



Community and Public Sector Union

Kay Densley – NT Regional Secretary

19 December 2014

Senate Standing Committees on Economics
PO Box 6100
Parliament House
Canberra ACT 2600

Dear Committee Secretary

Incentives to privatise state or territory assets and recycle the proceeds into new infrastructure

The Community and Public Sector Union (CPSU) is an active and progressive union committed to the promotion of a modern efficient and responsive public sector that delivers quality services and quality jobs. We represent around 55,000 members in the Australian Public Service, ACT Public Service, NT Public Service, ABC and the CSIRO. We also have members in Telstra, commercial television and the telecommunications industry.

The CPSU welcomes this opportunity to make a submission to the inquiry into incentives to privatise state or territory assets and recycle the proceeds into new infrastructure. While the CPSU supports the Commonwealth continuing to fund and work with states to deliver nation-building infrastructure, we are concerned about the economic incentives created by asset recycling to privatise, particularly the impact on the Northern Territory.

The economic incentives to privatise

The premise of asset recycling is that the proceeds of asset sales will be invested in a way that is sustainable in the long-run. The CPSU notes that in almost all instances, it is proposed that income generating assets such as electricity are privatised to pay for assets that do not generate income such as road upgrades. The reduction in long-term income, in exchange for a short-term one-off payment, makes it harder to raise the revenue necessary to sustainably fund additional infrastructure and public services. As economist John Quiggin has suggested, *“this is melting down your tools for scrap and using the money to pay the rent.”*¹

The CPSU is concerned that the asset recycling scheme will result in the privatisation of Northern Territory’s electricity and water utilities. While the NT Government has

¹ John Quiggin, State privatisation schemes a dumb idea, regardless of the spin, Crikey, 6 June 2014, http://www.crikey.com.au/2014/06/06/state-privatisation-schemes-a-dumb-idea-regardless-of-the-spin/?wpmc_tp=0

previously ruled out the sale of the Power and Water Corporation,² it has recently left the door open to privatisation³, and has changed its position on the sale of assets in the past. Specifically, the CPSU notes that Country Liberals previously opposed the sale of the Territory Insurance Office (TIO),⁴ which was sold by the Country Liberals for \$424 million to Allianz and People's Choice Credit Union in November 2014.⁵

The NT Government has already taken actions that suggest it is preparing electricity assets for privatisation. In May 2014, the NT Government separated the Power and Water Corporation into three entities: Jacana Energy, Power and Water Corporation and Territory Generation,⁶ the aim being structural separation and the creation of a contestable market. It has also increased its profitability with Power and Water Corporation generating a \$41 million profit for the Government in 2013, a significant increase on the previous year.⁷

The CPSU notes that other states took similar steps prior to privatisation and many are seeking to take advantage of asset recycling to privatising remaining assets, for example, electricity generators in Queensland and transmission and distribution companies in NSW.⁸

What safeguards would be necessary to ensure any privatisations were in the interests of the state or territory, the Commonwealth and the public?

The CPSU notes the inherent difficulty in combining the sale of public assets with sufficient safeguards to ensure privatisations result in the best outcome for the public. The experience of previous privatisations has been that safeguards are usually removed after a period of time or are toothless. In the current context, the CPSU notes that for the sale of TIO, conditions of sale will expire after three years.⁹

The experience of privatisation in the electricity sector has been a decline in the quality of service and price increases. Real electricity prices in Australia fell markedly from the 1950s until the mid 1990s, following integration and public ownership, to be among the lowest in the world.¹⁰ Following privatisation and introduction of contestability in the 1990s, prices have reversed, and are highest in privatised states.¹¹ Customer dissatisfaction has also risen markedly, profoundly for privatised states, where complaints to the relevant energy ombudsmen have grown from 500 per year to over 50,000.¹²

² Australian Broadcasting Corporation, Treasurer denies plan to privatise Power and Water, 13 August 2013, <http://www.abc.net.au/news/2013-08-12/treasurer-denies-moves-to-privatise-power-and-water/4880448>

³ Zach Hope, CLP leaves door open to privatise Power and Water Corporation, NT News, 22 May 2014, <http://www.ntnews.com.au/news/northern-territory/clp-leaves-door-open-to-privatise-power-and-water-corporation/story-fnk0b1zt-1226926017258>

⁴ Rick Hind, TIO sale to be put to NT Cabinet, Chief Minister Adam Giles says no final decision made, ABC Darwin, <http://www.abc.net.au/news/2014-10-06/tio-sale-to-be-put-to-nt-cabinet/5793226>

⁵ ABC, TIO: Northern Territory Government confirms sale for \$424m after months of speculation, protests and petitions, 25 November 2014, <http://www.abc.net.au/news/2014-11-24/nt-government-confirms-424m-tio-sale/5912838>

⁶ Power and Water Corporation, Structural separation of Power and Water, last viewed 28 November 2014, http://www.powerwater.com.au/about_power_and_water/structural_separation_of_power_and_water

⁷ ABC News, Power and Water split still on despite \$41m profit, 14 February 2014, <http://www.abc.net.au/news/2014-02-14/power-water-profit-report-will-not-change-separation-plans-dave/5260670>

⁸ Mark Ludlow and Geoff Winestock, Power and Water split still on despite \$41m profit, Australian Financial Review, 3 June 2014, http://www.afr.com/p/national/qld_nsw_to_ramp_up_power_sales_vWie2XoQLm8kAGul4Y3XRP

⁹ ABC, TIO: Northern Territory Government confirms sale for \$424m after months of speculation, protests and petitions, 25 November 2014, <http://www.abc.net.au/news/2014-11-24/nt-government-confirms-424m-tio-sale/5912838>

¹⁰ John Quiggin Opinion and Consulting, Electricity Privatisation: A Record of Failure, February 2014, p.5

¹¹ ibid

¹² ibid

History also suggests that for public assets to be attractive to private investors they will either be sold significantly below commercial value or successful bidders will be given a number of concessions that will be at the public's expense. A study comparing the share values post-privatisation to float prices estimated that Commonwealth privatisations alone were \$43 billion undervalued.¹³

Further, no guarantees can ensure that wages and conditions and jobs are protected as privatisation inevitably leads to job losses and undercuts the workforce's pay and conditions in order to increase profitability. Even before it was announced that it would be privately "leased" for 99 years,¹⁴ the Port of Darwin made jobs redundant with little consultation and contrary to the spirit of the Agreement with their workforce.¹⁵ The experience of privatising Darwin Bus in the Northern Territory also demonstrates that pressures on wages and conditions follow privatisation. While Minister for Transport Peter Styles said in December 2013 the Darwin bus service's employees would retain their public sector entitlements under a private model,¹⁶ bus drivers have since lost an agreed entitlement to paid breaks.¹⁷

Should you wish to discuss this submission any further you can contact me

Yours sincerely

Kay Densley
NT Regional Secretary

¹³ Mike Secombe, The troubled campaign to privatise state assets, The Saturday Paper, 4 October 2014, <http://www.thesaturdaypaper.com.au/news/politics/2014/10/04/the-troubled-campaign-privatise-state-assets/14123448001064>

¹⁴ Adam Giles, Growing Territory trade with Asia, 26 November 2014, <http://newsroom.nt.gov.au/#mediaRelease/10277>

¹⁵ Maritime Union of Australia, April 7, 2014,

http://www.mua.org.au/media_release_country_liberals_slash_jobs_at_port_of_darwin

¹⁶ ABC News, Darwin bus service to be sold off but it will be business as usual, says Peter Styles, 6 December 2013, <http://www.abc.net.au/news/2013-12-06/darwin-bus-service-to-be-privatised-announcement-peter-chandler/5140746>

¹⁷ Emilia Terzon, Darwin's bus drivers devastated' by loss of paid lunch breaks, says transport workers union, ABC News, 30 October 2014, <http://www.abc.net.au/news/2014-10-30/bus-drivers-angry-about-unpaid-lunch-breaks/5851536>