



The Coalition's Rigorous Policy Costings Process

August 2013

Key Points

The Coalition's policies will be fiscally responsible, fully paid for, and independently verified.

The Coalition has put in place the most rigorous and systematic process for the costing of our policies and savings ever undertaken by an Opposition in Australia.

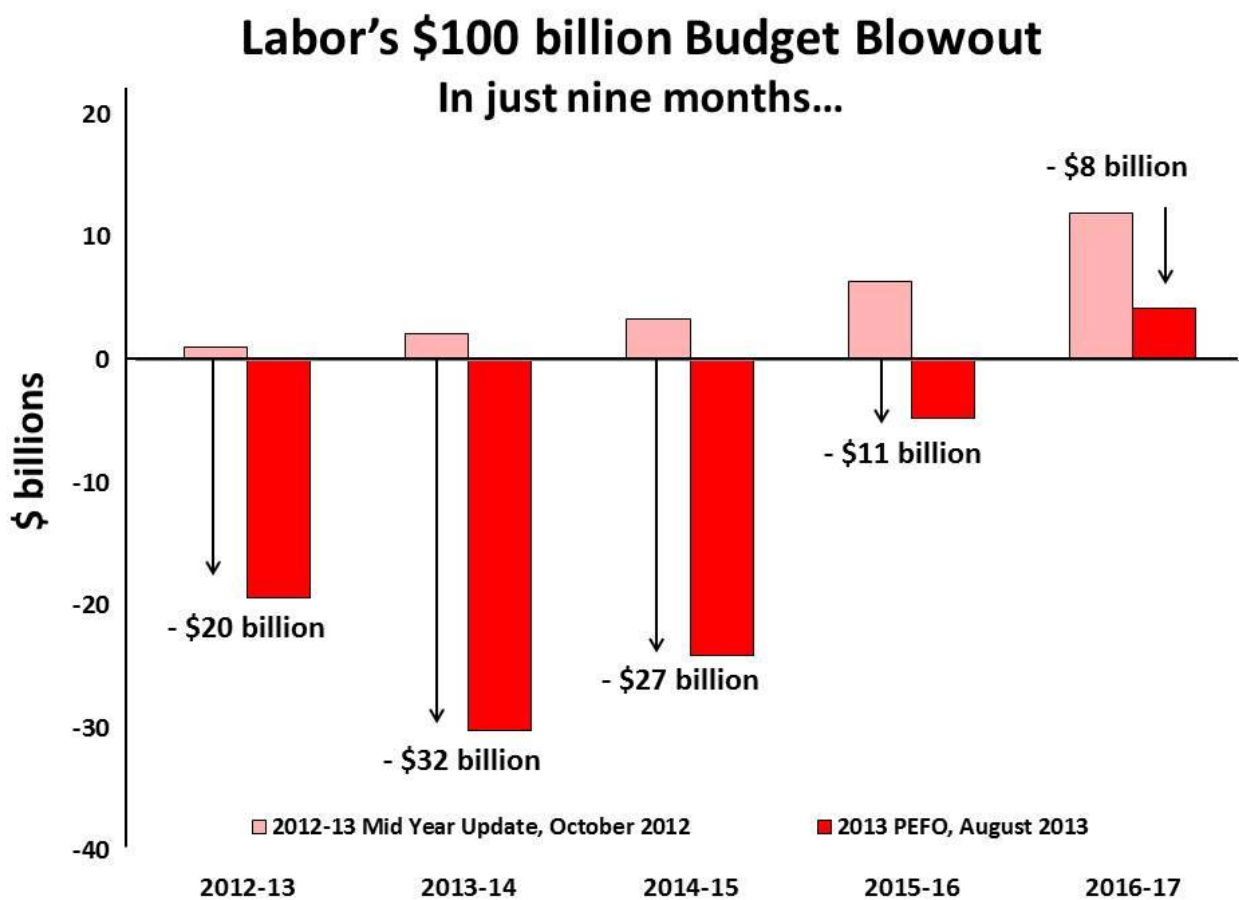
It has involved a process of systematic internal scrutiny, wide consultation with stakeholders, rigorous assessment by the Parliamentary Budget Office and a panel of review comprising three of the most eminent experts in public finance and administration in Australia.

1. Introduction

Labor has been a disastrous manager of the nation's finances.

Over its first five budgets, Labor has delivered the fastest increase in debt, in dollar terms and as a share of GDP, in modern Australian history. As Prime Minister, Kevin Rudd delivered the largest budget deficit in modern Australian history.

Labor has repeatedly promised one outcome but delivered a result that is much worse; they have hardly been able to get a single number right. In the past nine months alone Labor has overseen a blowout in the Budget forecasts by an incredible \$100 billion dollars.



SOURCE: Mid-Year Economic and Fiscal Outlook 2012-13, Pre-Election Economic and Fiscal Outlook 2013

Kevin Rudd, Julia Gillard and Wayne Swan promised over 500 times to deliver a surplus in 2012-13, "come hell or high water".¹

In fact, Labor delivered a \$19 billion deficit – the 11th deficit in a row from the last 11 budgets delivered by Labor.

¹ Wayne Swan, Debate with Joe Hockey – Sunrise, Channel Seven, 18 August 2010.

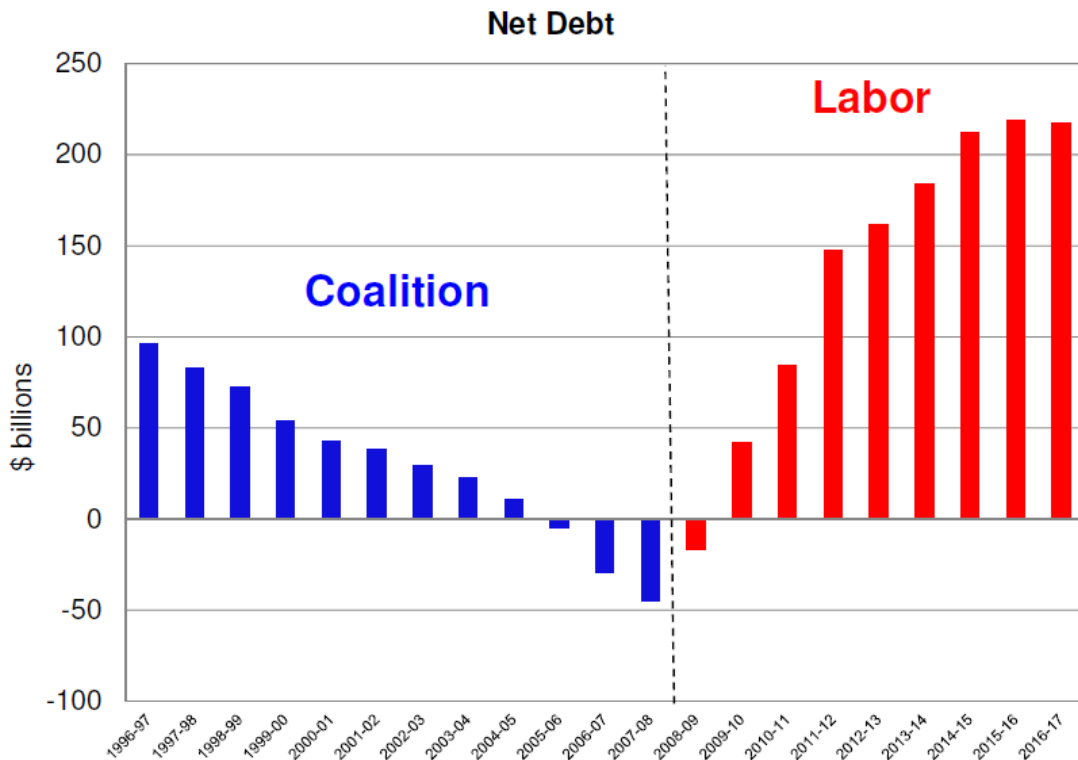
Kevin Rudd and the new Treasurer Chris Bowen told us in early August that Labor's Budget figures, less than three months old, are worthless, with the Budget position collapsing by an extraordinary \$3 billion a week every week since May.

It is time to end Labor's waste and mismanagement.

Australia desperately needs honest and transparent budget management, and that starts with policies that are properly costed and verified.

Unlike Labor, the Coalition is committed to responsible financial management, prudent handling of taxpayers' money and to ensuring that our fully costed policies are more than offset by responsible Budget savings.

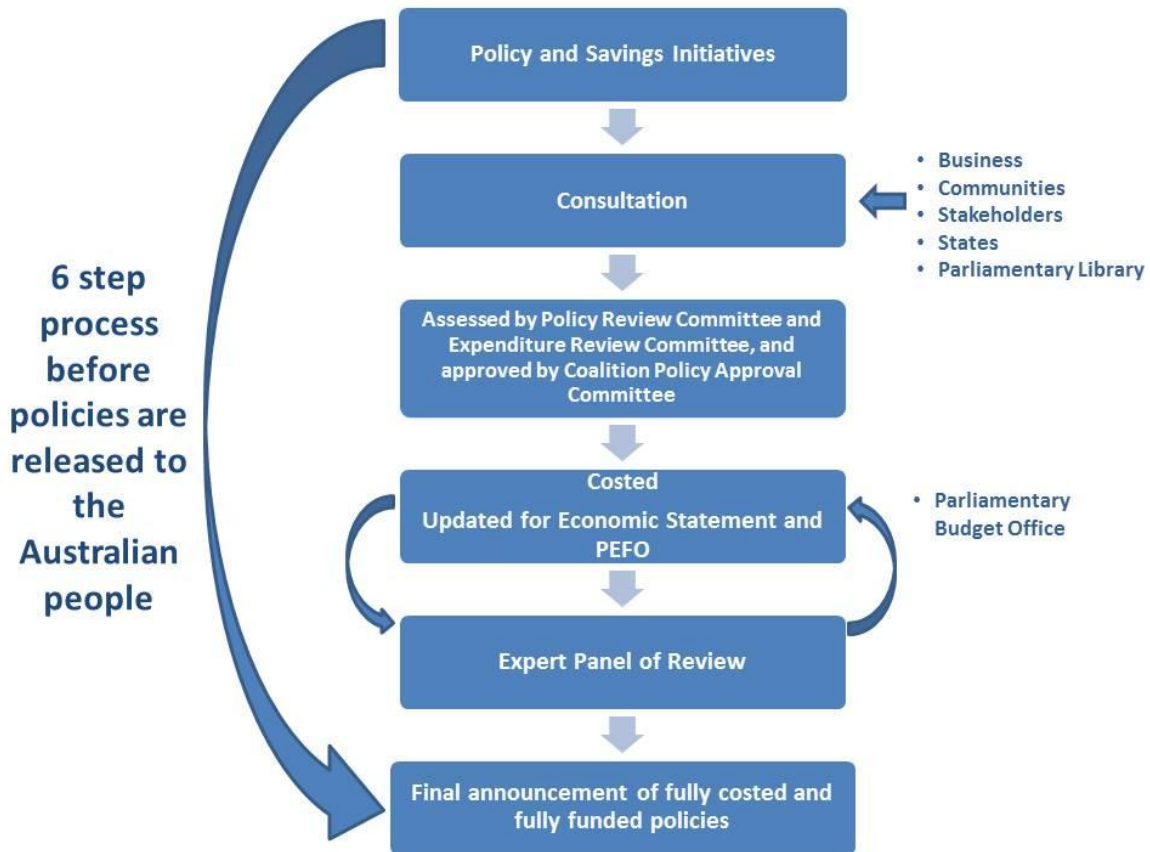
We will stop the waste and budget blowouts, bring the Budget to surplus, pay back the debt, respect taxpayers' money and put in place policies that enhance the productivity and competitiveness of our economy.



SOURCE: 2013 Pre-Election Economic and Fiscal Outlook and Economic Statement August 2013

2. The Coalition's Rigorous Costings Process

To ensure the accuracy of its savings and policy costings, the Coalition has put in place the most thorough independent costings verification process ever adopted by an Opposition.



1. Policy and Savings Initiatives

The process began with an exhaustive line by line evaluation and assessment of government spending programmes and an assessment of the role of government and how it can sustainably provide a better life for all Australians.

There has been focussed scrutiny of government waste and mismanagement, and on identifying ways to deliver government services in the most efficient manner.

An overriding consideration has been that governments do not spend their own money but rather spend the money of hard working taxpayers.

There has been extensive use of Parliamentary information and processes, including Budget Papers, Questions on Notice, the Commonwealth Parliamentary Library, Freedom of Information requests, and forensic questioning and submission of questions in Senate Estimates.

2. Consultation

This process was supplemented by extensive consultation and information-gathering with a wide range of stakeholders, industry experts and government bodies. Policy ideas were tested to ensure they would achieve the desired objectives. Cost savings were evaluated to assess whether they were achievable.

The Government's recent change to the Fringe Benefits Tax (FBT) arrangements for motor vehicles shows why consultation with industry experts and stakeholders is so important.

The Government based its rationale for the change on a belief that the statutory method of assessing FBT was a tax dodge which mainly benefitted high income earners driving expensive imported vehicles.

However, industry information showed that it was utilised predominantly by low to middle income Australians in public services like health and education and non profit organisations, driving moderately priced vehicles. For these hard working Australians, the benefit was a significant component of their total remuneration package.

Industry feedback suggested the change would have a significant effect on sales of locally made vehicles and that the effect was immediate from the date of the announcement.

3. Internal Review Committees

The targeted cost savings and policy ideas were then considered by the key Coalition costings committees.

The process of identifying **savings** has been overseen by the Shadow Treasurer, the Hon. Joe Hockey MP and by the Shadow Minister for Finance, Deregulation and Debt Reduction, the Hon. Andrew Robb AO MP, assisted by Shadow Ministers and other senior colleagues from the Coalition party room. These members made up the Coalition Expenditure Review Committee (ERC).

The Coalition ERC process has involved a review of all government spending programmes by Shadow Ministers and their staff. Each savings proposal has been rigorously scrutinised and tested to ensure it is fair and should achieve the assessed reduction in expenditure.

As always, the Coalition's focus is on eliminating waste and duplication. Under Labor, billions of taxpayer dollars have been wasted on programmes such as the home insulation scheme, computers in schools, school halls and countless others.

Running in parallel with this, the process of identifying **policies** has been overseen by Andrew Robb, assisted by Parliamentary Secretary for Taxation Reform the Hon. Tony Smith MP and Shadow Minister for Climate Action, Environment and Heritage, the Hon.

Greg Hunt MP. These senior Shadow Ministers made up the Coalition Policy Review Committee (PRC).

This rigorous and comprehensive process has been underway for more than two years.

There has been a detailed evaluation of policy ideas to lift economic growth, create more jobs and improve the lives of all Australians. This process has involved the assessment of policy initiatives across every government portfolio. Policy ideas have been widely discussed and tested with industry experts and other stakeholders.

Potential policy initiatives have been presented to the PRC for rigorous assessment and evaluation.

This has involved an enormous volume of preparatory work, hundreds of meetings of the ERC and PRC committees and the assessment of many hundreds of submissions.

After development by the PRC, and costing by ERC, policies were brought before the Policy Approval Committee, chaired by the Leader of the Opposition, the Hon. Tony Abbott MHR.

The PRC process enabled the senior Coalition team to weigh the public benefit of a policy against the cost to taxpayers to ensure the dual obligations of practical outcomes and sound budget management could be achieved.

This comprehensive policy process has led to an integrated range of measures which the Coalition will take to the people through the course of the 2013 election campaign.

4. Parliamentary Budget Office

The Parliamentary Budget Office (PBO) was used extensively to provide detailed independent costings of the savings initiatives and policy reforms that emerged from this rigorous process.

It was the Coalition which first committed at the 2010 election to the establishment of a PBO, based on the US Congressional Budget Office model, as an important initiative to improve the quality of debate and information about costings issues.

While we regret that Labor begrudgingly implemented a lesser version of the PBO than proposed by the Coalition, we have nevertheless made extensive use of the PBO's expertise since arrangements for it to be able to cost Opposition initiatives were finalised late last year.

The Coalition has submitted some 200 costings requests to the PBO.

Prior to the election caretaker period, the Coalition has not had access to the Department of Treasury or Finance to cost its savings or policies. The use of Treasury and Finance, and indeed all other departments and agencies, is a right reserved for government only.

Now that the caretaker period has begun, under the *Charter of Budget Honesty*, the Coalition can use Treasury and Finance, or the PBO, to cost savings and policies – but it is prevented by the *Charter of Budget Honesty* from submitting the same costing request to both.

Given the working relationship the Coalition has established with the PBO and to ensure consistency in our rigorous processes, the Coalition will continue to use the services of the PBO for costing requests during the formal campaign.

5. Expert Panel of Review

To further ensure the accuracy and achievability of the Coalition's savings and policy costings, the Coalition has appointed an independent panel of three pre-eminent experts in public finance and administration to oversee the Coalition's 2013 election campaign costings. Their role is to:

- review and verify the reasonableness and accuracy of assumptions and figures in Coalition costings;
- provide assurance that policy spends and cost savings are achievable; and
- verify that the Coalition's policy spends are fully funded.

The Coalition's Independent Expert Panel of Review was appointed in early 2013.

The Coalition has now been working closely with the panel for the past seven months, to review and assess costings information regarding both policy and savings measures.

The Review Panel members are:

- **Mr Geoff Carmody**, co-founder of Access Economics and current Director of Geoff Carmody & Associates;
- **Mr Len Scanlan**, former Queensland Auditor-General; and
- **Professor Peter Shergold AC**, former Secretary of the Department of Prime Minister and Cabinet, and Chancellor of the University of Western Sydney.

All three members of the review panel have outstanding credentials in finance and public administration, as well as proven experience serving both Coalition and Labor governments.

Mr Geoff Carmody

Mr Carmody was previously a senior Treasury officer and represented Australia at the IMF and OECD, before co-founding Access Economics in 1988. As a Director of Access Economics, Mr Carmody has been involved in six election platform costings exercises for both major parties prior to his current appointment, including costing the Federal Coalition's Election Platform in 1996 and Kim Beazley's Federal Labor Opposition Election Platform in 2001.

Mr Carmody has enormous experience in tax and budget policy and the detailed costing of policy initiatives, and was recently the Chair of the South Australian Labor Government's 2009-10 Sustainable Budget Commission.

Mr Len Scanlan

Mr Scanlan was the Auditor-General of Queensland for seven years, primarily under the then State Labor Government, and has more than 30 years of public service experience, including roles in the Queensland Treasury and Transport Departments. In 1999 he received a National President's Award for his contribution to CPA Australia and the accounting profession, and in 2003 he was awarded a Centenary Medal for distinguished service to the public sector.

Professor Peter Shergold AC

Professor Shergold is Chancellor of the University of Western Sydney and was Secretary of the Department of the Prime Minister and Cabinet from 2003 to 2008, during which time he was the nation's most senior public servant.

Professor Shergold has over two decades of experience at the highest levels of the Commonwealth public service, serving four Prime Ministers and eight Ministers from both Coalition and Labor governments.

Professor Shergold has a PhD in Economics from the London School of Economics, and is a Fellow of the Australia and New Zealand School of Government and the Institute of Public Administration Australia.

Mr Carmody, Professor Shergold and Mr Scanlan bring to the Panel a remarkable, demonstrated history of distinguished, independent service in the interests of taxpayers.

This panel will publicly certify the accuracy of the Coalition's savings and spends and the net improvement the Coalition will make to the budget bottom line.

6. Release of Fully Costed and Fully Funded Coalition Policies

This extensive and multi-faceted programme of evaluating savings and policy costings is the most rigorous ever undertaken by an Opposition in Australia. It will ensure that the people of Australia can have confidence in the Coalition's numbers and be reassured that the budget bottom line will always be better under the Coalition.

The Coalition has promised that it will live within its means and this rigorous costings process is a down payment on that undertaking.

The complete range of savings and spending will be carefully and methodically updated and checked in light of the latest budget and economic numbers in the Government's Economic Statement and the Pre-Election Economic and Fiscal Outlook (PEFO).

The Coalition's verified policy costings and savings will be released before polling day. In the 2007 and 2010 elections, Labor released their costings less than 24 hours prior to election day.

3. How Labor has Failed

1. Labor's Mistakes

The 2008 Budget – Rudd's first Budget

Labor has hardly been able to get a single Budget number right. Its mismanagement began at the start with the first Rudd Government Budget.

In the 2008 Budget, Labor promised a \$21.7 billion surplus for 2008-09, however actually delivered a \$27 billion deficit. That was a nearly \$50 billion miss on its original promise.

In the 2008 Budget, Labor also promised to deliver a \$19.7 billion surplus for 2009-10, but ended up delivering a \$54.5 billion deficit.

That was the largest deficit in modern Australian history, more than \$70 billion worse than originally predicted.

But it got worse.

Labor promised that by 30 June 2012 Australia would have \$107 billion in the bank. In fact, this became a net debt of \$147 billion.

The 2010 Budget – Rudd misses again

Kevin Rudd's third Budget was more of the same.

Labor promised a \$13 billion deficit in 2011-12, but delivered a deficit more than three times larger – a staggering \$43.4 billion.

It was in the 2010-11 Budget under Kevin Rudd that Labor first made its infamous promise to deliver a surplus in 2012-13 – a commitment they spectacularly failed to deliver. The so called surplus was forecast for 2012-13 at \$1 billion but ultimately became a \$19 billion deficit.

Net debt promises also went by the wayside. Labor promised net debt would peak at \$94 billion in 2012-13 – instead net debt is now forecast to peak at a record \$219 billion in 2015-16.

[The 2011 Budget – Gillard continued the Labor tradition](#)

The 2011 Budget continued the Labor tradition of unrealistic promises that would bear no resemblance to the ultimate financial outcomes.

There was a promised \$22.6 billion deficit for 2011-12, but it ultimately came in at \$43.4 billion.

Despite earlier forecasts, net debt also broke through \$100 billion for the first time. Labor said net debt would be \$106.6 billion for 2011-12, however it blew out \$40 billion for that year alone, to be a massive \$147.3 billion.

[The 2012 Budget – More broken promises](#)

Labor made it yet another Budget of broken promises in 2012.

Over the then forward estimates, 2012-13 to 2015-16, Labor promised combined surpluses of just over \$16 billion. In the recent Economic Statement made prior to the election and confirmed in the PEFO, this has now been revised down to combined consecutive deficits of just under \$80 billion.

The 2012 Budget also promised a \$1.5 billion surplus for 2012-13, but Labor ultimately delivered a \$19 billion deficit.

Yet again, the same blowout occurred with debt. The Government forecast net debt for 2012-13 to reach \$143.3 billion, but it blew out to \$161.6 billion.

[The 2013 Budget – Already trashed](#)

Within three months the 2013 Budget was already trashed.

The Economic Statement made prior to the election, and confirmed in PEFO, showed that Labor's cumulative underlying cash position had deteriorated \$33 billion, or \$3 billion every week, since the Budget was handed down.

In 2010 Kevin Rudd promised that the move into deficit would be temporary. Now Labor is forecasting a total of eight consecutive deficits, totalling a staggering quarter of a trillion dollars.

2. Top 10 Labor Policy Costing Failures

The heart of Labor's budgetary problems is that they are incapable of accurately assessing the cost to responsibly deliver projects, consistently overestimate the revenue that will be raised through taxes, and have no shame in wasting taxpayers' money.

Here are ten key examples:

1. Immigration Budget Blow Out

Labor's failed border protection policies have resulted in more than 50,000 illegal maritime asylum seekers and a budget blow out of more than \$11 billion.

2. National Broadband Network

Kevin Rudd promised in the lead up to the 2007 election that this would only cost \$4.7 billion. It is now officially expected to cost over \$40 billion, and more realistic estimates suggest it could be above \$90 billion.

3. Mining Tax

Revenue projections have been massively revised down through more than half a dozen different sets of estimates. The original Resource Super Profits Tax was projected to raise \$46.5 billion over 2013-14 to 2016-17. The latest forecasts suggest the recast Minerals Resource Rent Tax will raise just \$4.4 billion over this period. In addition, it has now been revealed that one major mining company which paid a modest amount under the mining tax in 2012-13 will reportedly receive a full refund – because they ended up owing no tax!

4. Building the Education Revolution

Up to \$8 billion was wasted through budget blowouts and excessive building costs.

5. Home Insulation Programme

This \$2.5 billion programme was disastrously mismanaged. It was linked to four deaths, 220 house fires and up to 1,000 electrified roofs. More than \$15 million in bad debts were written off.

6. South Sydney Freight Line

This freight line was originally going to cost \$300 million, but ended up costing \$980 million – a more than three-fold blowout and delivered three years late.

7. Computers in Schools

With at least a \$1.4 billion blowout on a promised \$1 billion policy programme and way behind schedule, the programme has now been entirely defunded in the Budget leaving the states to pick up the pieces.

8. Solar Homes Programme

The programme blew out by \$850 million before it was cancelled. The programme was originally meant to cost just \$150 million.

9. Set Top Box Programme

This programme offered to install set top boxes in homes for an average \$350 each, when Harvey Norman offered the same deal for \$168. The programme's administration costs are expected to top at least \$67 million.

10. Carbon Tax Advertising

Labor spent \$100 million to sell a policy they promised not to introduce.

Hope.
Reward.
Opportunity.



THE NATIONALS *for Regional Australia*

For further details of the Coalition's Plan go to
www.realsolutions.org.au