



## **The Victorian Treasury and the Smelter Reduction Amount (Epilogue)**

After considerable deliberation and debate, both amongst the project board and in discussion with the Treasurer, Sandra Denis and the DTF working group submitted the preferred option to the Solicitor-General. They chose a land tax on electricity easements, as it was robust from a constitutional perspective, conceptually simple and would impact the electricity customer in much the same fashion the SRA had, subject to pass-through arrangements being approved. The land tax would raise approximately \$75 million per annum – not the same amount as the SRA but a sufficiently significant amount to help plug the revenue hole resulting from discontinuing the SRA. The news came as quite a surprise and relief to Ian Gibson:

“The genius of the tax on transmission line easements was that it was a land tax and it hit the one point of this process without it being connected to the production and supply of electricity as such... Amazingly, it turned out the value of the land underneath SPI Powernet’s transmission lines was pretty close to what we were collecting with the SRA. That was a fluke, an absolute fluke. And we did think we were going to have to top it up in other ways and there was a whole debate around that.”

The idea itself had come out of the working group’s brainstorming sessions early one week. Adrian Nye, who had been advising DTF on certain aspects of the project, told the meeting how he had been driving home from a weekend away in the country. Looking up at the high-voltage powerlines along the freeway, he wondered who owned the land underneath them and whether they could be taxed. Ian Gibson made a similar observation and it sparked an idea, and as Gibson recalled, they could already see its potential. However, it wasn’t a eureka moment for the team just yet. That came later, according to Sandra Denis. In terms of revenue, they weren’t aware that they

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had hit upon a near-complete solution until relatively late in proceedings: “It wasn’t really until the Valuer-General’s office came back with its valuation that we realised this was it,” Denis said.

As Ian Little described it, working out their solution was a gradual, meticulous process:

“It was a matter of slowly knocking over each of the barriers to it being successful and making sure that its underpinnings were strong. We needed rock-solid constitutional advice, we needed to make sure that the ACCC would have no problems with that and that it would get through parliament on time so the ACCC could get it and make sure Commonwealth Treasury had no problems with it. It had been on the table quite a while but it was just a methodical process of making sure it was the one.”

Indeed, his admiration for the team stemmed from their refusal to cut corners. He recalled that at one point earlier in the process, when they appeared to have a watertight solution, Denis and Gibson uncovered an aspect to it which could have caused problems years down the track. Instead of leaving it to their successors to deal with, they insisted on investigating the proposal until they were fully satisfied. The Government was also extremely satisfied with the easement tax proposal and Treasurer John Brumby announced plans to replace the SRA in a media release on 24 March 2004. That night on the *ABC News* he said: “The beauty of this is there’s no impact on consumers, no impact on the electricity industry, no impact on the budget bottom line over time, so it’s a very neat solution.”

As DTF had hoped, reportage of the issue was confined largely to the business pages. Predictably, Smorgon (and TASCOS) were no more impressed by the new arrangements than the old ones and continued with the High Court case. Roman Domanski, executive director of business lobby group the Energy Users Association of Australia, claimed in *The Age* that changing from the SRA to an easement tax was “a pea and thimble trick” – simply an Alcoa subsidy in another guise.<sup>1</sup> Nonetheless, the new tax came into effect on 30 June 2004 with minimal fuss; for the electricity industry generally, the tax was seen as “business as usual”. With regard to TASCOS’s claim, the DTF was able to review the situation at the end of 2004 and rate the likelihood of a payout to 2.2 million customers to be low. Reflecting on their achievements in dealing with such a complex and potentially disastrous situation, Revenue Policy Director Jeff Byrne noted some of the internal difficulties they faced:

“Because of the confidential nature of the project, some of the people in my team were working on it and everyone knew they were working on something but we weren’t actually allowed to say and it had a couple of implications. One was that access to managers that they would normally have had wasn’t as good. The second one was a bit of a feeling of the insiders and outsiders. Everyone knew that this project was high profile, very important and very exciting, and they’d like to be working on it. Most people here are pretty ambitious; challenge doesn’t worry them and working hard and long hours doesn’t worry them. We went through four or five months that way and it created some tensions.”

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<sup>1</sup> Myer, R. ‘Government Scraps Alcoa Levy’ *The Age* 25/3/04

Added Denis:

“After the event, when we could all talk about it, it became evident that a number of other officers in Revenue Policy were unhappy with how the matter had been dealt with. Their view was: ‘Couldn’t we be trusted to know a bit more about what was going on – after all, we often deal with sensitive and confidential government issues in this group?’ I think this was a legitimate point but given my instructions to only give details to those that ‘need to know’ I’m still not sure that I could have fully satisfied these concerns. Although had I been in tune with the mood in the rest of the group, I should probably have made more of an effort to explain why I could not be more open with them at that time.”

Ian Gibson agreed that confidentiality requirements exacerbated the difficulties they faced: “It meant that otherwise normal approaches to people, and especially stakeholders, had to be handled in exceptional ways. Not only was this a nuisance, it also affected the way that we set up and managed relationships.” He went on to add:

“The second big difficulty came from the bit players who wanted to steal the show: people who had to be involved, but who then abused their involvement by insisting on adhering to timelines, or on a scrupulousness about niceties, that was totally inconsistent with what the Government wanted or the necessities of the project. That doesn’t mean that we ever asked people to cut corners; but we did ask them to be as committed and ingenious as we ourselves were in devising work-arounds, making judgement calls, and meeting deadlines. Many people couldn’t be faulted in meeting this expectation, but a few just wouldn’t come on board.”

Looking back over the course of the project, Denis reflected on how her perception of the problem changed. Initially she thought her challenges would be making sure everyone had the same understanding of the issues and that the DTF had sufficient expertise on board, as well as ensuring that the team was working in a well-coordinated way. The amount of reporting the project necessitated made her extremely mindful of the need to chair project group meetings well to ensure that they were productive. However, in hindsight, the greatest challenges involved working out which, of the many issues identified, were the most important and required considerable attention, as well as finding a new source of revenue that would meet the most important criteria: an effective, robust solution that would cause minimal disruption to the electricity industry. Maintaining morale was also important to Denis, especially just before Christmas 2003 when the team was working very hard but, as she recalled, “just didn’t seem to be getting close to the mark... The best thing I found was to maintain a sense of humour and try to not always focus on the output. It was important to deal with the individuals as well and check in on how they were travelling.”

Denis won high praise from her colleagues and superiors for her ability to combine her technical expertise with strong project management skills to steer the working group through some difficult terrain. But although she and the team had averted a potentially disastrous situation with great speed and dexterity, Ian Little recognised that the solution represented more than just a technical achievement. “Our Treasury has always been pretty good at our technical capabilities and technically we came up with a brilliant solution but we’ve also learnt that you also have to be good at soft skills because the stakeholder management tasking in this was enormous.” He estimated that about 100 people, at some point, were aware of the project, half of

whom were outside DTF. But beyond being a relationship management challenge, it was also a major task integrating so much information from a variety of different sources. Looking back, Jeff Byrne realised there was a great deal of responsibility and knowledge vested in a very limited number of personnel:

“One of the challenges of something like this where there are a lot of connections with others and other technical areas is that you still need a group at the centre that actually knows everything that’s going on and can ask the questions and connect the bits up. Sandra Denis was one of probably only two people who could do that. There were others who had a pretty good understanding [but didn’t have the complete picture]. It worked out fine but it was reasonably risky. What if something had happened to one of them? I probably would have had one more person in the middle, maybe one level down who knew exactly what was going on and had enough experience to deal with it. We had people lower but they weren’t people who could [take over the case] for a week if something happened.”

Luckily, that was one obstacle they didn’t have to face. With much hard work and a little good fortune they had more than accomplished their objectives. And in 2006, the case with TASCOS was eventually settled out of court. Overall, Denis believed that good governance arrangements and the careful selection of team members had been critical to the project’s success. Byrne agreed, adding: “I think one of the most important things when you’re putting together a team is not so much that they have to be experts but they have to have enough expertise to be able to understand and interpret what experts tell them and be able to decide what’s important or not.”