense of other activities. Once again, any spending on MWCC is likely to be at the expense of spending on other activities, either in full or in part. We would really need to see much more evidence to be sure there is in fact a significant multiplier impact at all, let alone any net benefits for Tasmania.

There is another consideration along similar lines. The consultants tell us that for much of the year accommodation in Hobart is “effectively full”. That would certainly work against any increase in economic activity at those times, let alone any net economic benefits.

The consultants suggest that spending on the part of cruise ship tourists is low in Hobart compared with other Australian stops which suggests some upside potential in local spending.

These considerations remind us that the commercial value of sales by MWCC is going to be a very poor estimate of the direct impacts on Tasmania and using commercial sales as a base for calculating multiplier impacts will be equally problematic.

It has to be stressed that not all of the described economic impacts are indeed benefits, and to be fair, they are not always presented as such by the consultants. But we emphasise the point that if economic benefits are to be claimed for the project then we need much more than the commercial data benefits for MWCC. For example, we mentioned the profits earlier. It is not even clear how much of the profit will be received by Tasmanians. Even then, how we treat profit is unclear and so there may be no net benefits we can attribute to the project on that account.

7. Jobs

Item 3 of the long-term impacts mentions 50 new FTE jobs on an on-going basis. We imagine these are mainly employees but would appear to include some of the multiplier effects. To put a number on that, 50 FTE jobs at average weekly earnings is \$4.6 million per annum. That wage bill of \$4.6 million cannot be treated as a net benefit for some of the reasons discussed in looking at the benefits claimed during the construction phase. Some of the workers and perhaps a majority would have been working elsewhere in the absence of the MWCC. Others would have relied on government support. By the time full adjustments are made for those factors the net economic impact would be much less than the \$4.6 million.

Every month there are thousands of Tasmanians who move from being employed to being unemployed or out of the workforce altogether. Likewise many thousands move from unemployment and from right outside of the labour force and take up employment. On average over the 12 months to April 2021, 7,700 people ceased work and became unemployed or moved right out of the workforce. Meanwhile 8,100 people went in the opposite direction and took up employment.

The conclusion for this section must be that the economic benefits are at best some small fraction of the total ongoing employment impacts and hence some fraction of the \$4.6 million wages bill. The rest of the economic impacts are not able to be described as economic benefits to the Hobart community. There is no further argument or data on which we might calculate any other benefits and so we can assume that nothing else was evident to the consultants who were engaged to describe the net economic benefits of the MWCC.

8. Tasmanian government revenue

Potentially the MWCC may increase the tax take of the Tasmanian Government, through payroll tax, GST collections and various other fees and charges.

- The consultants think the payroll tax effect would be small at best. The cable car and other enterprises each enjoy the zero liability threshold for the first \$1.25 million of the wages bill. It is not clear how many independent businesses will be operational.
- The consultants think that the effect on stamp duties are likely to be immaterial and that would be the case with most other revenue collections.
- Tasmania would receive around 3.9 per cent of any additional GST collections. In the event that Tasmania did indeed experience the full \$99.1 million increase in economic activity, its share of the additional GST tax collections would be \$0.35 million. But in reality, for the reasons given above, the MWCC will crowd out other economic activity so that actual increases in GST collections will be even more modest than suggested here.

These amounts are very small and do not account for the likelihood that new taxable activities will squeeze out other taxable activities and so result in a very low additional tax collection, if any.

9. What is missing?

Neither Aboriginal Heritage Assessment, the Community Benefit Analysis nor the Economic Impact Report adequately address concerns raised about the cost of this project to cultural heritage and First Nations Tasmanians. The Aboriginal community are strongly opposed to a cable car being built on their sacred mountain. The Tasmanian Aboriginal Centre describes kunanyi as existing since the beginning of time, of being a Ceremony site, with views over all the countries of Lutruwita/Tasmania. The whole mountain is an ancient spiritual site and a place of great spiritual significance. It is a connecting place between nations and remains a whole aboriginal landscape today. How can we ever achieve reconciliation if we continue to completely ignore the wishes of our First Nations peoples?

The consultants have given us a report that stresses output and employment effects and passes it off as an economic assessment. Generally, it is the costs and benefits that are not included in the commercial calculations that are critical. For example, if consumers are to benefit from the cable car it will be because they put a value on their experience that exceeds the costs of that experience. To calculate the true benefits to consumers it is that that should be measured. Economists refer to that as the “consumer surplus”. On the other side employment effects are used to suggest benefits when normally it would be assumed that finding workers on the open market would be employing people who would most likely be employed in similar jobs elsewhere. To suggest there are benefits you would have to show that some new employment would be created for those who would not have otherwise found employment. The consultants have not done that.

The other key missing item in this report is a discussion of the externalities associated with the project. Many activities generate benefits for, or impose costs on, third parties. An example of a negative externality is the pollution from a coal-fired power plant. The pollution from such a plant includes smoke and the other emissions, CO₂, nitrogen dioxide, sulphur dioxide, heavy metals to name a few. These emissions impose costs on other members of society and those costs need to be included in any assessment of projects involving such power plants.

In the case of the MWCC there are a number of costs that are given little attention in the Economic Impact Report.

The skyline of Hobart will be changed forever. The visual impact of a 35m tower on top of the organ pipes in Wellington Park's Natural Zone will detract from the beauty that makes kunanyi special. The tower and pinnacle centre will be visible from most places in greater Hobart and within Wellington Park. Ideally, we should put an annual cost on the amenity value lost to people in Hobart and elsewhere for the removal of their presently unspoiled view of kunanyi/Mt Wellington. In that way the net benefits can be compared with that particular cost. And there are other costs that should be similarly taken into account.

The impact of lights from the on the summit have not been adequately considered. A four-storey building at the summit, with café, restaurant and function space, among other functions, is likely to have a significant lighting impact and detailed modelling for this has not been undertaken.

A key aspect of the value of kunanyi lies in its proximity to Hobart's CBD. While it is not completely wild, it does provide highly valued, nature based recreational opportunities for Hobart residents and visitors alike.

The proposal also includes removal of native vegetation, including potentially old growth trees within the footprint of the development as well as additional clearing to comply with bushfire hazard reduction requirements.

The cost of the loss of natural values from visual impact, lighting and direct footprint have not been adequately accounted for.

10. Conclusion

Despite the claims made for the MWCC the economic benefits of the project that we are able to identify look surprisingly small.

It would be ideal if we could evaluate *all* the costs and benefits and have common units in which we could measure them all.