

The Hon Tom Koutsantonis MP
Member for West Torrens

Senate Economics
Committee

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Government
of South Australia

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Treasurer
Minister for Finance
Minister for State
Development
Minister for Mineral
Resources and Energy
Minister for Small Business

Dr Kathleen Dermody
The Committee Secretary
Senate Economics References Committee
PO Box 6100
Parliament House
CANBERRA ACT 2600

Dear Dr Dermody

Thank you for the invitation to the Premier of South Australia to provide a submission to the Senate Economic References Committee inquiry on *Privatisation of state and territory assets and new infrastructure*.

As Treasurer of South Australia, I am providing this response on the Premier's behalf.

I would like to comment on the following three issues:

- Fairness of the proposed incentive payment arrangements.
- Linking of asset sales to new infrastructure investment.
- Treatment of incentive payments for Horizontal Fiscal Equalisation (HFE) purposes.

Fairness of the proposed incentive payment arrangements

The objective of the National Partnership on Asset Recycling (Asset Recycling NP) is to *contribute to increased investment in productivity-enhancing infrastructure by encouraging the sale of State-owned assets to unlock funds and recycle the capital into additional infrastructure*.

During the development of the Asset Recycling NP, South Australia raised concerns about the underlying funding framework as it favours states that have not sold major assets in the past (such as electricity generation and distribution assets) and would penalise 'early adopters'.

South Australia would have preferred infrastructure funding arrangements that recognised that some states have already sold most of their major assets and that these states should have equivalent access to Commonwealth funding as those states that are now proposing to sell their assets.



Linking of asset sales to new infrastructure investment

Throughout the development of the infrastructure investment incentive arrangements, South Australia stated that asset divestment decisions should be separate to new asset investment decisions.

Under the provisions of the Asset Recycling NP, Commonwealth funding may be available if a state divests an asset and reinvests the proceeds (or some proportion of the proceeds) into new productivity-enhancing infrastructure.

The Productivity Commission raised concerns about linking asset sale and reinvestment decisions in its Public Infrastructure Inquiry Report (Released July 2014). The Commission concluded that:

On balance, the Commission considers that decisions to privatise a state-owned asset and procure new infrastructure should be separated in time and space. The policy is risky, because it may bypass thorough and transparent analysis. Decisions can be linked to build community confidence for privatisation proposals, but at a minimum, time would need to be allowed to identify the risks.

Governments should avoid creating expectations in the community that privatisation is only good when the proceeds are used for procuring new infrastructure, as this might constrain future governments from optimising their balance sheets in the public interest.

Treatment of incentive payments for HFE purposes

South Australia believes that any Commonwealth funding provided in connection with the recycling of proceeds from the sale of physical assets or government businesses should be fully impacting for HFE purposes.

Each jurisdiction will be in a different place with its asset sales program, with some states having already sold off the bulk of their assets, so normal HFE arrangements should apply.

Asset recycling funding is basically a form of Commonwealth infrastructure funding sourced from a finite infrastructure funding pool.

Under the Asset Recycling NP there is a requirement for the Commonwealth payments to be combined with sales proceeds to fund new infrastructure investment.

Commonwealth incentive funding is essentially infrastructure funding to eligible states with a matching requirement. In this case, the matching requirement is the sales proceeds.

Conceptually, these arrangements are similar in nature to existing infrastructure funding which is generally impacting for HFE purposes.

The directive by the Federal Treasurer (dated 2 October 2014) to quarantine all Asset Recycling funding (up to \$5 billion) undermines HFE equity objectives as it requires the Commonwealth Grants Commission (CGC) to implement a treatment of Commonwealth infrastructure funding that is not consistent with its usual treatment.

Those states with limited or no eligible projects are likely to suffer a disproportionate impact as the pool of funding for infrastructure outside of the incentive scheme is likely to be reduced and whatever residual infrastructure funding they receive would be impacting for HFE purposes.

A more appropriate outcome would be for payments to be assessed on a case-by-case basis in accordance with the prevailing systematic CGC framework for Commonwealth payments.

It should also be noted that there is an historical equity issue that cannot be ignored in this process. States that have received above population share allocations of infrastructure funding in recent years have seen the majority of that funding equalised with other jurisdictions.

Yours sincerely

Hon Tom Koutsantonis MP
Treasurer



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cc: The Premier of South Australia, the Hon Jay Weatherill MP