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**THE PARLIAMENTARY STANDING COMMITTEE OF PUBLIC ACCOUNTS MET
IN COMMITTEE ROOM 2, PARLIAMENT HOUSE, HOBART ON WEDNESDAY,
26 MARCH 2025**

**INQUIRY INTO THE TASMANIAN GOVERNMENT'S PROCESS INTO THE
PROPOSED HOBART ARTS, ENTERTAINMENT AND SPORTS PRECINCT**

The Committee resumed at 1:30 pm.

CHAIR (Ms Forrest) - Thanks, Nicholas and Gene, for appearing before the Public Accounts Committee inquiry into the AFL Agreement and stadium that's part of that agreement. We appreciate your appearing before the Committee today. We've obviously taken into account your report that was prepared under agreement with the Jacqui Lambie Network members as an agreed position of the Government and also the letter that you wrote to us yesterday in forming our questions on this. We are interested in understanding more about the report itself, so that's the reason we invited you before this Committee.

Everything you say before the Committee is covered by parliamentary privilege. That may not extend beyond the hearing. Just keep that in mind if you speak outside of the hearing. It is a public hearing so everything that you say will be recorded and it is being broadcast. If there was something of a confidential nature you wish to share with the Committee, you can make that request, otherwise, it is all public. Do you have any questions before we start?

Dr GRUEN - No, I don't.

CHAIR - No, I invite you to take the statutory declaration and Gene is not in Tasmania, is he?

Dr GRUEN - He's in Queensland.

CHAIR - Yes. I will just let him participate as a witness for the Committee, but because you're here in person, you need to promise to tell the truth.

Dr NICHOLAS GRUEN, CEO, LATERAL ECONOMICS WAS CALLED, MADE THE STATUTORY DECLARATION AND WAS EXAMINED

Mr GENE TUNNY, SENIOR ASSOCIATE, LATERAL ECONOMICS WAS CALLED AND WAS EXAMINED VIA WEBEX

CHAIR - Well, thank you, Nicholas and I'd like to invite you to introduce yourself and perhaps Gene to introduce himself for the purpose of Hansard and members watching understand who you are and then invite you to make an opening statement.

Dr GRUEN - Certainly. My name is Nicholas Gruen. I'm the CEO of Lateral Economics. I make quite a few public comments on matters economic, sometimes political, in Australia and elsewhere. I was the independent assessor chosen by agreement between the members of the Jacqui Lambie Network and the Government and performed that independent assessment to the best of my ability with the help of Gene and one other person.

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Mr TUNNY - Gene Tunny, I'm a senior associate at Lateral Economics. I'm an economist. I'm also the president of the Queensland branch of the Economic Society of Australia and an Adjunct Fellow at the Centre for Independent Studies. I assisted Nicholas and our other colleague Michael on the report, focusing on the cost benefit analysis in particular.

CHAIR - Thank you. Over to you, Nicholas

Dr GRUEN - Okay, I wanted to start by saying that it's not just a kind of nicety to say that I'm privileged to sit before you because I think of it - lots of people have said things about governance in Tasmania that are not terribly flattering to Tasmania. My own experience has been that there is one very important thing about Tasmania, and that is that it has an active parliament and that parliament works hard to hold the Government to account, and that is something of which you can be proud and something which is a very important thing to build on.

That leads me to - and I've done quite a lot of reflection about this because my inquiry was a very unusual one. What we can see if you look at all the PoSS (Project of State Significance) documents, what we can see is a large number of documents that have been provided by professional, but those professionals know what answer their clients want and what answer their clients would be unhappy with. As I've elaborated somewhat in the letter that I've tabled, that is demonstrated in those documents in various ways. I think that's something that is a very positive thing and something that Tasmania should build on with particular regard to this project regarding the stadium and so on. The letter that you have from me documents the way in which - I guess when I began the project I thought, 'Well, I might end up in' - you might recall from some years ago, these have gone out of fashion and it's not all bad - 'a model war where various boffins argue about assumptions of models'. I wasn't particularly looking forward to getting into something like that. I don't want to invite that.

What I've been confronted with is really something which has taken me aback. That is that there were things in my report that were unarguable in my opinion. You could say that - I pointed out clear mistakes and inadequacies in the KPMG analysis. You don't have to accept my conclusions from that. You don't have to accept my working from the mistake, from that point. However, I was pretty shocked to see the document that was presented by the MPDC to the Tasmanian Planning Commission, written by KPMG - dated I believe 31 January, in any event well after the publication of the report that I produced - which participated in what can only be called a PR or political strategy. I have no problem with politicians conducting themselves in that way. They're toast if they don't.

As I put it in the letter, it is simply lacking self-respect for KPMG to write a report where the subject is that the report that I'm here to talk to you about doesn't exist. The KPMG numbers for interstate visitors were based on the idea that there would be two visiting teams playing the Devils. Think about that. Then there were further mistakes on that. The KPMG report valued the land -

Mr WILLIE - Sorry, can we ask questions?

Dr GRUEN - Yes, why not. I'll just finish this. I'll go to the second point, which is that the other unarguable error is the valuation of the land. Everything goes on as if nothing has been said. I don't think that's analysis. That's not analysis: that's PR.

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Mr WILLIE - On the two teams' issue, I think you mentioned the Hawthorn scenario with two interstate teams coming into the State. Obviously, if the Devils are playing their home team, there would be some inflow of expats and things coming to watch the Devils as well as the visiting interstate team.

Dr GRUEN - Yes, that's true.

Mr WILLIE - To cut it completely in half wouldn't be accurate either.

Dr GRUEN - Yes, that's fine and that's fair. We did think about that. That's the next stage of the discussion, and that simply hasn't been responded to by KPMG. That's essentially the story there.

Mr WILLIE - That was a lot, that point. If he wants to continue.

CHAIR - Did you want to add anything else, Nicholas?

Dr GRUEN - No, because I think that - I'll assume that people are aware of the coverage of my report, they've presumably read the executive summary and dipped in and out of it. I'm happy to take the discussion where it goes. Gene, did you want to add anything?

Mr TUNNY - Not at this point, No, thanks. I'm fine, Nicholas. Thank you.

CHAIR - Nicholas, I might start off picking up some of the points about some other things as well. To start off with, I'm interested in how you arrived at the cost. You've outlaid it in the report - the cost of \$1.096 billion dollars, or \$1,096 million, acknowledging that does exclude some of the costs the MPDC have taken out in terms of attributing to the cost of the stadium build. Can you just talk the Committee through how you arrived at that?

I'm not sure how much you saw of the hearing this morning, but there's clearly going to have to be some redesign if we're going to make Cricket Australia happy. There is still what appears to be a great deal of uncertainty about the construction of the roof, however constructed. There may be things you want to comment on in terms of further redesign. I am interested in how you arrived at the figures in the report to start with.

Dr GRUEN - Essentially, we wanted to produce - our test was a kind of 'not on anyone's behalf'; we weren't trying to inflate the figures, we weren't trying to reduce the figures. You ask yourself the question, 'what do you put in this?' You put in things which need to happen for the stadium to go ahead, and those things were not there. There was some \$332 million, from memory, of dollars that were not there. That was one of the largest adjustments. There was the question of opportunity cost, the opportunity cost of the land.

Those are the two biggest things, I believe. We were at pains to try to make sure that we don't kid ourselves, that we don't say that if we sell more land or some other asset that somehow, we've saved money. We've just sold an asset, that's all we've done. In other words, we've accounted for the cost, or we've funded the cost, simply in a different way, but the cost remains the cost. Those were the main things, and then there were lots of fairly detailed things that we went through that the economic analysis and the cost benefit analysis helped us refine. That's basically the story.

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CHAIR - This is the sort of work you do all the time. It's not like you were being asked to do something that wasn't your bread and butter.

Dr GRUEN - That's right, yes.

CHAIR - When we talk about the opportunity cost - and this has been raised in this Committee in previous hearings a number of times, it was also raised in previous submissions from other economists, about the opportunity cost -

Dr GRUEN - Yes, I am aware it has been quite widely discussed.

CHAIR - Yes. You're saying that by failing to do this, KPMG underestimated the cost of the project by at least \$156 million. That's in the letter that you wrote.

Dr GRUEN - Yes, and in the report, effectively.

CHAIR - It is in there, yes. Does it make any difference? I am not an economist. I am relying on your expertise in this field. If the Government owns the land and can basically do whatever it likes with the land, is there a different assessment of that if it had been private land as opposed to public?

Dr GRUEN - No. We talked about this as we were doing the report. The concept of opportunity cost is about the asset, not about who owns it.

An interesting question is the question of zoning. A government has a right to zone land however it wants to. It can zone the land for the stadium building. That doesn't change the opportunity cost of the site, because the concept of opportunity cost refers to the use of the site. The way I try to explain this is that if you impose certain planning restrictions on the land, and let's say that reduces the commercial value of the land, then what that is, it's a - the zoning divides the - let's say we said the opportunity cost was \$156 million and let's say it zoned so you couldn't sell it subject to the zoning for more than \$50 million.

What that's saying is that the zoning is, in a sense, gifting the additional \$106 million to the public. It's saying the constraint - if it's a height restriction or whatever it is - we're calling that a public good, and that's not available for the market. It's not available to the highest bidder.

Mr BEHRAKIS - This is the air above the -

Dr GRUEN - The air above. Yes, that's right. That's a way to understand what this concept of opportunity cost means. You may not thank me for this, but it's conceptually complicated, because the opportunity cost of land 'here' is made higher if the zoning 'here and here' is more strict. We've said \$156 million, you could argue about that. Actually, if all of Hobart was zoned so that you couldn't build but you could build there, it's probably \$300 million, okay? There is an argument to be had that the opportunity cost is \$300 million. It's a reasonable argument. It's actually moderate - what we have there is a fairly moderate thing. However, there's no problem in saying, and setting out the basis on which you want to suggest a different valuation.

Mr TUNNY - I just want to add something. I want to reinforce what Nicholas is saying. Hopefully you can hear me through this microphone and it's clear. In the report, what we've

done is we've actually put references to some of the key guidelines regarding infrastructure in Australia regarding Government projects. Infrastructure Australia, for example, noted in its 2021 guide to economic appraisal that, in the case of land, the capital cost should include the opportunity cost of the land used even where this is currently owned by the Government, so it's very clear. We put that reference in the report - it's on page 87, I'd refer the Committee to that. This is just absolutely something that's undeniable, that opportunity cost needs to be considered. Most, nearly all economists, I'd say all economists, should agree with that proposition.

CHAIR - Thank you. The other point you raised in your letter, and it's also covered off in the report, is that you believe there's underestimated capital cost. We did ask MPDC today about contingencies, and particularly for areas that are what would be considered known risks, one being the roof, others being contamination of the soils, particularly under the Goods Shed, for example. They've assessed the soil around it but the Goods Shed's a reasonable size and -

Dr GRUEN - It was a rubbish dump. You have geotechnical risks of it being on riverfront, near riverfront, and so much of it is reclaimed land in a pretty 19th century way. I believe it was the 19th century, it was certainly a while ago - so you don't know what's there.

CHAIR - They don't really know exactly what's under there. They have an idea of what's around the area.

Dr GRUEN - That's right. They've done some geotechnical work. They had done geotechnical work on Docklands Stadium - it still suffered cost overruns of, I believe, over \$100 million.

CHAIR - Regarding the contingencies and excluded essential related infrastructure spending associated with that, you put that down, that there's an additional \$322 million of costs on top of the cost estimate that's been presented to the TPC. This is taken from your letter. I acknowledge these matters are in the report as well. That's helped you get to the \$1.96 billion compared to the claimed \$775 million. Did you, in the work that you've done, really identify what the actual contingency is for risk mitigation? Do you believe that was done adequately?

Dr GRUEN - I believe the existing work was not done adequately and I think the work we did was not adequate either. We did our best. I'll make it very clear what I mean by that. The industry of quantity surveying has various rules of thumb for trying to quantify risk at different stages of a design. You will find in our report that we sent what we knew and what we could find out to another quantity surveyor. He said that at the stage of design he took the project to be at, it was appropriate to add another \$20-million contingency. That's been added in our report.

The pity of this is that risk is very hard to - of its nature, risk is uncertain. You don't know what it is until either you encounter it or you find out it wasn't a problem. That \$20 million is a sort of industry standard way to address the question of the potential risks from estimating the cost from an immature design. What is the standard way to allow for geotechnical risks? I don't really know, but I haven't written there, 'This could be hundreds of millions of dollars out', but experience tells us that if those risks come in, those are the magnitudes. That was true of geotechnical risk. It's true, I believe, of the roof. These things are qualitatively mentioned in the report, but we haven't put a number on them. The numbers are substantial.

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The third risk, I think, which is rising as we speak, is the resource risk, the risk that as the stadium is built, the resources become hard to obtain. For instance, we have a new Government in Queensland. Gene can correct me on this, but I believe that the new Government came in with a promise not to build a stadium and is now building a stadium.

CHAIR - The Premier of Queensland has admitted that. I saw him on the news admitting that.

Mr EDMUNDS - Can I ask, that resource risk you're talking about, that includes the workers that we can actually get to build it, putting aside the actual resources?

Dr GRUEN - That's right. We spoke about the importance of trying to think about the stadium in the larger picture of planning for Hobart. I probably should have put a little more effort into saying you have a very analogous situation in terms of skills. That's making itself very clear to us. I've had some interesting conversations with builders, some of whom are quite actively promoting alternative stadiums, some of whom are not actively promoting alternative stadiums, but have interesting proposals. Part of their thinking behind that is a skill story. They have built skills, for instance, with the Bridgewater bridge. They've built skills because they're trying to build low-cost housing. They've built fabrication facilities that they believe could be used, they believe they could build Tasmanian skills in a constant stream.

Tasmania is not a large place and the great risk is that the stadium is largely a fly-in, fly-out operation. You can ask questions about that as you have of the MPDC in the last session, but if you haven't planned that in, there's not much you can do. You can say we're trying to maximise Tasmanian input. I'm sure that MPDC will do that to the extent that they can. If one took this process of planning something which certainly for Hobart is a very large thing, and if you make that part of a thoughtful skill development pathway, you might be able to do quite a lot better, on the upside and the downside. In other words, if you're doing that here, you expose yourself to lower risks of the kind I'm talking about from Brisbane, and you also end up with a capability that you wouldn't have otherwise.

CHAIR - You did make the point in the report - and I can't quite put my finger on that statement but I certainly read it - along the lines that the project's been mismanaged?

Dr GRUEN - Correct.

CHAIR - Could you expand on that?

Dr GRUEN - Yes, what I said there - and as is the way in our society, I find myself in media interviews and they just go for that word and it's as if I've said the entire project has been completely mismanaged. I'm making a more specific claim. That claim is that in the alignment of the bureaucracy with the Government's talking points and promises about outlays, the \$325 million cap and so on, that is leading to mismanagement because decisions are being made to get costs off the books by entering into various PPP arrangements. It is almost certainly the case that there should be some PPP arrangements in the stadium. It's also almost certainly the case that that should be done after a period when the market understands, or knows more about, the utilisation of the facility and all that sort of stuff. If you don't do that, you will get terrible bids that will quite possibly serve their purpose of lowering apparent costs, but you're being penny wise and pound foolish, because you are ending up with less value for the Tasmanian community.

Mr WILLIE - In some examples, you're taking away revenue-generating aspects of the stadium.

Dr GRUEN - Yes, that's fine. If you get a good price for it, that's something you should consider - but if you can be sure that you're getting a lousy price, you shouldn't be considering it, and that's mismanagement.

Mr BEHRAKIS - Is that an assumed mismanagement? If you're saying that it's mismanagement because of the department's aligning with that statement to cap the expenditure.

Dr GRUEN - Sorry, what was that?

Mr BEHRAKIS - You said that there was mismanagement because of the department's aligning with the - is that an assumption of mismanagement, though, rather than -

Dr GRUEN - What it is, is I'm looking at this and I'm saying the only way I can imagine to manage this in a responsible way is to put the costs on the book right now, which would take it over the \$325 million, and then at some stage to sell those assets down. That's the only way I can possibly imagine you would receive the best price for those assets. You follow the argument? That's my argument.

Mr BEHRAKIS - That's assuming that those costs go over the \$325 million.

Dr GRUEN - Yes, because you can see in the all of the - everyone is agreed that you need to take, for instance, correct me if I'm wrong, I think the figure is \$57 million. That's taken off the books and we're told it'll be a PPP. I'm saying that if you were managing that properly, it would be on the books. You would add that to the \$325 million, and some other numbers. Then you would say, however, we aim within three or four years of the stadium being complete and the marketing at the stadium and the event attraction at the stadium becoming a going proposition, at that point it might well be appropriate to try to raise money by selling some of those assets or entering into some kind of PPP with those assets.

Mr EDMUNDS - Essentially establishing the bona fides of any of those, and then trying to get the maximum value you can out of it?

Dr GRUEN - Imagine you are a national Australian catering company or a signage company or something like that, maybe a car parking company, even - Wilson Parking. You know that there's this asset and you know that there's going to be seven AFL games a year in it, you can do your numbers there. How many concerts will there be? How many conferences will there be? We were talking to some promoters and they thought that we can have monster trucks in there, which is kind of fun. They're sure they can get monster trucks to your stadium. That sounds to me like a good idea.

CHAIR - Got to get the new *Spirits* first to fit them on.

Dr GRUEN - I've now told you that I've spoken to a promoter and he's good for one or two monster trucks and maybe a dinosaur show. Are you going to just put that in your books, or are you going to say, 'I want to see the colour of your money'? The point I'm making is, once

they're there, you're going to sharpen the number in your chequebook - and that's what I mean by mismanagement.

Mr EDMUNDS - I'd imagine also that the longer term you lock something like that in at the start, without knowing the value of it, the bigger the risk that you're selling something for a song.

Dr GRUEN - That's right. We have evidence of this on a giant scale, that Tasmania could not afford, and Victoria couldn't afford but we have to afford - which is that we built some toll roads, and the company that engaged in the public-private partnership then was on the stock market, its stock went up by 1,000 per cent. That tells me that somebody wanted to say, 'Those freeways aren't costing you money, those freeways aren't costing the Government money.' Had that process been done better, maybe we could have sold it off, and then we would have sold - you know, rule of thumb - for 10 times more than we did. That's an example.

CHAIR - Following on from the questions that have been asked around revenue-raising opportunities like the food and beverage, for example - one of the key requirements for Tasmania, but also for the team, is that we have a financially sustainable team. It's not cheap to run an AFL team - or teams, when you have the AFLW as well. You have quite a cost in just maintaining the team, paying for the staff, et cetera. If there are less revenue-raising opportunities because some of them are taken out to be put into the private sector - which will make money for themselves, one would think - did you look at this at all, as to how much additional funding the state might need to top up into the team to keep it financially sustainable?

Dr GRUEN - What you can do, and what we did do, is to provide some 'for instances' of how much you would lose in net value by getting these lower prices that I'm talking about. The rest of it just is a statement that there is this much less money for whoever gets it, because it's going to be partly the AFL, partly the team, and so on.

I actually think that's worth taking the discussion into this question of the AFL - the motivations of the AFL. I mean, I appreciate very much that you people are in a very difficult position. A lot of people in Tasmania want the team. I want the team. The AFL sees itself as in a very strong position, and it says, 'These are the terms on which it has the team.' I'm not trying to tell you I know how to negotiate with the AFL. I'm not trying to tell you that we'll do any of these things. I do want to try to present you with a bit of an economic lens on the decisions facing the AFL, on the way that AFL is going about its thinking, because I think it is perpetrating a lot of self-harm. It's doing itself a lot of harm. It's certainly doing Tasmania a lot of harm.

Can I start by just referring to the quadrant that I put early in the report? That's on page 21. The AFL has been through a 'bruising experience', because the AFL has its eyes on that right-hand quadrant. What I've done, for those who can't see the quadrant, is that the quadrant is arranged as low and high financial risks and low and high financial returns. There are two extreme corners of this. There's the corner with high risk and high returns and the corner with low risk and low returns. The AFL, right back to moving to Sydney, Perth, Adelaide - I don't know how much risk it thought it was taking, but there were certainly high returns there. They're large states, there's a big prize for the AFL. It took them a surprisingly long period of time with the first teams in those high-growth, highly financially attractive states. They're now doing that with two other teams, the Giants and Gold Coast - and they're not doing very well.

I think the AFL and the AFL teams come to the negotiation with Tasmania with that in their heads. They think this is a big risk.

As Colin Carter said - I've changed the language a bit, but I'm sort of taking this line of reasoning from Colin Carter, who produced a report I think in 2009: 'You can make money in Tasmania, you just can't make a lot. We need Tasmania, it's a national team, and we need patient capital in Tasmania. The point of this diagram is to say that Tasmania is a low financial return state, not a negative financial return state. It's an incredibly low risk state. You're going to get 20,000 people to those teams and that leads to my - sorry, you're going to get 20,000 people. We agree with KPMG. You're going to get 20,000. You're going to fill that stadium.'

That leads to the next point, which is that what really matters, as the AFL has said, is that the team be a competitive team, that it be taken seriously. The AFL has also said that it can't do that without proper finances. I agree with that too. The big difference between the situation we have in Tasmania and the situation we have with these high risk, high return sites is that Governments aren't forking out lots of money in those high return sites to subsidise a team. They don't think, 'Wouldn't it be just great if we had a Gold Coast team' or something. That's a project largely of the AFL.

We have a situation where the Tasmanian Government has signed on to generous subsidies of the Devils. As an economist, I ask: how would you do what the AFL wants to do in the most economically efficient way, and in a way that does the AFL minimum self-harm? That would be to answer what I call, you may be amused to hear, the 'Spice Girls question', which is: tell me what you want, what you really, really want. What the AFL really, really wants is a competitive Tasmanian team with a financial base. Its answer to that question in these high-growth states is that they need their own stadium, because that's the way we've always done it. But Tasmania is different. Tasmania wants a team and its Government will pay for a team for a substantial period of time. It gets the AFL what it really, really wants, and you can then work on these other questions about, in my opinion, whether you want a new stadium - but that's fine if you do, and you make it a great stadium, like Adelaide, like Perth, not like Docklands. Those are the kinds of questions before you and before the AFL.

Mr BEHRAKIS - You mentioned earlier, regarding the KPMG report, that often these firms go in and give the report that they think their clients want. I suppose that's generally, broadly, a truism.

Dr GRUEN - We kind of understand that. Yes, that's right.

Mr BEHRAKIS - On that - and you were commissioned to do this report - I'd be curious to know what, if any, preconceptions or preconceived ideas around the stadium you had going into this.

Dr GRUEN - If I'd had to guess the cost-benefit analysis that we'd arrive at, I would have thought it would be in the 20s or 30s, so we ended up with a more beneficial result than I thought we would. The basic story would have been the same for me, which is, I'm not telling you what you should do, I'm just trying to provide you with the analysis.

A big thing for me was, I looked at concerts, which are a big thing for the viability of stadiums. They're basically more important than games, because there's so much more rent, if

you can get a Pink here or a decent-sized act here. A lot of people say you can't get concerts in there, you won't get many concerts. When Docklands Stadium wasn't trying very hard, they didn't get many concerts, one or two a year. The AFL has cranked that up to 12 a year. The one thing that struck me quite strongly was when I looked at the Melbourne Park area of Melbourne, which is the Rod Laver Arena. I think Rod Laver Arena has 14,000 seats, so it might not look like your Docklands Stadium, but it's not so different. It has 100 events a year. It's entirely possible that we were a bit more bullish than KPMG was about the ability to get events in the stadium - but we're amateurs at that. We're just doing the best we can, but I'm not telling you to put too much faith in that. That's a substantial risk. Is that a reasonable answer?

Mr BEHRAKIS - Yes, thank you. Following on from that, I know the commentary within the report focuses pretty heavily on the AFL, and we've just heard about that. I'd like some more information from you regarding the assumptions in the report, especially regarding the interstate visitation for other sports and events like you were just talking about. I know there was the suggestion that only 10 per cent of the tickets are assumed to be sold to interstate visitors. On page 109 of your report, you say we've adjusted KPMG's estimates downwards from 25 per cent to 10 per cent for concerts and entertainment events because KPMG's assumed proportion of retained visitors seemed very high and provided no empirical support.

I've gotten some data regarding some regular events that are held in Tasmania. In recent times, Dark MOFO in 2023 had 432,000 people and 50 per cent of those were interstate visitors. Wooden Boat Festival had 55,000 and 50 per cent of those were interstate. Festival of Voices was 30,000 and 18 per cent of those were interstate, and the last Taste of Summer was 88,000 and 34 per cent of those were interstate. Just as far as comparing what's a realistic assumption to make, how is 10 per cent more realistic than 25 per cent, given that we often see even greater than that for many events held in Hobart?

Dr GRUEN - I can't give you a perfect answer to that. We were not thinking of festivals - and I'm literally thinking of this aloud as we go - if you have Dark MOFO on and there is an event in the stadium, I don't know whether, from a cost-benefit analysis point of view, you would say that the stadium has attracted interstate visitors. If you build a whole festival around attracting interstate visitors, which people have been doing for a long time - Adelaide Festival of Arts and so on - that's one thing. The sort of thing I had in my mind was, we hear a lot of people in Tasmania say that if we can - I know that some of the thinking behind the stadium very early on was that if we can host a global star - it's not going to be Taylor Swift, it's a little down from there - if we can host a global star in Hobart then people will come down. That will occasionally be the case, and some people will come down and it will suit them - but almost invariably, if that star is playing Hobart, they're going to be playing the mainland as well, and in that context, you won't get a large interstate attraction.

I'll see if Gene wants to add anything there.

Mr TUNNY - Yes, that was our thinking. Dark MOFO seemed to us to be a bit - it's a very special event that is particularly attractive to people from outside Tasmania. We were thinking more - what's a reasonable assumption, and 10 per cent seemed reasonable.

I accept it is something that perhaps more empirical research could be done on. We thought that was a reasonable assumption to go with, and we're happy to do - we can do a sensitivity analysis on it. I don't think it would change the results substantially. You're still going to have a stadium based on the standard approach economists take, where we quantify

as much as possible. We'll have a benefit-cost ratio less than one. KPMG found a cost-benefit ratio less than one.

It's important to note we found a lower cost-benefit ratio because we had different assumptions. The problem is, for a lot of the significant parameters that you need to estimate or assume in these models, there isn't necessarily a lot of empirical data to go on, and there's a risk to the Tasmanian Government in making this investment because of that, because those interstate visitors may not come.

Mr BEHRAKIS - Last one, just to follow up on that. I know, obviously, when we talk about stuff like this, especially new stuff, it's hard to base things on empirical data because we're talking about the future. We have to make assumptions. But just that part of the report is - I'd take that as being critical of KPMG's assumption, saying that it seemed too high - especially saying that it 'seems' too high and provide no empirical support.

I'd wonder how much more empirical support the 10 per cent has, given there're different ways of arriving at assumptions. But when we do have - and that's just four events that I listed, and we have plenty more - when we have plenty of events, and routinely, I don't think we've seen many major events in Tasmania with less than 10 per cent, or even near 10 per cent, in interstate visitation. It's usually much higher than that. I suppose it's more that we've kind of dismissed the assumptions in KPMG's report for their lack of empirical support, but then we're sort of saying, 'We'll round down to 10 per cent,' based on effectively the same amount of empirical support.

Dr GRUEN - There's one difference, and that is that we're - if you have to go with one of us, you know that one of us is trying to get the right answer, and the other one is trying to get an answer that's not too obviously wrong, but it suits their client. I don't think that's at all unfair.

Mr BEHRAKIS - Is that unfair to place that on KPMG? I wouldn't -

Dr GRUEN - Oh, absolutely, fair. KPMG, as you may know - and as I reminded Anne Beach before this, in the very first meeting I had with her - is famous for having provided two parts of the New South Wales Government with a valuation of a transport asset holding facility, the Treasury and the New South Wales Department of Transport, and they gave them two different answers: each the answer that the client wanted. I mentioned that to the CEO of Macquarie Point Development Corporation, because I take these things seriously, and she said that they had had probity advice - which I'm sure they had had, and that's fine; I'm not being any more critical of that. I think it's a pity that a firm that does a thing like that doesn't have its business fall apart.

It seems to me that their document of 31 January shows something very similar but in a completely different way, which is, 'Nothing to see here. We won't even comment on body blows that have been dealt certain aspects of our calculations. If I have to choose between two firms and that was one of them, then I wouldn't have too much faith in that. That having been said, the point you make is completely right, which is that neither of us have good data on that question and I'd be happy to try and have another look at that and see what we think, but anyway, that's the response.'

Ms THOMAS - Thank you, I do have quite a few questions and I know we're running out of time so I'll try and speak quickly and hopefully, my questions don't require lengthy drawn out answers. I'm interested in talking about the methodology. The report doesn't include any background information explaining how or why the report came about, who commissioned it or the methodology for the assessment as an independent assessment. I know you interviewed some MPs because I was one of them. Just wondering if you are able to provide out of session for the Committee a list of the questions you asked of MPs, a list of stakeholders that you interviewed or otherwise engaged with as part of the independent assessment?

Dr GRUEN - We already have provided the second of those things, so we've provided a list of people we consulted where possible, the dates and so on. We haven't kept a record of the questions we asked so I don't know whether we can - I don't think we can provide that first thing that you've asked for. We provided the methodology.

Ms THOMAS - Did you ask different questions from different MPs? Did you?

Dr GRUEN - Yes, we did. It wasn't a regimented process. It was a process of trying to have us as useful a discussion with them as possible, trying to discuss with them their interests, their concerns and put to them the things that we wanted to input from them on.

Ms THOMAS - The report also didn't include any type of disclosure statement declaring that the author and project team have no interest or conflicts in the proposed Macquarie Point Precinct or any Tasmanian stadium development. For the record, can you confirm your unequivocal independence as the independent assessor?

Dr GRUEN - Yes, I confirm that in precisely the words you've used. We have no interest in any of that.

Ms THOMAS - In any stadium development in Tasmania?

Dr GRUEN - Correct.

Ms THOMAS - In terms of the structure of the report, on page 15 it outlines what the report examines and number 1 states that 'analyses how the agreement between Tasmania and the AFL constrains the optimization of costs and benefits to Tasmania through unnecessary requirements.' I'm interested in exploring the use of language here as I would expect an objective analysis would analyse whether the agreement constrains the optimization of costs and benefits rather than how it constrains them. Further to Simon's question, I'm interested in whether you had a particular view on commencement of your analysis about what you are likely to find. Not just the figure, but whether you had a view on whether this proposal of developing Macquarie Point Precinct is a good idea, or did you approach the project and your analysis with a totally open, objective and unbiased mind as to what you might find?

Dr GRUEN - We certainly approach the project with an unbiased mind as to what we might find because I was in a position of ignorance about it to start with. The language used is the language of someone who has approached this with an open mind and it's now saying what they have found, but I think your questions also suggested that I should speak a bit about alternative prospects for the site. Were you inviting me to do that or?

Ms THOMAS - No, that's okay, I just wanted to be clear, as an independent assessor, whether you came into it with a totally open mind about whether it would or you may find that it is a proposition at all or not. In terms of the structure of the report, the terms of reference often report, such as this structure findings and recommendations - according to the terms of reference, but you've taken a slightly different approach. Are you confident that you covered off on the three terms of reference which are set out in appendix 1 on page 132 of the report? In answering that question, I'm particularly interested in the terms of reference. In the terms of reference, it says that the independent assessor - which is you - will review the existing analysis supporting the cost benefit assessment of the precinct, including financial modelling and assessments of the social, economic and environmental cost benefits and impact of the precinct. I wonder if you can outline which of your six findings relates to the social costs, benefits and impacts of the precinct. Did you analyse the social cost benefits and impacts?

Dr GRUEN - You will find there the contribution we've made on the environmental questions, one of those things - and it's quite true that it's not a comprehensive report on all of those things - we addressed some of the visual, we looked at the analysis of the environmental effects. On the question of the social impacts, I guess what my report argues is that the way in which this is being managed is in such a way that the division in the Tasmanian community is greater than it would otherwise be. It is much greater, for instance, than in Perth, which a much more satisfactory process of community consultation about both the siting of the stadium and the design of the stadium. That's what I would point to there. We did not have anything like the sort of resources necessary to conduct a more searching analysis of, say, socioeconomic impacts. I'm not sure that too many things go ahead with that. Anyway, we didn't have the resources to do that.

Ms THOMAS - Along those lines, term of reference 1 clearly refers to assessing the precinct. However, throughout your report and in your language now and in your findings and recommendations, there's no mention of the precinct, just continual references to the stadium. You might say I'm getting caught up on semantics here, but did you analyse the precinct overall, or focus your analysis on or limit it to the construction of stadium?

Dr GRUEN - No, we did, because there are things that we drew into the analysis that weren't there - the costs of moving the Goods Shed, the costs of various other ways in which the space can be used, the opportunity cost of the site, this all refers to the precinct. The stadium - our review is the review of a precinct with a big fat stadium to be developed in the middle of it, which dominates the process. Yes, we could have spoken about a precinct. The analysis would have been very similar, essentially the same.

Ms THOMAS - On the opportunity loss, the Tasmanian Planning Commission requested that MPDC via KPMG assess the project in comparison to a base case/no project alternative. KPMG then in a supplementary report, whatever you might think of that, said that an alternative approach was unrealistic and inconsistent with economic theory, and that:

Choosing an alternative project as a counterfactual for considering the economic impact of the stadium is based on a false premise that the opportunity cost of the stadium is an alternative investment that the Government may choose to do.

In your report, you've modelled an opportunity cost of \$155 million, which you've built into your summary of costs on table 6. How did you arrive at this number, and why should

opportunity cost be included when there's no reasonably progressed alternative project slated for Macquarie Point?

Dr GRUEN - I spoke at quite some length about opportunity cost and explained why it was appropriate for there to be a substantial opportunity cost. Opportunity cost is not about different possible projects - well, it's about the value of the land. It's about valuing the land, because the land is an asset. On that question, we dealt with that in some detail earlier on. There are some other parts of your question. Is there anything else you would like me to respond to? There is something I would like to say about - you've read me some things from the subsequent KPMG report. I would invite you to present them to an economist - any economist, or a group of economists, who doesn't have any skin in the game, who doesn't have any dog in the fight - and ask them to try and make sense of it, because I can't. I think what they've written is complete gobbledygook.

What I can say also is that the guidelines called for some analysis of an alternative project. Those who don't want to do that continually say that the guidelines call for an analysis of an alternative project on the site, but that's not what the guidelines call for. The guidelines call for an alternative project using the funds that are to be used for the precinct. But, KPMG won't do that analysis. We have done a back-of-the-envelope analysis that complies with those guidelines. KPMG says it's conceptually - you can't get through the fog of what they've said. I can't understand what they've said, as far as why it's not respectable for them to do.

CHAIR - They didn't have enough information; that's one of the things they said.

Dr GRUEN - That's one of the things they've said. That's right. But you never have enough information, so you do your best with the information that you have.

Ms THOMAS - In terms of - in table 10, you talk about AFL industry benefit, with a figure of \$24 million. The AFL in its licence agreement with the Tasmanian Government has committed \$360 million towards the Devils AFL Club grassroots football and game development in Tasmania. I just wonder why it's been so heavily discounted in your table 10 up to \$24 million.

Dr GRUEN - It hasn't been. That's a misunderstanding. I think that misunderstanding may come partly from some comments made by David O'Byrne, and we were asked, I think, by Kristie Johnston's office for a response, which we provided and which I can provide this Committee, and I'll also invite Gene to say a little more.

Mr TUNNY - Thanks, that is a good question. That benefit - it's not the whole amount of spending; it's a fraction of the spending that is legitimately counted as a surplus - additional labour and produce a surplus, to use the terminology - in Tasmania. KPMG, they don't count the full figure -

Dr GRUEN - Hang on, Gene. I'll just interrupt you for a second, just to try and explain to Bec, that when you're doing a cost-benefit analysis, you're looking for surpluses. Cost-benefit analyses are not like financial analyses. They're not looking at the amount of dollars you spend on something.

What they're saying is, if 1000 more ice creams are bought in Tasmania for some reason, what is the net benefit of that to Tasmania? There are costs in providing the ice creams, and

that gets taken off the benefits. There are benefits: the benefits of the 1000 ice creams, and the pleasure that you get from the ice creams. When you're looking at the expenditure, there are Tasmanian resources that are being used by the expenditure which are not available for other things. In a cost-benefit analysis, you're looking for the surplus.

That's one reason why the attraction of an interstate visitor is so much more valuable than the attraction of an additional visitor from Tasmania, because an additional visitor from Tasmania will pay their \$60 to get into the ground, and they will, as a rough rule of thumb, spend somewhere between, \$58 and \$60 less somewhere else in Tasmania. That's not the case for an interstate visitor. For an interstate visitor, there's much more - it's much richer in surplus for the interstate visitor. But, it's not a 100 per cent, because Tasmanian resources are expended giving the visitor what they want. You're looking for surplus. Is that a reasonable - does that give you a bit of a picture as to what I'm on about?

Mr TUNNY - Yes, thanks, and so KPMG, they followed that approach and they don't have the whole \$300 or so million in there, their estimate of what that AFL industry benefit is, if you look at their cost benefit analysis, it's around \$88 million. What we have is we have a different assumption regarding what that percentage of the total spending that you would say is a net benefit to Tasmania, then KPMG and we have a discussion of that in the report. This is an area where we think we've made a more reasonable conservative assumption. KPMG's assumption meant that the level of net benefit was around twice what the previous consultants, MI Global Partners, assumed would come from every dollar of additional spending.

The MI Global Partners' figure was based on a New South Wales Government report, if I remember correctly. We've got this - I think this is documented in the report. We have a number that is lower because we think then KPMG, and it's a bit lower than the MI Global Partners number, because we take seriously the concept of opportunity cost, the fact that resources have alternative uses. We consulted with one of the top experts on cost-benefit analysis in Australia a Leo Dobes at ANU on this issue and there's some good commentary from him in the report which advised that you have to be very careful counting these potential net benefits from additional spending because resources do have alternative usage; they have the alternative uses.

Ms THOMAS - I do have more questions, but I know we're out of time, Chair. I don't know if you want to extend or?

Dr GRUEN - I'm happy if you want to.

CHAIR - We could go another 15 if that's alright with members. Okay, yes.

Ms THOMAS - I'm interested in, on page 20, the Figure 1 estimates market size from 2019, and the commentary following the figure refers to the membership sizes of GWS and the Gold Coast Suns around 33,000 and 23,000, respectively. What about the challenges of Tasmania being a small state? You don't make any mention of the foundation membership take up in year 1 which has exceeded 205,000 members. I acknowledge that that's in a different scale when it comes to cost compared to those other clubs referred to and we don't know what that's going to look like when the club's fully in action. I wonder if there's any reason you didn't make reference to that, to that foundation membership response in your analysis?

Dr GRUEN - No, I'm a member and my kids are members. We're not trying to spin it. We were simply reporting things and it didn't turn up there. It certainly turns up in plenty of the things that I've said. I don't know whether it's in the report, but it's not, we're not really. We're just saying it's a small market and it's therefore facing different economics on the next page. I'm there saying that it's a low-risk market. And I, as you heard earlier - I think, that's a very important thing and it's something which I suspect is not as prominent in the AFL's mind as it should be.

Ms THOMAS - In terms of the costs in your analysis around the Goods Shed, the MPDC estimate, the cost of relocating the Goods Shed at approximately \$6 million and the quantity surveyor, XMIRUS, agreed that the cost would be approximate to this, but your final costings have tripled that price to \$18 million based on discussions with several parties. How did you arrive at this number and why was that number included, not the third-party quantity surveyor number?

Dr GRUEN - I'm not sure that the third-party quantity surveyor number, as I recall, simply took the number from the documentation that they were given by the MPDC. That's how that number goes in there. I don't know a single person within the Tasmanian Government who has got some knowledge of this, who doesn't think that the figure that is quoted by the MPDC is not a wild underestimate. There were certainly people in the Tasmanian Government who thought it would be more than we put in there and I guess all I can say is that's the best I can do as an independent person. I am happy to say on the record that I do not trust the MPDC figure on that subject.

Ms THOMAS - You can't be any more precise about how you came to the \$18 million figure other than discussions?

Dr GRUEN - I can't, but I have also said a little more, which is that there was nobody with whom we discussed it who had a number - the number is a moderate number given what we were told by people who are in a position to have as good a view of it, but a less biased view than the MPDC. That's the best we can do.

Ms THOMAS - My last one, on page 6, Table A outlines the impact of stadium construction on Tasmanian Government finances. It refers to borrowings of \$700 million. I'm just wondering if you can unpack that table a little bit and explain where that figure comes from.

Dr GRUEN - Gene, do you want to do that?

CHAIR - Table 6 of the -

Dr GRUEN - I have Table A, that's on page 6 of the executive summary.

Mr TUNNY - What that table is endeavouring to show is what the total financial impact will be on the Tasmanian Government. If you work down the table, you'll see how that \$700 million is derived. We started off with the capital cost estimates that we had from the reports that were available that were on the PoSS website. They come up to \$775 million. Based on the independent quantity surveyor we engaged, we added on \$79 million. Then there were some additional costs. When we itemise all of these in the report, what we're assuming at the precinct, additional cost for the precinct and then costs of constructing those revenue generating

facilities, if the Government had to go ahead and build them - they're necessary. We'll show you how we - we do deduct that later, so that nets out to zero. That gives us total cost excluding interest during construction. We're not taking into account any interest during construction. The fact that while you're building this, you'll have to pay debt service, you'll have to pay interest on money that you're borrowing, we haven't even included that. That comes up to \$1096 million.

Then what we do is we say, 'Okay, that's so that's the total capital cost of the project and other investments in the precinct that are necessary for the stadium and the precinct as a whole'. Then we say, 'There are some external contributions'. There are going to be contributions from the Commonwealth. We know about that \$240 million. We're going to subtract these other contributions. We also know AFL will contribute \$15 million. What we do is we subtract \$240 million and \$15 million from the \$1096 million - the \$1.096 billion - and that gives us \$841 million that's left to fund.

There is \$841 million that isn't being covered by the Commonwealth or the AFL. We note that according to the Government's plan or MPDC's plan that's set out in the documents we reviewed, they're going to have those revenue generating facilities built by someone else or paid for by the private sector. We take that \$57 million away from the \$841 million. That gives us \$785 million.

Then we go, well, there's also this idea that the Government could sell land or it could raise - this is what Nicholas has called the magic asterisk - there is the idea that we could find \$85 million from some other sources. We subtract the \$85 million from the \$785 million, and that leaves us with \$700 million where we don't have any obvious funding source. That will need to be borrowed. The final number on that page is total funded by the Tasmanian Government. We're saying that they can either borrow the money, and if they sell land off, that's essentially giving up -

Dr GRUEN - That's funded by the Tasmanian Government, by sale of an asset.

Mr TUNNY - Yes. That's more or less what we're covering there in the report. It's to highlight that this does come at a more substantial cost to the Government than some of the statements that have been made so far would suggest. That's essentially what we were trying to do in that table.

Ms THOMAS - It's an assumption of borrowings and assumption of no private investment.

Dr GRUEN - No, it's not - okay, if you want to describe it that way, I guess you can, but it's simply - I mean, it's just a very logical process. If you want something funded, you bear a cost for that, and it's entirely possible that the Government can find ways of accounting for this that don't turn up as borrowing. They can sign all kinds of things away. We're just trying to come up with a simple snapshot of the cost that the Government has to find a way to bear, whether it's through selling its assets, borrowing, or some other PPP-type arrangement. That's the number.

Mr BEHRAKIS - When you mentioned just before about the cost to relocate the Goods Shed, you mentioned that you spoke to a number of people in Government - I think this was your words - and none of them thought that that was a realistic figure.

Dr GRUEN - Correct.

Mr BEHRAKIS - Can you speak to who or what offices, or -

Dr GRUEN - I don't want to, because they wouldn't have told me if they thought I was going to disclose their names.

Mr BEHRAKIS - Right, fair enough. Going to the talk about opportunity cost - my understanding of opportunity cost, it's the cost of the next best alternative.

Dr GRUEN - That's one way to put it, yes.

Mr BEHRAKIS - In your report, and listening to you just throughout this, it's sort of - the value of the land - the property value is taken into the opportunity cost. You mentioned, I think, I'm looking at page 87 and 88 of the report:

In the case of land, capital costs should include the opportunity cost of land use, even when this is currently owned by the Government... building or constructing a house on the land they own for later sale would factor in the value or opportunity cost of the land...

The builder would just factor in the value of the land before improving it, though, generally speaking.

Dr GRUEN - Yes, that's right. It's the concept of unimproved value.

Mr BEHRAKIS - Right. Further down, you then say, 'Elders estimates a site value of \$49 million -'

Dr GRUEN - Are we on page -

Mr BEHRAKIS - Page 88 now.

Dr GRUEN - Right, yes.

Mr BEHRAKIS - You go down to then extrapolate based on footprint, however, that you think it's worth - the opportunity cost is then \$236 to \$386 million, and the midpoint of that is \$311 million, based on the way that you've calculated that according to that formula. Then you say:

This has generated substantial controversy amongst those we have discussed it with, and in light of that, we have halved the figure to ensure our central case was conservative. This gives us an opportunity cost for the land of approximately \$155 million.

Dr GRUEN - Yes.

Mr BEHRAKIS - The \$155 million figure - rather than being based on a formula, it's based on a, 'We decided to bring it into an amount that people could' -

CHAIR - Conservative?

Mr BEHRAKIS - Yes, conservative, but it just seems that the way that that's written at the very least to be very arbitrary. 'We've done it because people aren't comfortable with our initial calculation, so we've decided to halve it.' Can you speak to that? Because we are -

Dr GRUEN - I can see how - I did promise you to tell the truth, the whole truth and nothing but the truth, so it's even in the report. That's a transparent and candid description of the process. I'm happy to defend that. Anyway, sorry, go on.

Mr BEHRAKIS - I suppose if we're talking similar to - we've heard some criticism of the KPMG report and the assumptions that they've made, and some of the underlying - I'm not going to get into reflections on motivations, or anything like that. There are reflections made on the quality or credibility of the KPMG report based on the assumptions that they've made. When the assumptions in this report are, 'We felt that people weren't comfortable with the \$311 million, so we decided to halve it', how useful then are these assumptions to inform any decision-making from here, if that's the sort of level of -

Dr GRUEN - If you're not comfortable with that, just take the \$311 million.

Mr BEHRAKIS - I suppose my question is if you were confident that the number was \$311 million, you wouldn't have then halved it when people were uncomfortable with the feedback?

Dr GRUEN - What we're confronting was, as you might have observed, I tried to hew very closely to good economic theory, and that talks about what good economic theory is. We also have the practice that is practised within Australian Governments, and we referred to the guidelines of Infrastructure Australia. Although the literal words of Infrastructure Australia as I interpret them lead to the conclusion that I've transparently put out there, which is a substantially larger opportunity cost, that has not been the way that senior bureaucrats have interpreted them around Australia. They have interpreted them with some regard to the idea of opportunity cost as a more commercial concept. Because I'm trying to provide analysis that is useful to people who are trying to provide frank and fearless advice, I'm happy not to have a kind of debate in high theory in a report which is essentially about how we go about making decisions in Government.

I'm entirely comfortable with saying that the bona fide attempts of senior officials to interpret those guidelines in a way that leads to good policy outcomes - I'm entirely comfortable with addressing my analysis to that. I point out that if you wanted to be a little more fastidious, there is another course you can take for people who want to do that. At least I've tried to provide in a public and transparent way a course of reasoning where you can approach it in different ways. I don't think you can approach it in the way that you - I don't think you can argue that there is a zero opportunity cost for the land. I don't think that's a bona fide argument. These others are in the realm of bona fide arguments. If it is a bona fide argument, I've got an offer to make you.

Mr BEHRAKIS - We could go on, but I know we are over time.

CHAIR - Is there anything you wanted to finish with, Nicholas or Gene, just to wrap up?

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Dr GRUEN - I wanted to thank the Committee for its time and the seriousness with which it's pursued these matters. I also think it's very important to keep in mind this other 'get out' clause, which, as Gene said, I referred to as the magic asterisk. There are lots of financial structurings which enable costs to be disguised. It's very important for genuinely independent and expert scrutiny to be applied, and that isn't being applied at the moment. What's being provided is material that certainly looks like analysis, but in the case of the document I've been most critical of, it simply doesn't address - is not a bona fide attempt to come up with the best way to look at the project with all we can know and all the contributions that have been made.

CHAIR - Thank you.

Dr GRUEN - Thank you.

CHAIR - I don't think we had any questions on notice. Did you get the questions you wanted answered Bec?

Ms THOMAS - Yes it was just the two I had at the start with the questions asked of interviewees, and the list of people engaged with, but apparently the list has already been provided and there are no standard questions.

CHAIR - The list is in the report.

Ms THOMAS - Okay.

CHAIR - Thanks very much for your time, Nicholas. We particularly appreciate you coming over to appear in person. It does make it easier, I think, in many respects. We do appreciate that and also Gene, for your online attendance. Thank you very much.

Mr TUNNY - Thank you.

CHAIR - The *Hansard* will be published at a later time and will be on our website if you wanted to.

Dr GRUEN - Thank you very much.

CHAIR - Thank you.

The witnesses withdrew.

The Committee adjourned at 2:55 pm.