Privatisation of State and Territory Assets and Infrastructure

Senate Committee for Economics

9 February 2015

Submission by:
Unions NSW
Trades Hall Building
Level 3, 4 Goulburn Street
Sydney
T: 02 9881 5999
F: 02 9261 3505

1. Introduction

1.1. Unions NSW is the peak body for trade unions and union members in NSW. We has over 65 affiliated unions and Trades and Labour Councils representing approximately 600,000 workers across the State. Affiliated unions cover the spectrum of the workforce in both the public and private sectors.

1.2. In preparing for this submission, Unions NSW has consulted with affiliated unions, who represent both public and private sector employees. A number of affiliated unions have made separate submissions outlining the direct impact of privatisation has either had or will have on their members.

2. Recommendations

2.1. Unions NSW believes it is time Federal and State Government's consider new means by which to fund public services and infrastructure. There are currently a number of Federal Government reports and inquiries that look at both the revenue and expenditure side of service and infrastructure provision. The Federal Government needs to look at how best to draw current research and inquiries together to develop a bipartisan evidence based approach to widening the revenue base. Current inquiries and reports that should be considered include:

- Productivity Commission Report on Government Services, 2015
- Productivity Commission Report: An Ageing Australia: Preparing for the Future, 2013
- Senate Inquiry into Corporate Tax Avoidance, 2015
- The Prime Minister's White Paper on Reform of the Federation, 2014
- Australia's Future Tax System Report, 2009

2.2. Introduce a federal tax that leverages and protects the value of our natural resources in the mining sector.

2.3. Consider the introduction of a financial transactions tax of around 0.05 per cent on institutional trades of currencies, stocks, bonds, derivatives and interest rate securities.

3. Privatisation in NSW

3.1. Unions NSW defines public assets as any and all publicly (State) owned operations, infrastructure and associated service organisations in NSW. These include the power industry, transport agencies, health, education and welfare organisations; buildings, land, equipment, information and people working in and around such public organisations.

3.2. Successive Governments have argued the privatisation of public assets is necessary in order to “free up” capital which can then be used to “drive down debt” and “balance the State budget”. Australian voters have been relentlessly lobbied to believe that good economic management is synonymous with budget surpluses and that these surpluses will lead to the provision of new infrastructure and better services. However, the privatisation agenda of the last three decades has resulted in cuts to public services, finalisation of few large scale infrastructure projects and an ongoing budget deficit. The policy objectives set to support the privatisation of public assets have seldom been achieved.

3.3. Governments are attracted to privatisations primarily as a result of the large one off cash benefit. However, the sale (or lease) of public assets must be seen also as a loss of the long term financial and social benefits associated with public ownership, including the payment of yearly dividends.

3.4. The Federal Government’s *Asset Recycling Initiative* seeks to incentivise State Governments to privatise assets by providing an additional financial contribution of

15 per cent of the asset's sale value. The policy initiative emphasises the short term monetary value of privatisation, while overlooking the broader policy implications and long term economic issues. Further, for New South Wales the additional 15 per cent is a small fraction of the overall Goods and Services Tax collected from NSW which is not returned to the State as it is reallocated to subsidies other states.

3.5. The argument for the privatisation of public assets is fundamentally flawed due to the lack of demonstrated service, financial and social benefits. Unions NSW believes it is time Federal and State Government's consider new means by which to fund public services and infrastructure.

4. Funding Public Services and Infrastructure

4.1. NSW's population is growing and also ageing which will provide significant policy and funding issues for the State. While the last several decades have seen the workforce participation rate gradually increasing, the Henry Review has stated this trend is set to reverse; initially stabilising then declining significantly as baby boomers enter retirement[1]. This dramatic workforce change will arguably affect State Governments more than any other, because they are responsible for delivering the vast majority of services with very limited control over adjusting the tax base to fund the delivery of much needed additional services and infrastructure. It will fall to the States to manage a landslide shift in demographics, while simultaneously improving services and quality of life.

4.2. The question is not if Governments will need to increase funding the provision of public services and infrastructure, but rather how they will fund it. There are many funding options available to Government and simply assuming that the selling of public assets is the only way to solve such issues is short sighted and flawed.

4.3. Once a State Government asset is privatised and the initial injection of revenue is spent, shortfalls in funding remain ongoing. A longer term, more stable approach to

[1] *Australia's Future Tax System*, Part One, 2010

funding is needed to manage a responsible expansion of the tax base to fund much needed services and infrastructure.

4.4. The Government's *Asset Recycling Initiative* acknowledges the need for the flow on of more Federal funding to States. However, Unions NSW does not support the approach that the privatisation of assets is the only way in which this can be achieved.

5. Alternate means of revenue raising

5.1. The major methods of funding infrastructure and services include: government debt; taxes; user charges; producer levies; and special purpose vehicles such as privately funded projects[2].

5.2. Unions NSW believes that state infrastructure should be funded by a mix of debt and taxation. Contrary to some political arguments, Australia and NSW's current levels of debt are sustainable. OECD analysis places Australia's rate of government gross financial liabilities as a percentage of GDP as the third lowest when compared to over thirty other economies[3].

5.3. The NSW Government's Triple A credit rating allows it to borrow funds at much lower interest rate than private corporations. This is a further source of revenue which can be used in addition to the other lines of income available to the NSW Government and assists in maintaining publicly owned state infrastructure.

5.4. While levels of Government debt is politically vexed, a rational analysis is that a reasonable and sustainable level of Government debt is both necessary and desirable for continued economic growth for the long-term provision of appropriate

[2] NSW Parliamentary Library Research Service, 2004:3
[3] OECD, Government Debt, www.oecd-library.org/economics/government-debt_gov-debt-table-en

infrastructure.

5.5. Unions NSW does not believe public assets should be privatised in order to simply reduce levels of Government debt. On the contrary, the State Government should continue to leverage sustainable levels of debt in order to fund additional infrastructure.

5.6. Unions NSW believes the NSW Government should advocate a broader discussion of tax reform. There is a distinct imbalance between the revenue that State and Territory Government's receive from the Federal Government and what is required to fund appropriate services and infrastructure. Such a policy discussion must focus not only on means by which to raise more revenue through federal taxation, but also how the Federal Government may more appropriately distribute funds to the States and Territories.

5.7. In increasing tax revenue, Unions NSW notes that the Senate is currently conducting an Inquiry into Corporate Tax Avoidance. Unions NSW believes that the Federal Government can do a lot more to ensure large corporations pay their fair share of tax by closing tax loop holes.

5.8. The Tax Justice Network released a report *Who Pays for Our Common Wealth* in late 2014 outlining the extent of corporate tax avoidance among the ASX 200[4]. The report found that these companies may collectively be avoiding up to $8.4 billion per year in corporate tax, with nearly one-third paying an average effect tax rate of 10% or less. The tightening of tax loop holes for large corporations would assist raise the required revenue for state infrastructure and services.

5.9. The repeal of Minerals Resource Rent Tax signified a missed opportunity for Australia to leverage and protect the value of our natural resources. Unions NSW supports the return of a Federal based tax that taxes significant profit generated from shared

[4] The Tax Justice Network, *Who Pays for Our Common Wealth*, 2014

primary resources.

5.10. The Federal Government should consider the introduction of a financial transactions tax of around 0.05 per cent on institutional trades of currencies, stocks, bonds, derivatives and interest rate securities. This would raise billions of dollars annually. The revenue raised from a financial transactions tax should be channelled directly to State Government's to maintain and improve existing infrastructure and services.

6. Unintended Consequences of Privatisation

6.1. The justification for privatisation is flawed and ignores the broader unintended consequences for communities, workers and consumers. Some of the key impacts include:

6.1.1. Monopolised essential services
6.1.2. Reduced service provision and increased prices;
6.1.3. Job losses in privatised industries;
6.1.4. Reduced conditions of employment for workers moved to the private sector;
6.1.5. Money torn from regional economies;
6.1.6. Negative long term economic consequences.

6.2. Unions NSW believes the negative consequences of privatisation are best demonstrated through two case studies of failed privatisations.

Case Study – Port Macquarie Base Hospital

In July 1991 the NSW Government announced that the new Port Macquarie Base Hospital would be designed, built and administered by a private company. This would be a private hospital that treated public patients.

The experiment of privatising health care was not a successful one and the NSW Government was forced to buy the hospital back (at a significant loss) in 2005.

During its 20 year operation, the State Government paid a monthly 'availability' charge to the hospital, totalling about $243 million, plus capital servicing and other charges. In 1996, after just two years of operating, the Auditor-General claimed 'the government is in effect paying for the hospital twice and giving it away'.

Not only did the economics of the privatised hospital not add up, the services provided to the people of Port Macquarie suffered. The NSW Nurses and Midwives Association note that the hospital was not built to the Australian hospital standards and had smaller rooms, narrower corridors and fixtures that could be removed and used as weapons.

Staffing at the hospital was subjected to cost-cutting. Nurses had their salaries cut and eventually the registered nurses were replaced with enrolled nurses. It was clear to patients, the community of Port Macquarie and the Government that the private owners weren't interested in patient care as much as they were in making profits.

Issues of accountability and transparency also arose in the hospital. The independent board that was set up to oversee the operations of the hospital became more of an advisory committee and community voices were not acknowledged.

In 2005 the hospital was bought back by the Government at the cost of $29 million plus $6 million of employee liabilities.

The original decision of the NSW Government to privatise the Port Macquarie Base hospital was driven by ideology and a belief that it would be more cost effective to the Government. The failed experiment of a privatised Port Macquarie Base Hospital was an example of the quest for 'financial efficiency' clouding the best interests of the NSW people. .

Unions NSW holds grave concerns that the mistakes of Port Macquarie Hospital will be repeated under the NSW Government's plans for the Northern Beaches Hospital to be privately run as a public hospital.

Case Study – Australian Rail Track Corporation

In 2004 the NSW Government privatised the State's freight lines, leasing it to the Australian Rail Track Corporation (ARTC) on a 60 year lease.

The privatisation of the freight lines resulted in 1500 jobs either outsourced or lost all together, with regional NSW disproportionally affected.

When the lease was signed, no clear benchmarks were set around the maintenance and upkeep of the tracks. Nor was there an agreement about the condition the infrastructure had to be in when the 60 year lease expired. The ARTC's maintenance budget was well below the standards set by State Rail and after three years they outsourced maintenance in a contestability model. This resulted unsatisfactory maintenance of the infrastructure which was effectively 'sweated' of its value.

The cost cutting approach to maintenance also had serious implications for safety. The privatisation meant the State Government lost control over its own Transport Policy and had no control of maintenance levels, safety and costs.

As a result of mismanagement and poor maintenance, the Australian Rail Track Corporation lost the contract for the country rail network, which was awarded to a number of other private operators. There is strong anecdotal evidence of significant damage to the asset.