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How Queensland's schools and social services are affected by mining industry assistance and lobbying

June 2015

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TAI

Policy Brief

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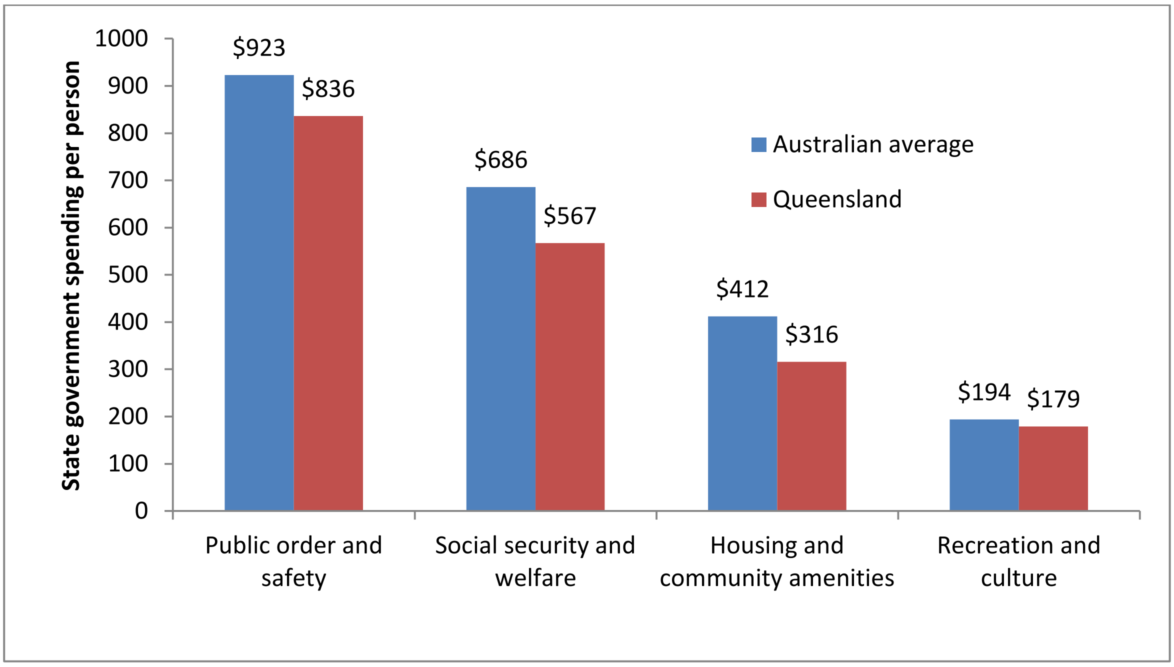
Summary

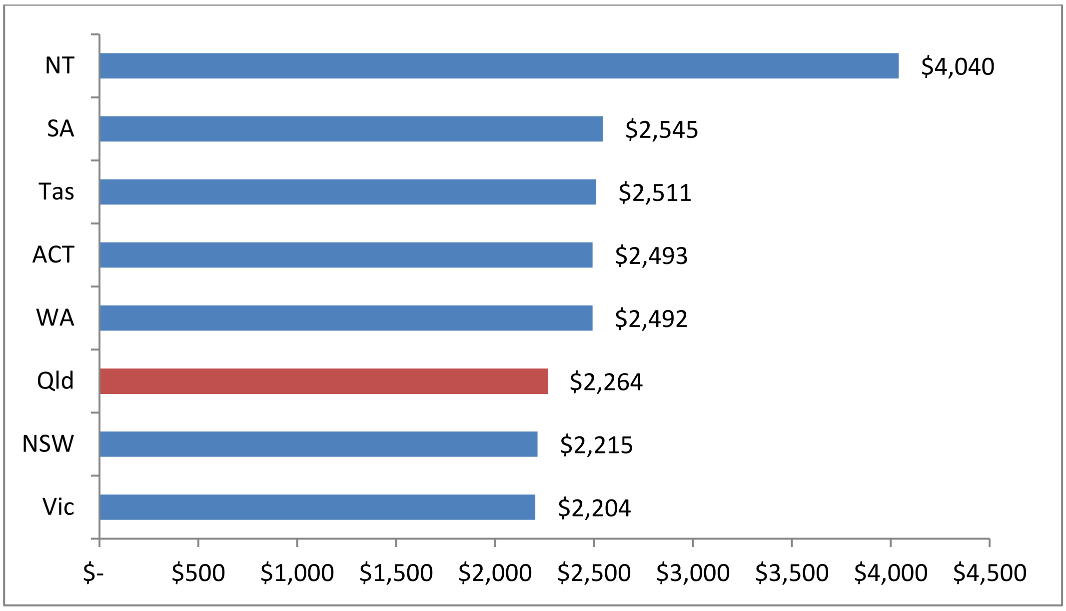
Queensland spends less on social services than the rest of Australia in per capita terms, despite being a large state with a growing population:



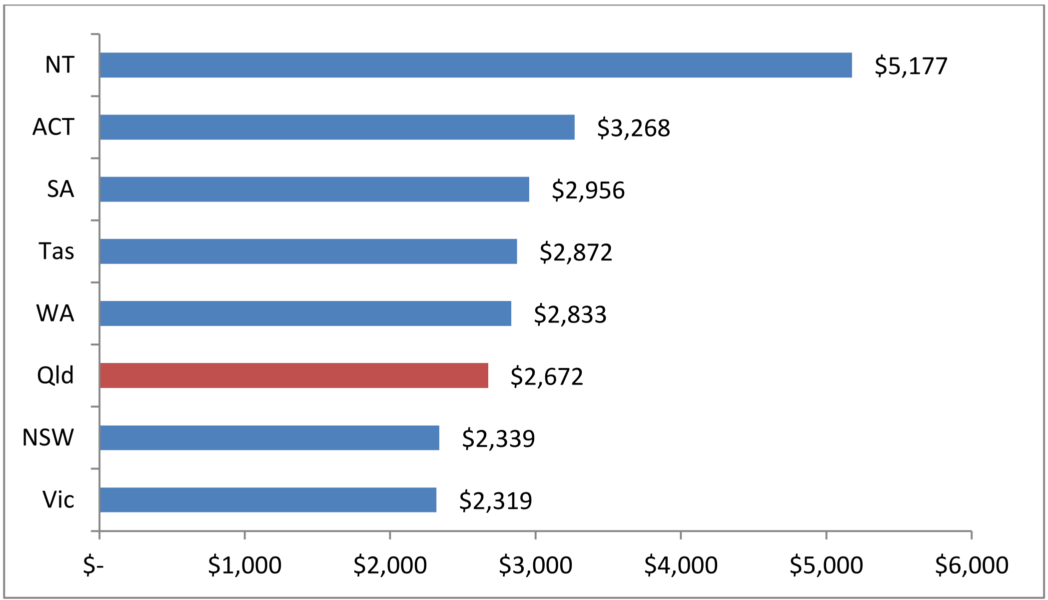
Source: ABS (2015) *Government Finance Statistics, Australia, 2013-14*, Cat no 5512.0, 13 May and ABS (2015) *Australian Demographic Statistics, Sep 2014*, Cat no 3101.0, 26 March.

In the major areas of health and education, Queensland spends less per person than any other state except NSW and Victoria – both of which benefit from large populations in relatively small, easily serviceable areas:

Per capita spending on education by state



Per capita spending on health by state



Source: ABS (2015) *Government Finance Statistics, Australia, 2013-14*, Cat no 5512.0, 13 May and ABS (2015) *Australian Demographic Statistics, Sep 2014*, Cat no 3101.0, 26 March.

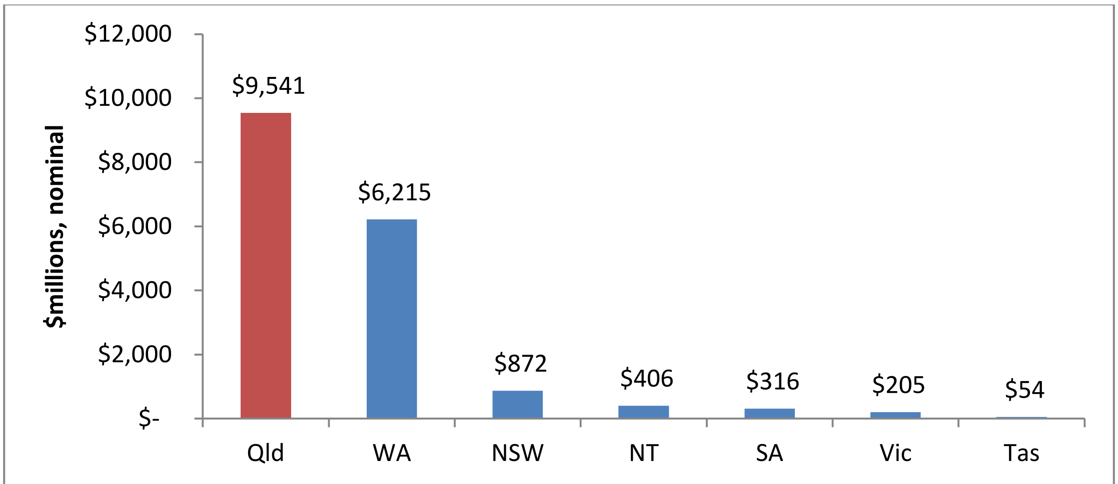
The consequence of this spending shortfall is obvious in parts of the health and education sectors. The Queensland Audit Office points out in recent audits:

- Queensland's public schools face a $268 million maintenance backlog
- The ability of the Queensland Ambulance Service to maintain current service levels is "at risk" due to budget constraints and growing demand.

Demand is growing for many services. For example, in the next 15 years Queensland's school student numbers are forecast to grow by 257,000, 110 new schools worth $3.8 billion, and many others will need expansion. To teach these extra students nearly 14,000 extra teachers and support staff will be required, earning an extra $1.1 billion in wages.

In contrast to the state's low social spending, the Queensland Government spent $9.5 billion assisting the mining and fossil fuel industry between 2008-09 and 2013-14, more than any other state, as shown below:

State government assistance to mineral and fossil fuel industries 2008-09 to 2013-14



Source: State budget papers, compiled in (Peel et al. 2014)

Queensland Treasury makes it clear that this spending reduces the amount the government can spend on social services:

> *Governments face budget constraints and spending on mining related infrastructure means less infrastructure spending in other areas, including social infrastructure such as hospitals and schools.*

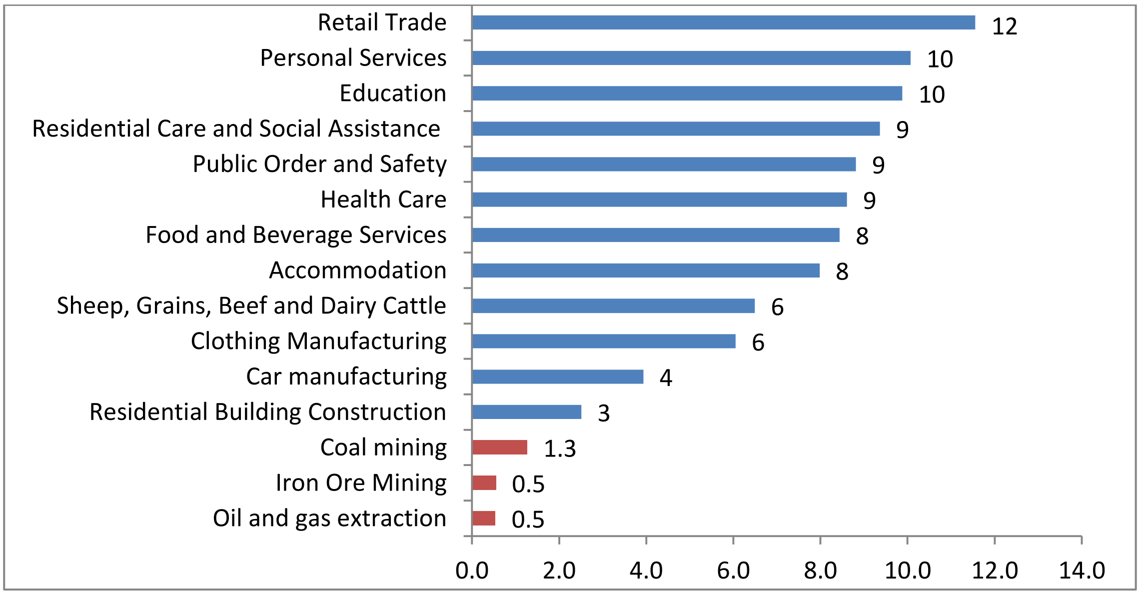
The Palaszczuk Government has made commitments to reduce the taxpayer funding of controversial mining projects. However, there are still a large number of proposals and budget measures that are being pursued, many with existing approvals and the support of state departments and state-owned corporations. The value of some of these assistance measures is summarised below:

Potential and budgeted mining industry assistance spending

Rail projects	$2.2 billion
Port projects	$1.8 billion
Water supply projects	$3 billion
Royalty holiday	$1 billion
Existing budget measures	$1 billion
Clean up costs	$1 billion
Total	**$10 billion**

This spending cannot be justified as employment creation. Mining is among the most capital intensive industries, producing less jobs per million dollars than almost any other industry:

Australians employed by industry per million dollars output



Source: ABS 2013 *Australian National Accounts: Input-Output Tables*

The message for the Queensland Government is that if it wants to increase employment through government spending, the worst industry to spend money on is the mining industry. In contrast, education and social services offer some of the highest rates of employment.

The mining industry’s $10 billion assistance wish list, outlined above, is aggressively pursued by its lobby groups, such as the Queensland Resource Council, the Minerals Council of Australian Petroleum Production and Exploration Association. These groups have revenue of around $50 million per year to spend on lobbying for such assistance measures.

Queensland’s underfunding of social services has no silver bullet. However, reducing the state’s largesse to the mining industry could provide substantial funding to health, education and other services.

Introduction

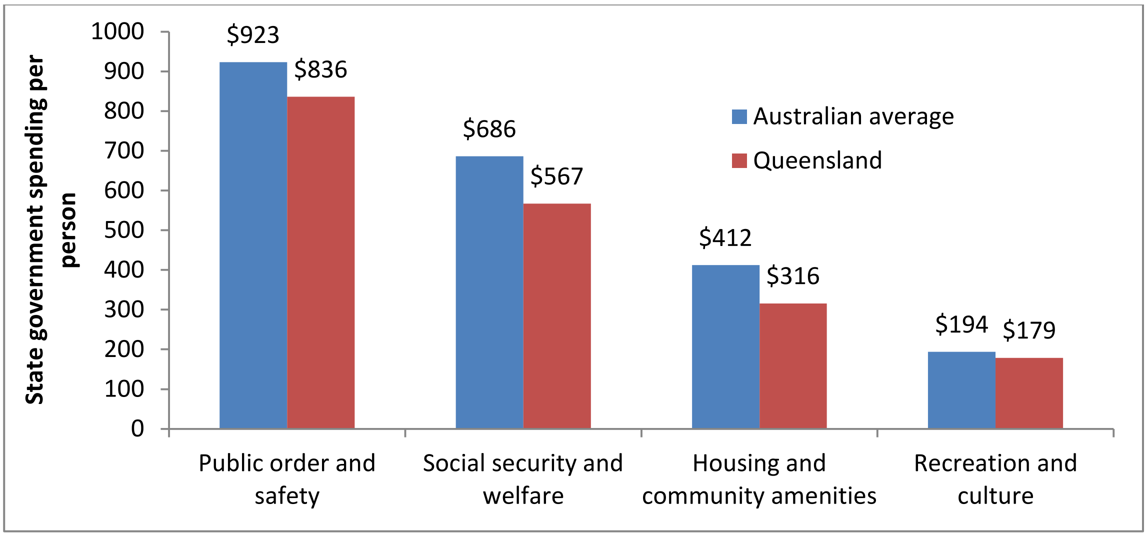
Like all Australian Governments, Queensland is grappling with how to better fund services that the community requires and expects at a time when budgets are being challenged. Queensland's budget is in reasonable shape – while it will run a deficit of around $2.3 billion this year, this is largely due to borrowing to invest for the state's growth. Under this, Queensland will experience net cash flows from operating activities worth $3.38 billion or 6.6 per cent of state revenue for 2014-15, a healthy surplus on operating activities. [1]

However, Queensland's social services are poorly funded. Education and health are funded at levels lower than most states in per capita terms. Other areas such as public safety and social assistance are some of the worst funded in Australia. In stark contrast, Queensland's mining industry receives some of the highest levels of assistance in the nation. Redressing this imbalance should be a priority for the Palaszczuk Government.

Social spending in Queensland

Queensland's social spending is some of the lowest in Australia on a per person basis. It spends below the Australian average on public order and safety, social security and welfare, housing and community amenities and recreation and culture, as shown in Figure 1 below:

Figure 1: Social spending per person – Queensland and Australian average



Source: ABS (2015) *Government Finance Statistics, Australia, 2013-14*, Cat no 5512.0, 13 May and ABS (2015) *Australian Demographic Statistics, Sep 2014*, Cat no 3101.0, 26 March.

For *Public order and safety*, Queensland ranks second last of all states and territories. Only Tasmania spends less per person, spending $835 per person, a dollar less than Queensland. Tasmania of course has far less ground to cover than Queensland, the second largest state. Starved of funding, Queensland's public order and safety organisations seek sponsorship, including from the gas industry. For example, gas company Santos sponsors Queensland Police vehicles.[2]

[1] ABS (2014) *Government Financial Estimates, Australia, 2014-15*, Cat no 5501.0.55.001, 18 November.

[2] http://www.brisbanetimes.com.au/queensland/mining-company-santos-logo-used-on-queensland-police-vehicles-20141208-122zo9.html

Queensland has the lowest per person spending in the country on *social security and welfare*, $567 per person per year, more than a hundred dollars per year below the Australian average of $686. Next lowest is the ACT, which spends $584, likely due to it having the highest average incomes in Australia.

Queensland has the second lowest funding of *Housing and community amenities* per person, spending $316 per person, 25 per cent lower than the Australian average of $412 per person. Only NSW spends less, with $298 per person per year.

Queensland's spending on recreation and culture is slightly lower than the national average - $179 per person compared to $194 per person. New South Wales and Victoria spend less.

Queensland spends less per person on health and education than all states and territories except NSW and Victoria, as shown in Figures 2 and 3 below:

Figure 2: Per capita spending on education by state

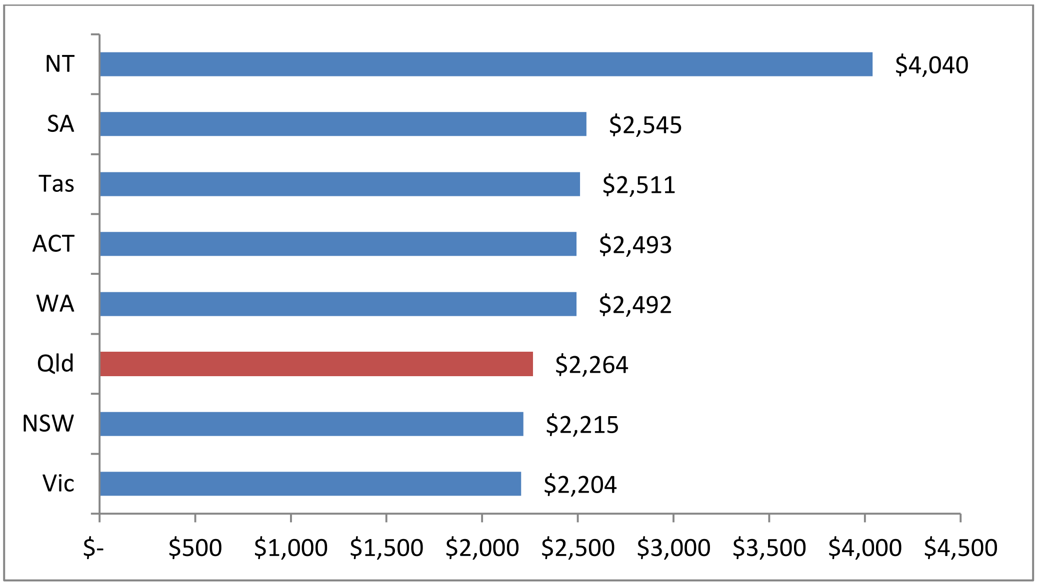
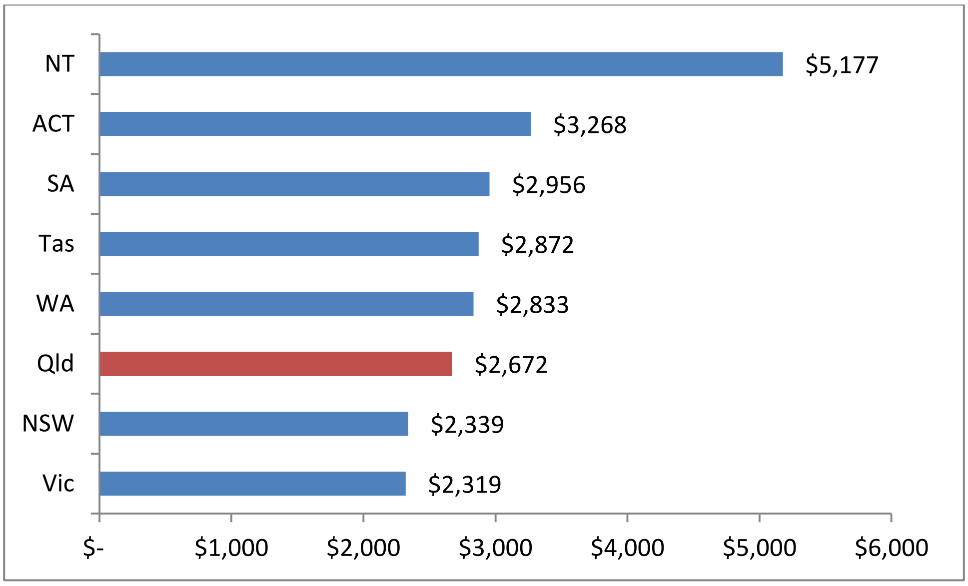


Figure 3: Per capita spending on health by state



Source: ABS (2015) *Government Finance Statistics, Australia, 2013-14*, Cat no 5512.0, 13 May and ABS (2015) *Australian Demographic Statistics, Sep 2014*, Cat no 3101.0, 26 March.

Figures 2 and 3 show that NSW and Victoria have the lowest spending on education and health in per person terms. However, they are able to spend less due to their relatively large populations in relatively small, easily serviceable areas. This is emphasised by the Commonwealth Grants Commission that says Queensland should spend more than average and more than NSW and Victoria per person across most elements of public health spending.[3]

Queensland's health and education services are under considerable strain at their present funding levels, as is clear from reports by the Queensland Audit Office.

The Queensland Audit Office estimates that the state's public schools are facing long-term maintenance pressure:

> *[Queensland] is not maintaining its schools to its own standards and requirements. The root cause of this has been the historical underfunding of maintenance, and this situation continues today. Underfunding has created backlogs of repairs and other corrective maintenance tasks, which consume almost all available recurrent funds set aside for maintenance.*[4]

The Audit Office estimates that public schools have a maintenance backlog of $268 million as of October 2014, despite a recent program spending $300 million on addressing the issue.

On health, the Audit Office finds that the Queensland Ambulance Service (QAS) is a high-performing service, which has coped well with the recent increases in demand due to an increasing and aging population. The Service operates across a large geographic area, with highly qualified staff and a low reliance on volunteers relative to other states. Because of these challenges and high standards, the service needs to be well funded. The Audit Office finds:

> *…[In] a fiscally constrained future the ability of QAS to continue to provide its current standards of emergency and pre-hospital care for patients is at risk. A whole-of-government response is required to address these challenges for QAS.*

Increases in population and expected standards are a common theme through all public services.

Future spending – Case study on schools

According to the Queensland Schools Planning Commission, in the next 15 years Queensland's student population will grow by 257,000 students. Many schools will need to be expanded and around 110 new schools will need to be built. Contracts signed by the former Queensland Government indicate construction cost for a new school is around $35 million.[5] This suggests that Queensland needs to spend around $3.8 billion on building new schools over the next 15 years, not including expenses associated with the expansion of existing schools.

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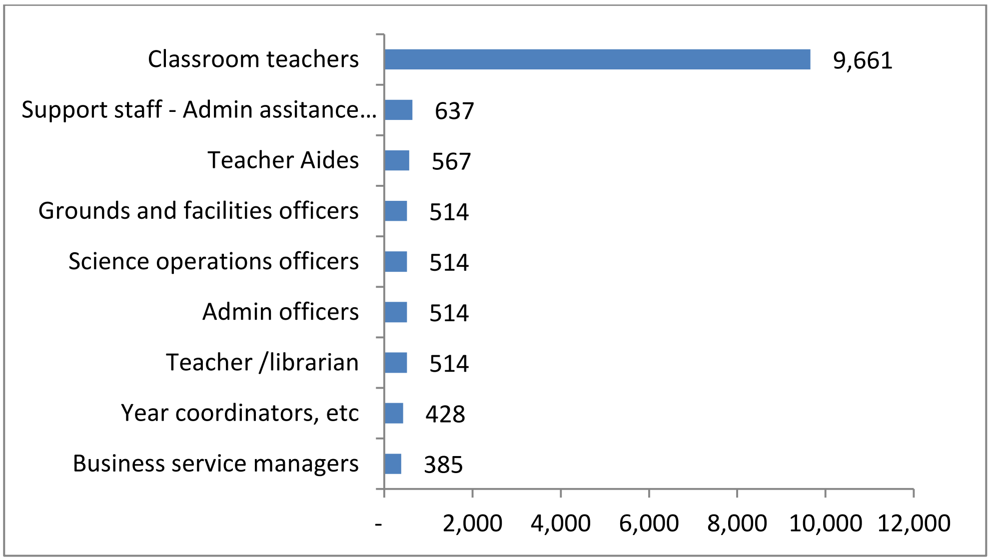
[3] (CGC 2015) See p209
[4] (Queensland Audit Office 2015) p1
[5] Based on announcement by Treasury: https://www.treasury.qld.gov.au/projects-infrastructure/projects/queensland-schools/ The construction firm involved in the successful tender was to receive $350 million for the construction of the ten schools. https://www.treasury.qld.gov.au/projects-infrastructure/projects/queensland-schools/

Schools need to be maintained. Based on data from the Queensland Audit Office, Queensland's current 1,333 public schools require around $200 million per year in maintenance, or around $150,000 per school per year. Queensland's additional schools would require at least $16 million per year.[6]

Schools also need to be staffed, not only by teachers but by support and administrative staff. Based on Queensland's school staffing allocation guidelines this will require an extra 13,734 classroom teachers and school support staff, as shown in Figure X below:

Figure 4: Extra school staff required to 2031 in Queensland



Source: Based on data and formulas in (Queensland Schools Planning Commission 2014; Queensland Department of Education Training and Employment 2014) Note all staff numbers are full-time equivalent.

Assuming that staff earn the average education sector full time wage of $80,153 per year, Queensland needs to budget for an extra $1.1 billion in education wages by 2031. Currently the state budgets for 61,388 staff, with an estimated wage bill of $4.9 billion per year.[7]

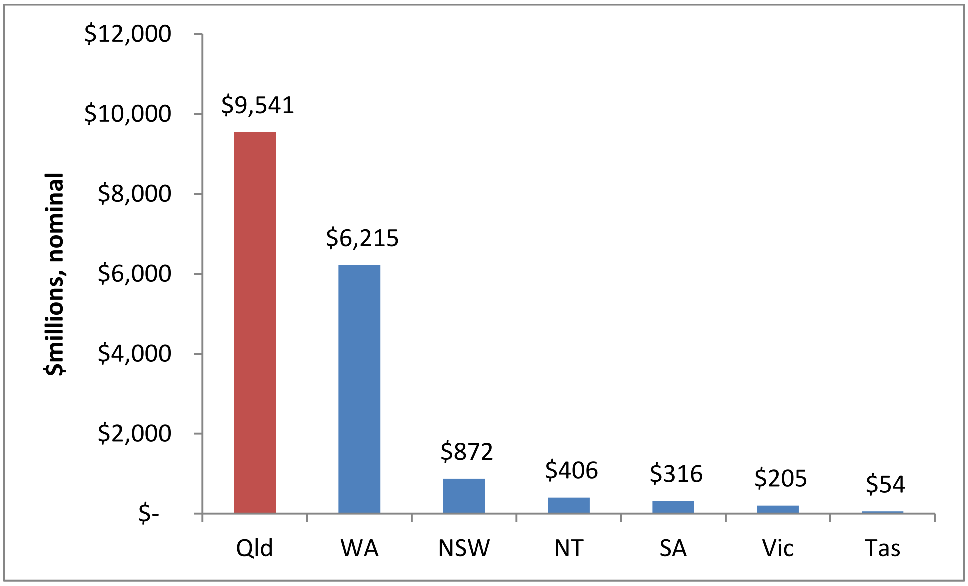
It is clear that Queensland's spending on health and education needs to be prioritised. However, in recent years successive Queensland Governments have put considerable emphasis on funding not social services, but assistance to the mining and fossil fuel industries.

Queensland assistance to the mining and fossil fuel industries

Queensland Governments of both sides of politics have spent billions of dollars in recent years on measures that largely assist the mining and gas industries. Research by The Australia Institute, based on Queensland Budget Papers, shows that Queensland taxpayers spent $9.5 billion on items which benefited these industries, far more than any other state, as shown in Figure 5 below:

[6] (Queensland Audit Office 2015) see p2. Note that the higher expenditure years of 20012-13 to 2014-15 are used here as in these years maintenance spending kept pace with requirements.
[7] http://www.budget.qld.gov.au/budget-papers/2014-15/bp5-dete-2014-15.pdf

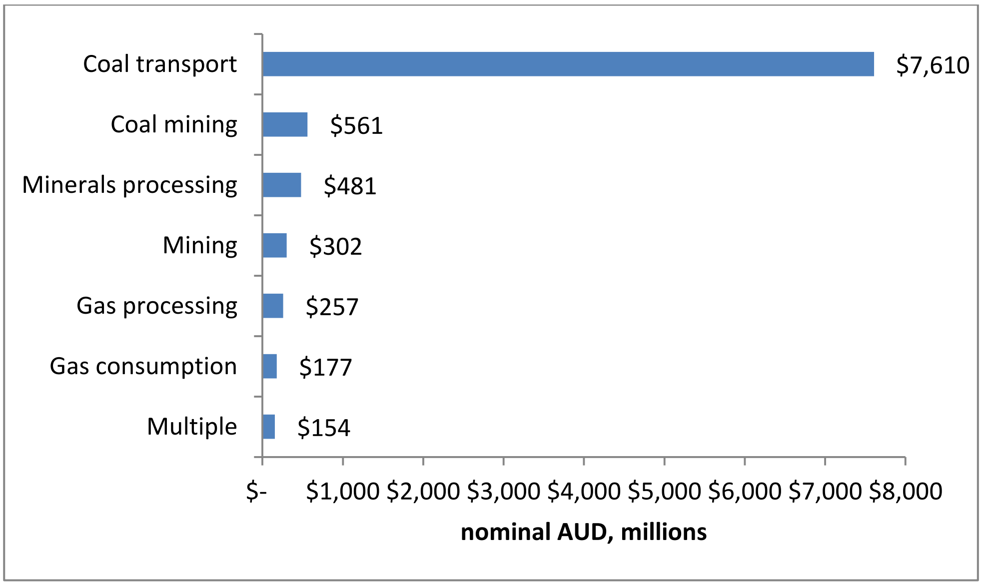
Figure 5: Queensland spending on mining and gas industry 2008-09 to 20013-14



Source: State Budget Papers and (Peel et al. 2014)

The vast bulk of this expenditure, $7.6 billion, has been on transport infrastructure for the coal industry such as railways and ports, as shown in Figure 6 below:

Figure 6: Queensland spending by industry segment 2008-09 to 20013-14



Source: State Budget Papers and (Peel et al. 2014)

The justification for this spending is usually that the coal industry pays royalties and user charges back to government. As former Premier Campbell Newman put it:

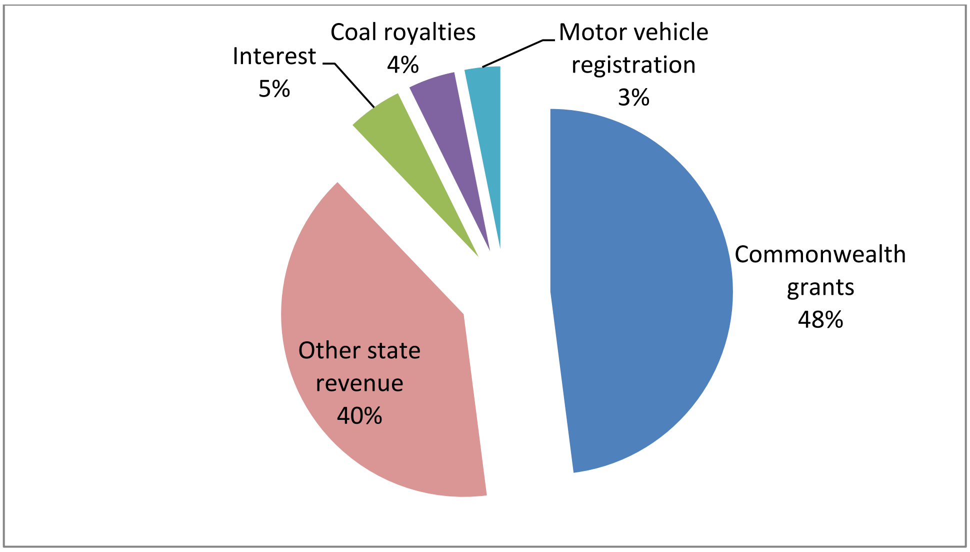
> *We are in the coal business. If you want decent hospitals, schools and police on the beat we all need to understand that.*[8]

While Queensland has a large export coal industry, Queensland budget papers contradict Mr Newman's claim that health, education and emergency services in Queensland are in some

[8] News.com.au (2012) *"We're in the coal business": Campbell Newman slams UNESCO Great Barrier Reef warning*

way dependent on the coal industry. Coal royalties make up only four per cent of the Queensland Government's revenue, as shown in Figure 7 below:

Figure 7: Queensland state government revenue 2014-15 (A$50.1 billion in total)



Source: Queensland Treasury (2014) *Queensland State Budget 2014-15 Budget Paper 2, see also* (Campbell 2014)

Figure 7 shows that in Queensland, services such as hospitals, schools and police are 96 per cent funded by sources other than the coal industry. The state's budget receives around the same amount from motor vehicle registration and interest payments.

Mr Newman is not alone in thinking the coal industry is more important to the provision of services in Queensland than it actually is. Polling results in other research by The Australia Institute show that on average Queenslanders think coal royalties make up 19 per cent of state revenue, almost five times greater than is actually the case.[9] This impression is fostered by the mining industry which rarely misses an opportunity to paint itself as a "pillar" of the Queensland economy.

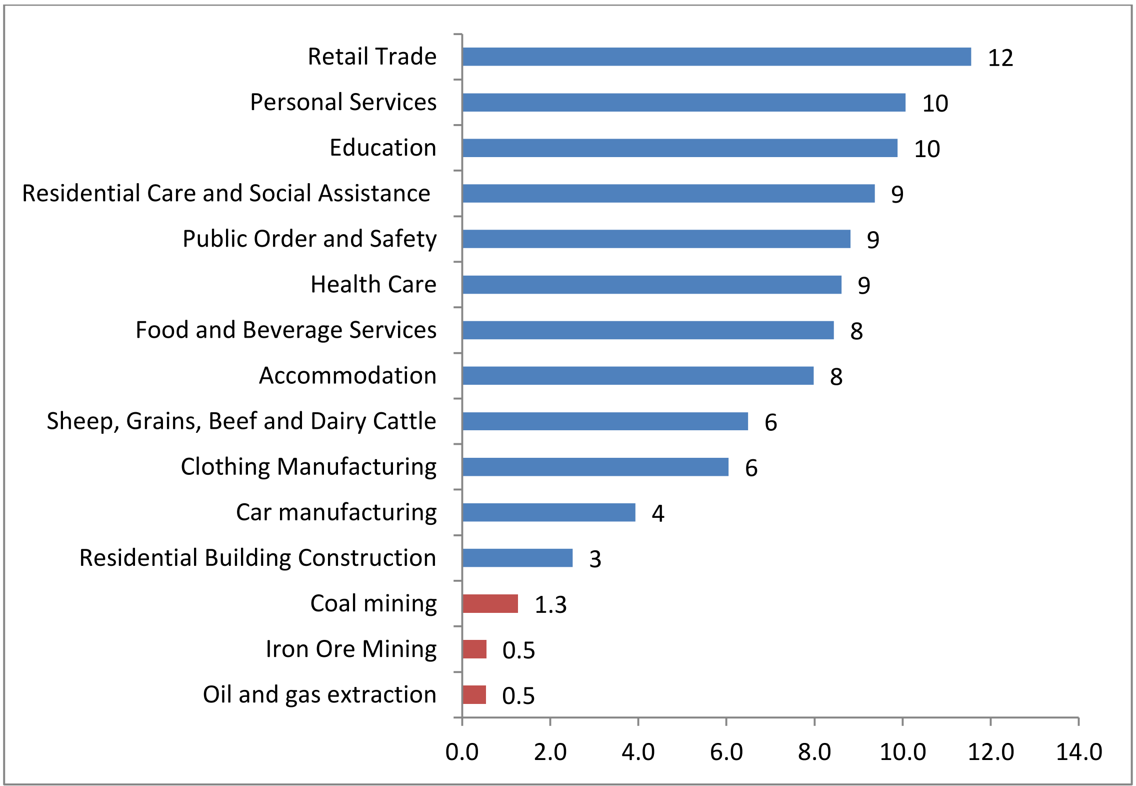
Assistance of mining does not create jobs

Similarly, mining is a small employer in Queensland. Despite the volumes of coal Queensland produces, only 24,000 people worked in coal mining at the last census – a number that has probably fallen since the downturn in coal prices. This represents just 1.2 per cent of Queensland's workforce. In contrast, on average Queenslanders think that 13 per cent of the workforce is employed in coal mining, ten times greater.

Mining employs few people as it is capital intensive – it uses a lot of machines and has large revenues relative to the amount of people employed. National accounts figures show that for every million dollars that is put into an industry, mining employs far fewer people than almost every other industry, as shown in Figure X below:

[9] (Campbell 2014)

Figure 8: People employed per million dollars output



Source: ABS 2013 Australian National Accounts: Input-Output Tables

The implication of this for Queensland Governments is that if it wants to increase employment through government spending, the worst industry to spend money on is the mining industry. In contrast, education and social services offer some of the highest rates of employment.

Queensland Treasury confirms cost of mining assistance

The perception that Queensland's services can be funded by the mining industry brings great concern to Queensland's Treasury. Treasury is less concerned by the public's misunderstanding than by the opinions held by the Commonwealth Grants Commission (CGC). The CGC is the body that oversees the allocation of GST funding from the Commonwealth to the states. If the CGC decides that a state can raise more of its own revenue than the others, less GST money goes to that state.

While the CGC no doubt understands the relative value of coal royalties in the Queensland budget, Queensland Treasury goes to great lengths to emphasise to the CGC that the coal royalties the state receives do not come without a heavy price tag in government spending. Treasury explains that spending on mining infrastructure and other forms of assistance have a serious effect on the state's ability to provide essential services. It is worth quoting Treasury at length on this point:

> ***Governments incur costs in the development of the mining industry***
>
> *The development and regulation of mining in Queensland has proceeded as a partnership of industry and government, with government playing an important role in the provision of economic and social infrastructure. The cost to government of*

> *providing economic and social infrastructure can manifest itself in the forms of direct expenditure, opportunity cost and risk.*
>
> *The Queensland Government incurs significant direct expenditures in mining regions and areas that have linkages to mining regions. This includes the construction and improvement of roads and bridges which directly service the mining industry, as well as social infrastructure to provide for regional population growth.*
>
> *These costs are not temporary and are likely to continue as long as the mining industry has a strong presence in Queensland. For example, the Queensland Government has announced a 'Royalties for the Regions' program to give back to the communities that support resource projects through the Resource Community Building Fund, Roads to Resources and the Floodplain Security Scheme.*
>
> *Some costs may also be recovered by the government over time if they are directly industry related. However, there is a real opportunity cost for governments in undertaking the initial capital expenditure.* ***Governments face budget constraints and spending on mining related infrastructure means less infrastructure spending in other areas, including social infrastructure such as hospitals and schools.*** *For many projects directly related to assisting mining industry development, such as land acquisitions for state development areas, the expected timeframes for cost recovery are extremely long (sometimes decades). The opportunity cost of this use of limited funds is a real cost to government and the community.*
>
> *There are also risks associated with expenditure on infrastructure that must be borne by government. The continuation of the mining boom is not guaranteed. World demand for Australian resources is dependent on a number of factors, including international economic conditions and the development of alternative suppliers. The risk faced by the large mining states is that the assumptions on which infrastructure planning was based fail to eventuate, leading to an over-allocation of resources to the mining regions and under-utilisation of infrastructure.*[10]

To summarise Treasury's key points:

- The Queensland Government spends large amounts of money on the mining industry, particularly relating to provision of infrastructure.
- This spending has opportunity cost – it reduces the government's ability to spend money on hospitals, schools and other services.
- This spending is risky – return on mining infrastructure spending is dependent on international markets and many other factors.

This last point is further emphasised by Treasury:

> *One view expressed during the GST Distribution Review submission process was that infrastructure costs borne by government in support of the mining industry should not be recognised in the [GST allocation] process because the majority of these expenditures are cost recovered from industry. However, little evidence has been presented to support this assertion, and Queensland has substantial costs that are not recovered from industry, particularly in the area of roads construction. It seems likely that other mining states have similar expenditures.*[11]

[10] (Queensland Treasury 2013) p15-16, bold added
[11] (Queensland Treasury 2013) p16

Treasury's concerns seem to be shared by parts of the new Palaszczuk Government. Ms Palaszczuk has been referenced in the media as saying:

> *State Opposition Leader Annastacia Palaszczuk said mining projects must show they were viable without government support and ruled out funding for projects such as a rail line linking Adani's mine near Rockhampton to the Abbot Point coal terminal in north Queensland.*[12]

While State Development Minister Anthony Lynham has formally announced:

> *We will ensure that approvals costs will be met by Galilee Basin proponents, with capital dredging costs to be paid for by the proponents to the Galilee Basin projects*[13]

While the new Labor Government's pledges to avoid taxpayer subsidy of the North Galilee Basin Rail Project and capital dredging at Abbot Point are welcome, reducing subsidisation of Queensland's coal and gas industry will not be easy – a range of capital projects and tax breaks are, or were until recently, official government policy. Other assistance measures are already written into the state budget or being borne by Queensland's natural environment.

Future assistance to the mining and fossil fuel industries

Under the Newman Government a wide range of policies were adopted that offered billions in assistance to the mining and gas industries. It is unclear which of these will be maintained by the Palasczuk Government. Many of these measures have strong support from state government departments and government-owned corporations, which have been involved in their planning and would be involved in their construction and operation.

The 2013 Galilee Basin Development Strategy set out a range of policies and projects that the government would support:

- Rail infrastructure
- Port construction
- Water infrastructure
- Royalty discount

While the status of the Strategy is uncertain, many of the projects that it set in train are still actively being pursued. Table 1 summarises the value of the assistance measures sought by industry with support from Queensland governments, departments and state-owned corporations:

[12] http://www.abc.net.au/news/2015-01-21/adani-underlines-commitment-to-galilee-basin-coal/6031288
[13] http://statements.qld.gov.au/Statement/2015/3/11/palaszczuk-govt-charts-new-course-for-abbot-point

Table 1: Future industry assistance spending

Rail projects	**$2.2 billion**
Port projects	$1.8 billion
Water supply projects	$3 billion
Royalty holiday	$1 billion
Existing budget measures	$1 billion
Clean up costs	$1 billion
Total	**$10 billion**

Rail infrastructure

A range of rail options have been proposed for the Galilee Basin. Different proponents with mines in different locations have plans for coal railways to different destinations and even of differing gauge widths. The most advanced proposal is the North Galilee Basin Rail Project, proposed by Indian conglomerate Adani. The project has approval from the state government but requires around $2.2 billion in capital.[14]

Adani has been unable to raise capital for this project to date. This is why the Newman Government agreed to subsidise it, although the extent of the funding and the degree to which it is required is uncertain.[15]

Port infrastructure

From 2008-09 to 2013-14 Queensland Governments spent $2.7 billion on expanding coal port capacity through its Public Non-Financial Corporations. Major expenditure items included Gladstone's RG Tanna coal terminal expansion ($780 million) and Abbot Point X50 expansion ($818 million).[16] Most of Queensland's coal ports are running at well below their nameplate capacity, with further expansions proposed.[17]

Despite this, there are proposals for major expansions to the Abbot Point coal terminal, which would be necessary if the Galilee Basin coal projects are developed. While Abbot Point is owned by the Queensland Government through the North Queensland Bulk Ports Corporation, Abbot Point's Terminal 1 (T1) is leased by Adani. Adani is planning to expand capacity through the Terminal 0 (T0) project, while GVK Hancock is proposing further expansion through the construction of the Terminal 3 (T3) project.

Both of these expansion proposals would require major dredging and construction. There has been controversy over plans to dump dredge spoil either at sea in the Great Barrier Reef

[14] See North Galilee Basin Rail Project Environmental Impact Statement chapter 22, section 22.3
[15] http://www.brisbanetimes.com.au/queensland/queensland-government-quiet-on-how-much-it-will-invest-in-galilee-basin-20141125-11tuxv.html
[16] (Peel et al. 2014)
[17] (Eadie 2013), http://www.qca.org.au/getattachment/95609fc7-914b-4ca5-baea-8b0e287ca406/Blackwater-System-Coal-Railings-Forecast.aspx

Marine Park, or on land on the state significant Caley Valley Wetlands. The current Abbot Point Growth Gateway proposes to dump dredge spoil on the site of T2 – another expansion proposal, now abandoned.[18] The new Labor government has declared that:

> *We will ensure that approvals costs will be met by Galilee Basin proponents, with capital dredging costs to be paid for by the proponents to the Galilee Basin projects* [19]

It should be noted that this seems to refer only to capital dredging costs at Adani's T0 proposal, with no discussion of maintenance dredging and where a line may be drawn between capital and maintenance dredging. There are many other costs involved in Abbot Point Port expansion that the Queensland Government and North Queensland Bulk Ports Corporation may be asked to subsidise around disposal of dredge spoil and capital construction costs of the T0 and T3 projects.

While there are no published estimates of capital costs of the T0 and T3 projects, Abbot Point's earlier X50 expansion, which cost the Government $818 million, was to "effectively duplicate the existing terminal infrastructure".[20] Building two more terminals with associated infrastructure could be expected to cost a comparable amount, around $1.6 billion.

The main dredging proposal for Abbot Point involves the dredging and disposal of 1.7 million cubic meters of spoil for T0 and T3. Using estimates commissioned by the port owner, made by engineering firm Aurecon, dredging and disposing this amount of spoil within the terminal area could be expected to cost around $265 million. Net of capital dredging for one berth, this would cost around $215 million.

Water infrastructure

The Queensland Government spent around $150 million on water projects that assisted the mining and fossil fuel industry between 2008-09 and 2013-14. Importantly, most of this expenditure related to proposals, business cases and environmental impact statements for stalled projects, particularly those owned by the state-owned Sunwater. Sunwater has around $3 billion in planned developments over the next five years, most of which service the mining industry to a large degree.[21]

Water has been a key problem for Galilee Basin proposals. Coal mines need significant amounts of water for coal washing, processing and dust suppression. Several supply options have been proposed for the Galilee Basin projects, although it is currently unclear which proposal is favoured. The Galilee Basin Development strategy commits the Government to:

- *Support proponents developing localised water solution, including off-stream storage schemes*
- *Make an allocation of water supplies available from the Burdekin Resource Operations Plan at prices intended to facilitate the development of local supply and management solutions*.[22]

While the details are unclear, the Strategy could be used as justification to finance several projects at "prices intended to facilitate development", i.e. heavily subsidised.

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[18] http://www.statedevelopment.qld.gov.au/major-projects/abbot-point-growth-gateway-project.html
[19] http://statements.qld.gov.au/Statement/2015/3/11/palaszczuk-govt-charts-new-course-for-abbot-point
[20] http://statedevelopment.qld.gov.au/resources/project/abbot-point-stage-3/abbot-point-stage-3-cg-report-aug-07.pdf
[21] http://www.sunwater.com.au/__data/assets/pdf_file/0003/7284/Industry_Briefing_-_Moranbah_to_Alpha_Pipeline_Project.pdf
[22] (Queensland Government 2013) p9

The Connors River Dam proposal has a capital cost of $1.2 billion.[23] The project was a central part of a series of water supply projects for Galilee Basin and other coal mines. The project was shelved in 2012 due to high capital costs and state government budget constraints, but Sunwater remains “firmly committed” to this and other projects such as the Mooronbah to Alpha pipeline.[24]

The Mooronbah to Alpha pipeline is another proposal to supply Galilee Basin mines, particularly GVK’s Kevins Corner and Alpha mines. Sunwater estimates the 200 kilometer pipeline would cost $600 million.[25]

The Nathan River Dam is further south and would service the Bowen and Surat Basin mining areas as well as various other users. The capital cost of the dam is estimated by Sunwater and their consultants at $1.4 billion. Proposals for the controversial dam have been considered for many years and have been the subject of legal action over environmental impacts. The project is still being pursued and has an active EIS.[26]

A more recent development known as the Galilee Water Project proposes to divert water from the Cape and Campaspe rivers into water storages to supply the Galilee Basin. No information is available about its capital costs or how the project might be financed. The project is being proposed by a former Labor Treasurer of Queensland, Keith De Lacy. Given Mr De Lacy’s political connections and the need most Galilee Basin projects have for government assistance, it seems highly likely the company will request some form of assistance from the Queensland Government.[27]

In summary, there are at least $3 billion dollars’ worth of water infrastructure projects proposed by the state-owned water company Sunwater and well-connected proponents, which mainly benefit the mining industry. All of these projects appear to be economically marginal and dependent on significant government assistance. All of these projects carry significant risk and exposure to the coal industry and it is unlikely that they would provide a return to the Queensland community comparable with required investment in core services such as health and education.

Royalty holiday

A key part of the Galilee Basin Development Strategy is a discount on royalties payable by mining companies to the state in return for the right to sell the coal. The Strategy states that the Government may offer developers:

> *A ramp-up to full royalty for an initial period, on the normal coal royalty payable and based on a sliding scale.*[28]

No details are provided on how many companies the discount may be available to, how big the discount may be, or how long it will last. Regardless, the policy could cost Queensland taxpayers billions of dollars.

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[23] http://www.statedevelopment.qld.gov.au/resources/project/connors-river-dam-pipelines/connors-report-summary.pdf

[24] http://www.sunwater.com.au/about-sunwater/media-room/latest-news/latest-news/2012/sunwater-discontinues-work-on-connors-river-dam-and-pipelines-project

[25] http://www.sunwater.com.au/__data/assets/pdf_file/0003/7284/Industry_Briefing_-_Moranbah_to_Alpha_Pipeline_Project.pdf

[26] http://www.sunwater.com.au/__data/assets/pdf_file/0006/8745/Chapter-00-Executive-Summary.pdf, http://www.sunwater.com.au/future-developments/nathan-dam/overview, http://envlaw.com.au/nathan-dam-case/

[27] http://www.galileewater.com.au/

[28] (Queensland Government 2013) p2

For the purpose of illustration, Adani's Carmichael Coal project is expected to operate for 60 years. In the recent Land Court challenge to the project's approval, Adani claimed the project would pay $2.058 billion in royalties in the project's first ten years. A discount of 50 per cent on the first five years and a 25 per cent discount on the second five years would result in a loss to the Queensland Government of $677 million.[29] If such a subsidy were extended to other proponents, it could easily reduce royalties received by over $1 billion.

Assistance measures in the current budget

Assistance to the resource industry in the current budget has been analysed by the Queensland Competition Authority (QCA) in its draft report 'Industry Assistance in Queensland'. The QCA estimates the mining sector will receive assistance worth $700 million dollars over the 5 year budget period:

Table 2: Mining assistance measures in QCA analysis

Measure	Value of assistance to the mining industry
Gladstone Port concessions	**$ 244,900,000**
Payroll tax - exemption threshold and deduction scheme	**$ 236,610,000**
Area discounts for mineral development licences	**$ 97,658,000**
Trade and Investment Queensland	**$ 45,708,600**
Payroll tax - exempt employees	**$ 29,469,000**
Future resources program (excluding collaborative drilling initiative)	**$ 22,000,000**
Leases of port land at concessional rates	**$ 12,420,000**
Contracted Air Services	**$ 7,630,500**
Collaborative drilling initiative	**$ 3,000,000**
Other	**$ 783,160**
Total	**$ 700,179,260**

The QCA's analysis underestimates the value of state assistance to the mining industry due to its methodology which focuses on the incidence of assistance rather than its effect. In other words, the QCA assesses where a form of assistance starts rather than what industry it actually assists. Other measures the QCA leaves unallocated are where data is unavailable or further research would be required.

Examples of such measures which deliver government assistance to the mining sector, but that are not allocated to mining in the QCA analysis are the *Rail Network and Infrastructure Financing* concession and *Commercial Access to National Parks, Regional Parks, State Forests and Marine Parks.*

Rail Network and Infrastructure Financing

This is a contract between the government and Queensland Rail (QR) to pay for maintenance and some new projects of QR's rail network. The Budget Papers Concession Statement point out that part of this concession accrues to all users, including public transport users. The QCA estimates the amount which accrues to industry, however, as its "inquiry is primarily focused on benefits provided to freight customers."[30] The QCA makes it

[29] based on data in (Fahrer 2015)
[30] (Queensland Competition Authority 2015a) p46

clear who these freight customers are, as it focuses on QR's "Regional rail network for the purpose of operating freight services (mainly livestock and coal) by rail."[31]

However, under the QCA's analysis none of the $1.1 billion Rail Network and Infrastructure Financing assistance measure is included as assisting either agriculture or mining, but is considered a service as it initially accrues to freight rail companies that service these industries. The QCA ignores to what extent this assistance is passed on to livestock and coal producers. While this approach makes the QCA's research task simpler, it distorts its results. For example, if the government spent money to build flour mills, making flour cheaper, the main beneficiary would be the bread industry. The QCA's methodology considers that only the flour industry has gained any assistance. The Australia Institute's approach is to include this concession as accruing to the industry affected and to note that the benefit is partially accruing to the industry rather than dedicated to it.

Clearly a substantial amount of this concession accrues to the mining industry. QR has eight main freight networks. The West Moreton system and the Mt Mount Isa system are dominated by mining, while the North Coast system and South East systems are partly used by the industry. The Western, Central Western, South West and Tablelands systems are predominantly used by other industries. Based on QR's description of the freight on these lines, between a quarter and a third of freight is related to mining, suggesting that around $300 million of the $1.1 billion industry concession accrues to mining.[32]

Commercial Access to National Parks, Regional Parks, State Forests and Marine Parks

Mining and gas companies receive access to state-owned and managed land at rates that do not reflect costs to the state. As the QCA puts it:

> *Queensland Parks and Wildlife Services provides and manages commercial access to national parks, regional parks, state forests and marine parks. Commercial access is generally underpriced and is provided for mining (e.g. mineral and gas exploration and extraction), agricultural (e.g. grazing and beekeeping) and commercial tourism (access to iconic sites) activities...*[33]

The QCA estimates this measure at $206 million over the 5 year forward estimates. This is an underestimate, however, as it only considers the costs involved in facilitating access and does not consider how much industries would be willing to pay for access and how much a private landholder might charge for this cost. This benefit would largely accrue to the mining industry, as it is unlikely bee keepers, graziers or tourism operators would be willing to pay the amounts that mining companies could. Estimation of this assistance is beyond the scope of this paper.

Environmental costs

Where mines are abandoned or not fully rehabilitated mines can contaminate soil, groundwater and surface water and represent a safety hazard. The community bears a cost through either having to pay to clean up the site or through accepting the degradation of environmental assets.

The Queensland Audit Office has estimated the cost of rehabilitating Queensland's abandoned mines and is concerned that recent increases in mining activity have the potential to add to this cost:

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[31] (Queensland Competition Authority 2015b) p205
[32] http://www.queenslandrail.com.au/NetworkServices/DownloadsandRailSystemMaps/Freight/Pages/freight.aspx
[33] (Queensland Competition Authority 2015a) p59

This growth comes with increased risk of environmental harm and the possibility of adding to an estimated 15 000 abandoned mines and up to $1 billion estimated cost if all mines were to be rehabilitated.[34]

This substantial cost that the community and taxpayers are left with represents a considerable subsidy to the mining industry, one that is not recognised by industry assistance estimates such as the QCA. The Australia Institute's assessments of state government assistance to the mining industry also overlook this environmental subsidy unless specific rehabilitation measures appear in budget papers. Queensland's budget papers do not contain such references, only South Australia makes mention of taxpayer funded rehabilitation of abandoned mines.

Support from State Government Bureaucracy

Mining industry assistance measures have strong support within parts of the Queensland public service and state-owned corporations. These officials are influential as they advise the government on policies relating to the mining industry.

For example, the Department of State Development states on its website:

The Port of Abbot Point expansion is the gateway to Queensland's economic development for many years to come. Jobs, royalty-funded social services, research and training and development opportunities from Galilee Basin projects will ensure that Queensland families continue to prosper.[35]

As discussed above, coal mining is a small part of the Queensland economy and funds a tiny fraction of Queensland's public services. The Department's willingness to published poorly-researched information on its website demonstrates its support for Galilee Basin development.

The North Queensland Bulk Ports Corporation (NQBP), a state-owned entity states in its annual report that it is assisting Galilee Basin Development, rather than assessing its merits objectively:

NQBP is assisting both the Adani Group and Hancock Coal Infrastructure Pty Ltd (GVK Hancock Coal) to facilitate new coal terminal developments at the Port of Abbot Point.[36]

NQBP also writes regular blog posts and tweets in support of these private developments.

State-owned water infrastructure company, Sunwater, is also supportive of taxpayer funded investment in projects that predominantly assist the mining industry:

SunWater is disappointed to announce that it will not be proceeding with the Connors River Dam and Pipelines Project at this time.

SunWater acknowledges that while the State Government is supportive of the $1.3 billion Connors River Dam and Pipelines Project, SunWater cannot continue to undertake project activities without financial support and commitment of customers.[37]

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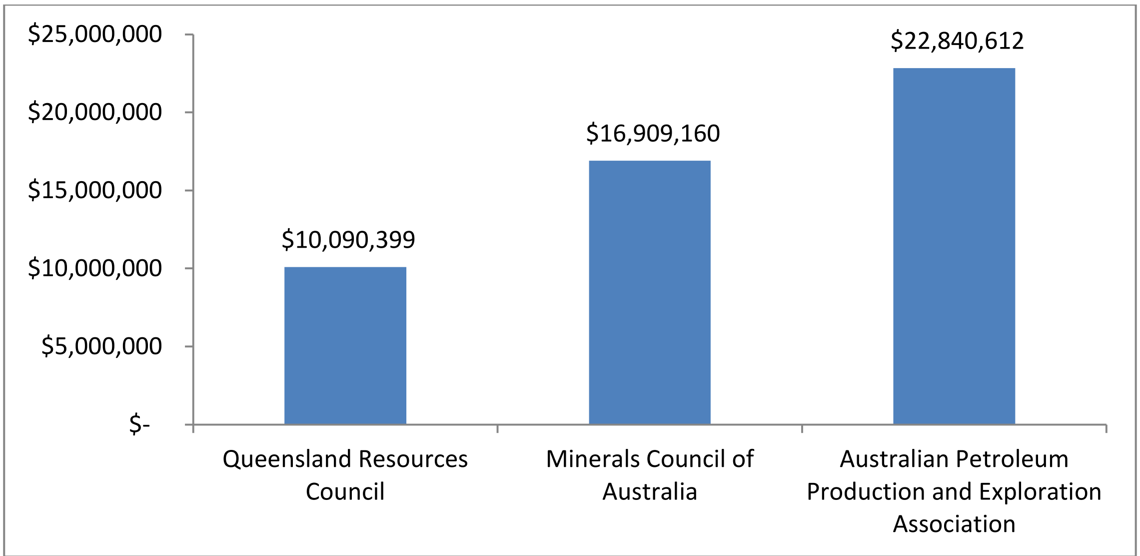
[34] (Queensland Audit Office 2013) p1
[35] http://www.statedevelopment.qld.gov.au/major-projects/expanding-the-port-of-abbot-point.html
[36] http://www.nqbp.com.au/wp-content/uploads/2015/04/Annual-Report-2013-2014.pdf, p4

Commitment to these projects, and disappointment when they are interrupted, shows the political and bureaucratic momentum behind them. While project benefits are emphasised, there is little discussion that these projects should be strictly considered on a user-pays basis to ensure returns on these investments exceed those available elsewhere. This approach is further assisted by the well-funded lobbying of the mining industry.

Mining industry lobbying

The mining industry lobbies actively for government-funded assistance such as the projects outlined in Table 1. Lobby groups such as the Queensland Resource Council, the Minerals Council of Australia and the Australian Petroleum Production and Exploration Association are well resourced to access Queensland's officials and decision makers. These three organisations have a combined budget of $50 million in 2013-14 to spend on lobbying for projects such as these:

Figure 9: Revenue of major Queensland resource industry lobby groups 2013-14



Sources: Annual reports and financial statements to the Australian Securities and Investments Commission. Note that Minerals Council of Australia figures are for the calendar year eg in 2011/12 column the figures are for the 2012 calendar year.

These groups are only the most visible part of the Queensland mining lobby. Companies also engage professional lobbying firms and employ in-house lobbyists to campaign for benefits to industry such as the projects listed in this report.

Conclusion

The Queensland State Budget is in a fairly sound position. This should come as no surprise as the State has a diversified, modern economy and generally well-functioning institutions. Yet despite Queensland's overall financial health, social spending lags behind the rest of Australia. Even in health and education, which are funded at around national averages, Queensland's size and characteristics are putting pressure on services like schools and ambulances.

[37] http://www.sunwater.com.au/about-sunwater/media-room/latest-news/latest-news/2012/sunwater-discontinues-work-on-connors-river-dam-and-pipelines-project

Queensland's Treasury makes it clear that part of this problem is the state's continual spending on assistance for the mining industry. State-funded mining infrastructure comes at the expense of schools and hospitals.

The mining industry has a $10 billion wish list that it wants from the Queensland Government and it has a $50 million per year lobbying budget that it uses to get what it wants.

Queensland's underfunding of social services has no silver bullet. However, reducing the state's largesse to the mining industry could provide substantial funding to health, education and other services.

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