

The Senate

Economics
References Committee

Privatisation of state and territory assets and
new infrastructure

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PO Box 6100
Parliament House
Canberra ACT 2600

Ph: 02 6277 3540
Fax: 02 6277 5719
E-mail: economics.sen@aph.gov.au
Internet: www.aph.gov.au/senate_economics

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Chapter 1

Introduction and background

1.1 On 30 October 2014, the Senate referred the matter of privatisation of state and territory assets and new infrastructure to the Economics References Committee for inquiry and report by 2 March 2015. On 2 December 2014, the Senate granted an extension to the committee to report by 20 March 2015. In particular, the committee was to examine:

Incentives to privatise state or territory assets and recycle the proceeds into new infrastructure, with particular reference to:

- (a) the role of the Commonwealth in working with states and territories to fund nation-building infrastructure, including
 - (i) the appropriateness of the Commonwealth providing funding, and
 - (ii) the capacity of the Commonwealth to contribute an additional 15 per cent, or alternative amounts, of reinvested sale proceeds;
- (b) the economics of incentives to privatise assets;
- (c) what safeguards would be necessary to ensure any privatisations were in the interests of the state or territory, the Commonwealth and the public;
- (d) the process for evaluating potential projects and for making recommendations about grants payments, including the application of cost-benefit analyses and measurement of productivity and other benefits;
- (e) parliamentary scrutiny;
- (f) alternative mechanisms for funding infrastructure development in states and territories;
- (g) equity impacts between states and territories arising from Commonwealth incentives for future asset sales; and
- (h) any related matter.¹

Conduct of inquiry

1.2 The committee advertised its inquiry on its website and in the *Australian*. The committee also wrote directly to the Commonwealth, state and territory governments and other stakeholders, drawing attention to the inquiry and inviting them to make written submissions.

1.3 The committee received 37 submissions, which are listed at Appendix 1. The committee held public hearings in Darwin on 16 February 2015 and in Sydney on

1 *Journals of the Senate*, No. 63, 30 October 2014, p. 1704; *Journals of the Senate*, No. 72, 2 December 2014, p. 1940.

18 February 2015. The committee thanks all those who assisted with the inquiry, especially those who made written submissions.

Background to inquiry

1.4 The National Commission of Audit report *Towards Responsible Government*, was published in two parts in February and March 2014. The report noted that after privatisation of a number of public assets from 1990 through to 2006, privatisation activity at the federal level has remained largely dormant since this time. In contrast, state and territory privatisation activities have increased since 2006.²

1.5 On 28 March 2014, the Treasurer, the Hon Joe Hockey MP, announced an Asset Recycling Initiative (the Initiative), proposing that the Commonwealth would offer substantial financial incentives to states and territories to sell assets and recycle the proceeds of those sales into new infrastructure. The Initiative would cover transactions negotiated between the states and the Commonwealth until 30 June 2016, and offer incentive payments of 15 per cent of the assessed value of the asset being sold (or leased) through to 30 June 2019.³

1.6 On 2 May 2014 the Commonwealth, states and territories confirmed their commitment to the National Partnership Agreement on Asset Recycling (NPAAR). The NPAAR is intended to:

- assist in addressing state and territory funding constraints that limit their ability to invest in additional economic infrastructure; and
- 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.⁴

1.7 To provide financial assistance to the states and territories, the 2014–15 Federal Budget included an Infrastructure Growth Package and stated an intention to establish an *Asset Recycling Fund* of approximately \$5.9 billion, by combining

2 National Commission of Audit, *Towards Responsible Government*, Phase One, February 2014, p. xiv, 220–221.

3 The Hon Joe Hockey MP, Treasurer, *Treasurers agree to boost infrastructure*, Media release, 28 March 2014.

4 Council of Australia Governments, *National Partnership Agreement on Asset Recycling*, 2 May 2014, p. 2.

uncommitted funds from the *Building Australia Fund*⁵ and the *Education Investment Fund*.⁶ These funds were intended to be available from 1 July 2014.⁷

The Bill and the operation of the Asset Recycling Initiative

1.8 On 29 May 2014 the Asset Recycling Fund Bill 2014 (the Bill) and the Asset Recycling Fund (Consequential Amendments) Bill 2014 were introduced into the House of Representatives to establish an Asset Recycling Fund that would:

- enable grants of financial assistance to be made to the states and territories for expenditure incurred under the National Partnership Agreements on Asset Recycling and Land Transport Infrastructure Projects;
- make infrastructure national partnership grants; and
- enable the making of infrastructure payments.⁸

1.9 The Bill was debated and amended by both the House of Representatives and the Senate. On 17 July 2014 the House of Representatives disagreed with approximately half of the Senate's amendments, including amendments 21, 23, 28 and 31 which would require that Infrastructure Australia evaluate large projects and publicly disclose a cost-benefit analysis under some circumstances. On 18 July 2014 the Senate voted to insist on the amendments. At the time of preparation of this report the Bill remains before the House of Representatives.⁹

1.10 Despite the introduction of the Bill, the committee understands that the Commonwealth may not require legislation to make incentive payments to the states and territories, and that this could be offered under existing legislation. Treasury informed the committee that the Asset Recycling Initiative is able to proceed even if the Bill is not passed:

The Commonwealth is currently able to make the incentive payments to the states and territories under the framework established by the *Federal Financial Relations Act 2009*. This is the same framework for making

5 The *Building Australia Fund* was established in 2009 to to finance capital investment in transport infrastructure (such as roads, rail, urban transport and ports), communications infrastructure (such as broadband), energy infrastructure and water infrastructure; <http://www.finance.gov.au/investment-funds/NBF/BAF.html>, (accessed 5 march 2015).

6 The *Education Investment Fund* was established in 2008 to provide funding for projects that create or develop significant infrastructure in higher education, research and vocational education and training institutions; <https://www.education.gov.au/education-investment-fund>, (accessed 5 march 2015).

7 Australian Government, *Budget 2014–15*, Budget Measure, Budget Paper No. 2, 13 May 2014, p. 114

8 House of Representatives, *Votes and Proceedings*, No. 41, 29 May 2014, p. 515; Asset Recycling Fund Bill 2014, *Explanatory Memorandum*, p. 4.

9 Asset Recycling Fund Bill 2014, http://www.aph.gov.au/Parliamentary_Business/Bills_Legislation/Bills_Search_Results/Result?bld=r5255, (accessed 5 February 2015); Schedule of amendments made by the Senate to which the House of Representatives has disagreed. (accessed 5 February 2015).

payments under other National Partnership Agreements with the states and territories.¹⁰

Operation of the Asset Recycling Initiative

1.11 The committee understands that there is demand for new investment in high-quality infrastructure across Australia¹¹ to support economic growth and create jobs in the short to medium term, and to deliver higher productivity in the longer term.¹²

1.12 The Treasury submission described how the Asset Recycling Initiative would operate. The Commonwealth would make an incentive payment equal to 15 per cent of the proceeds from an asset divestment, only if the state or territory government reinvests these proceeds¹³ and the incentive payment into additional infrastructure.¹⁴

1.13 The Treasury submission also indicated that the terms of each bilateral agreement between the Commonwealth and an individual state or territory is stated in a schedule to the National Partnership Agreement that is made public.¹⁵ Funding to individual states and territories is allocated on a first-come, first-served basis within the following timeframes:¹⁶

- the asset divestment must be completed by, and the construction of the additional infrastructure must commence by 30 June 2019;¹⁷
- once a schedule has been agreed, incentive payments would be made in two instalments subject to satisfying specific agreed criteria; and
- before a state or territory is entitled to an incentive payment, it must report against the specific agreed criteria by providing the Commonwealth with a Statement of Assurance.¹⁸

10 Treasury, *Submission 28*, p. 14.

11 Infrastructure is the basic physical and organisation structures and facilities needed for the operation of a society or enterprise. It includes roads, bridges, tunnels, water systems, sewers, electricity grids, telecommunication systems, <http://www.oxforddictionaries.com/definition/english/infrastructure>, (accessed 6 March 2015).

12 Department of Infrastructure and Regional Development, *The Asset Recycling Initiative*, http://investment.infrastructure.gov.au/publications/reports/pdf/factsheets2014/Factsheet_The_Asset_Recycling_Initiative.pdf, (accessed 5 March 2015).

13 Treasury, *Submission 28*, p. 13; Council of Australia Governments, *National Partnership Agreement on Asset Recycling*, 2 May 2014, Clause 19.

14 Treasury, *Submission 28*, p. 13; Council of Australia Governments, *National Partnership Agreement on Asset Recycling*, 2 May 2014, Clauses 18, 19.

15 Treasury, *Submission 28*, p. 13; Council of Australia Governments, *National Partnership Agreement on Asset Recycling*, 2 May 2014, Clause 22.

16 Treasury, *Submission 28*, p. 13; Council of Australia Governments, *National Partnership Agreement on Asset Recycling*, 2 May 2014, Clause 15.

17 Treasury, *Submission 28*, p. 13; Council of Australia Governments, *National Partnership Agreement on Asset Recycling*, 2 May 2014, Clause 15.

1.14 If a state or territory does not proceed with the divestment of an asset or the construction of additional infrastructure in accordance with the terms of the bilateral agreement, the state or territory would be required to repay incentive payments it has received. In such circumstances, the funds may be reallocated to other projects under the National Partnership Agreement.¹⁹

Productivity Commission inquiry into Public Infrastructure

1.15 The Productivity Commission inquiry into Public Infrastructure was initiated on 13 November 2013 and was tasked with:

- investigating costs, competitiveness and productivity in the provision of nationally significant economic infrastructure;
- examining ways to address any barriers to private sector financing, including assessing the role and efficacy of alternative infrastructure funding and financing mechanisms; and
- recommending mechanisms and operating principles to overcome such barriers and reduce infrastructure construction costs.²⁰

1.16 The Public Infrastructure inquiry ran for six months, receiving over 200 submissions, and taking evidence from over 40 witnesses and making more than 30 findings and recommendations. The final report of the inquiry was completed on 27 May 2014 and published on 14 July 2014.

1.17 In November 2014 the government responded to the report's recommendations, noting that the findings covered five themes:

- reforms to **institutional and governance arrangements**, including greater transparency of the economic assessment of public infrastructure proposals and tying Commonwealth funding to the implementation of good governance principles;
- **improvements to** project planning and prioritisation;
- governments to consider various **public and private financing models**, including broader application of 'user charging' for infrastructure services and new models of road infrastructure project selection and funding;
- **improvements to** project delivery in order to reduce costs; and
- achieving more productive **labour and construction markets** through reforms, including reforms similar to those underway by the Commonwealth

18 Treasury, *Submission 28*, p. 14; Council of Australia Governments, *National Partnership Agreement on Asset Recycling*, 2 May 2014, Clause 32.

19 Treasury, *Submission 28*, p. 14; Council of Australia Governments, *National Partnership Agreement on Asset Recycling*, 2 May 2014, Clause 23.

20 Productivity Commission, *Public Infrastructure*, Inquiry report, No. 71, 27 May 2014, p. v.

to review the industrial relations and occupational health and safety accreditation schemes.²¹

1.18 The Productivity Commission indicated that it was important to reform governance and institutional arrangements for public infrastructure to promote better decision making in project selection, funding, financing and the delivery of services from new and existing infrastructure.²²

1.19 The Productivity Commission also noted that private sector involvement in infrastructure development and/or financing would only deliver efficiency gains with careful planning and implementation – it is not a ‘magic pudding’. Government guarantees and tax concessions would still involve both risks and costs, and ultimately, it is the users and/or taxpayers who will absorb these.²³

1.20 The Productivity Commission inquiry into Public Infrastructure recommended that privatisation should be subject to appropriate procedural scrutiny to ensure that the public interest is protected through structural separation, regulation, sale conditions and ‘community service obligations’.²⁴ The inquiry also recommended that Commonwealth financial assistance to states and territories should only be provided where there is clear evidence of a net public benefit from the project that would otherwise not be obtainable without Australian Government support.²⁵

1.21 The committee considers that the Productivity Commission report identifies very important issues that should guide any future assistance to states and territories seeking to divest public assets.

21 Productivity Commission Inquiry report into *Public Infrastructure, Government Response*, November 2014,

22 Productivity Commission, *Public Infrastructure*, Inquiry report, No. 71, 27 May 2014, p. 2.

23 Productivity Commission, *Public Infrastructure*, Inquiry report, No. 71, 27 May 2014, p. 2.

24 Community service obligations are common and exist for a number of utilities, including current and former government business enterprises. For example, Australia Post has statutory community service obligations as part of its customer service charter, which require it to provide an accessible letter service at a single uniform rate within Australia for standard letters, <http://auspost.com.au/about-us/customer-service-charter.html>, (accessed 16 March 2015).

25 Productivity Commission, *Public Infrastructure*, Inquiry report, No. 71, 27 May 2014, p. 40.

Chapter 2

Linking infrastructure funding to privatisation

2.1 During this inquiry the committee focussed its attention on the link between infrastructure funding and privatisation under the Asset Recycling Initiative, which provides states and territories with financial incentives if they sell assets and recycle the capital into additional infrastructure.¹

2.2 While the committee was aware of some support for the Asset Recycling Initiative,² the majority of submitters and witnesses identified a range of concerns and did not support the Initiative. This chapter discusses the issues that may arise from binding infrastructure funding to privatisation under the Asset Recycling Initiative, with a specific focus on the:

- potential distortion of state and territory decisions on privatisation and infrastructure funding;
- possibility that privatisation decisions will be rushed, leading to poor processes, poor consultation and poor regulatory safeguards; and
- potential unfairness and inequity between the states and territories.

Distortion of decisions

2.3 The committee has considered evidence that binding infrastructure funding with privatisation has the potential to distort state and territory decisions on privatisation and infrastructure funding. The potentially undesirable outcomes of this distortion may include:

- privatisation of assets that would not otherwise be privatised;
- negative impact on states and territory revenues by selling revenue earning assets to purchase loss making infrastructure; and
- distorting the consideration of a range of more appropriate infrastructure funding mechanisms by states and territories.

1 Department of Infrastructure and Regional Development, *The Asset Recycling Initiative*, http://investment.infrastructure.gov.au/publications/reports/pdf/factsheets2014/Factsheet_The_Asset_Recycling_Initiative.pdf, (accessed 3 March 2014).

2 Australia Logistics Council, *Submission 12*, pp 4–6; Australian Chamber of Commerce and Industry, *Submission 13*, p. 7; Association of Superannuation Funds of Australia, *Submission 11*, p. 2.

Distortion of privatisation decisions

2.4 Economist Mr Stephen Koukoulas informed the committee that in his view, the Asset Recycling Initiative introduces a market distortion that could lead to poor privatisation decisions:

...it is interesting that none of these assets have been sold until this bonus, or incentive...has been offered. Presumably all of a sudden these assets are not more valuable—arguably, in a low inflation environment with a very subdued rate of economic growth, they are worth less today than they were some time ago.

...if anybody offered me 15 per cent more for anything, I would be very tempted to sell it whether I wanted to or not because I know I would be able to do something else with the money.³

2.5 Professor John Quiggin informed the committee that the Asset Recycling Initiative could distort both privatisation decisions and infrastructure investment decisions:

The implication is that that (a) privatisation decision must be marginal. Obviously, if we were in a situation where state government had an asset which it held as a substantial premium product it would not need the subsidy program to make that decision. So, what we are seeing, as with most subsidies, is bad decisions. In this case, bad privatisation decisions are being encouraged by the presence of the subsidy. The fact that you cannot get it for a privatisation that makes such strong economic sense and for which you do not need the subsidy is an indication of exactly how things are being distorted on both sides of the decision. Regarding both the assets originally for sale and secondary investments, this program distorts both of those decisions.⁴

2.6 Mr Mark Lennon, Secretary of Unions NSW and Mr Adam Kerslake, of the 'Stop the Sell Off' campaign supported the view that the Asset Recycling Initiative was distorting the market.⁵ Professor Quiggin asserted that policy should be based on cost-benefit analysis of projects and should not be driven by the Asset Recycling Initiative.⁶

3 Mr Stephen Koukoulas, Managing Director, Market Economics, *Committee Hansard*, 18 February 2015, p. 9.

4 Professor John Quiggin, *Committee Hansard*, 18 February 2015, p. 23.

5 Mr Mark Lennon, Secretary of Unions NSW, *Committee Hansard*, 18 February 2015, p. 32; Mr Adam Kerslake, Director, Stop the Sell Off campaign, *Committee Hansard*, 18 February 2015, p. 35.

6 Professor John Quiggin, Australian Research Council Laureate Fellow, University of Queensland, *Committee Hansard*, 18 February 2015, p. 23.

2.7 The distorting effect of the Asset Recycling Initiative was confirmed by the Treasury submission which indicates that states and territories are required to show that the decision to divest an asset must have been significantly influenced by the Initiative in order to qualify for incentive payments.⁷

2.8 In its May 2014 report on Public Infrastructure, the Productivity Commission offered this blunt comment on binding privatisation with new infrastructure projects through capital recycling:

Privatisation has been raised by participants in this inquiry mainly in the context of ‘capital recycling’ — that is, selling existing infrastructure assets and using the proceeds to finance new infrastructure projects. The Commission’s view is that privatisation should only occur when it is in the community’s interests in its own right, as a tool to improve efficiency. What is done with the proceeds is essentially a separate issue. Linking the two issues through capital recycling may help to build community support for privatisation, but there are also risks.⁸

2.9 The Productivity Commission also confirmed that one of the greatest risks from the capital recycling model is the potential for it to distort infrastructure funding decisions. The Productivity Commission argued that:

...an arrangement where the proceeds of sale are automatically hypothecated to investment in new infrastructure projects may create risks for over-investment in new greenfields infrastructure which, by its nature, typically involves significant risks in the early construction and operational phases.⁹

2.10 Another problem with capital recycling identified by the Productivity Commission is that it could possibly create a public perception that the only time an asset should be privatised is if there is some new infrastructure project in which to invest.¹⁰

Compensation for tax equivalent payments

2.11 The Water Services Association of Australia noted that corporatised government owned businesses contribute two revenue streams to state and territory governments. The first revenue stream that state and territory governments receive is dividends from the profits made by the business. The second revenue stream is the tax equivalent payments under the National Tax Equivalence Regime, which are the income tax payments that an equivalent private company would pay to the Commonwealth government. If such a corporatised entity or its assets are sold by a

7 Treasury, *Submission 28*, p. 15.

8 Productivity Commission, *Public Infrastructure*, Inquiry report, No. 71, May 2014, p. 88.

9 Productivity Commission, *Public Infrastructure*, Inquiry report, No. 71, May 2014, p. 262.

10 Productivity Commission, *Public Infrastructure*, Inquiry report, No. 71, May 2014, p. 262.

state or territory government, that government will no longer receive either revenue stream.¹¹

2.12 The committee heard evidence that the Initiative could be considered as a way of compensating states and territories for the possible loss of revenues from tax equivalent payments.¹² This was dismissed by Treasury, with Mr Chris Legg stating that the 15 per cent payment 'is an incentive, and that is all it is. It is a figure that emerged from negotiations with the states. It is high enough to be seen as meaningful to them and low enough for us to see it as an economical way of achieving the desired outcome.'¹³

2.13 However the Productivity Commission questioned whether there was a need to offer any incentives at all to the states and territories:

Whether the State and Territory Governments have a financial disincentive to privatise their infrastructure assets that needs to be compensated by the Australian Government is debatable. Several factors, such as dividend imputation and productivity gains from privatisation could offset the loss of notional income tax payments. Specifically, if dividend imputation is complete and the purchaser of the enterprise can obtain full compensation of company tax through franking credits, a State Government would not lose from privatisation. Furthermore, if the purchaser is able to operate the enterprise more productively, the price they pay would reflect some of that gain. The State Government would then receive a premium over the (capitalised) revenue stream that would have vested with the government, if the asset stayed in public hands.¹⁴

Impact on revenues

2.14 This section discusses the committee's consideration of concerns raised about the potential impact of the Asset Recycling Initiative on revenues to governments that decide to sell income-generating assets to fund infrastructure that will *not* generate income.¹⁵

2.15 Asset recycling could involve using proceeds from the sale of existing income generating assets to fund new income generating infrastructure. However, it is entirely possible that a state or territory could divest itself of a revenue generating asset and use the proceeds on activities that do not generate income. Professor John Quiggin advised the committee that:

11 Water Services Association of Australia, *Submission 10*, p. 4.

12 Water Service Association of Australia, *Submission 10*, p. 5; Association of Superannuation Funds of Australia, *Submission 11*, p. 2.

13 Mr Chris Legg, Chief Adviser, Industries and Infrastructure Division, Department of the Treasury, *Committee Hansard*, 20 February 2015, p. 42.

14 Productivity Commission, *Public Infrastructure*, Inquiry report, No. 71, May 2014, p. 263.

15 Community and Public Sector Union, *Submission 2*, p. 1; Stop the Sell Off, *Submission 23*, p. 2.

Income-generating assets are valuable precisely because they generate income. Selling the assets and spending the proceeds on current or capital items that generate no flow of income, and cannot be justified by ordinary cost-benefit analysis is not, in any meaningful sense, recycling.¹⁶

2.16 The Community and Public Sector Union (CPSU) and representatives from the ‘Stop the Sell Off’ campaign raised concerns that if income generating assets such as electricity networks are sold and the proceeds are used to fund non-income generating assets such as roads, the reduction in long-term income will make it harder to raise the revenue necessary to sustainably fund additional infrastructure and public services in the future.¹⁷

2.17 The committee understands that the NSW government is proposing to sell the state’s electricity transmission and distribution assets. The McKell Institute report notes that these make significant, stable, and low-risk contributions to annual state revenues:

The \$1.7B that the NSW Government earned from the network last year was equal to over 25% of payroll tax, 30% of transfer duties, and nearly 90% of taxes on gambling and betting.¹⁸

2.18 The committee does not intend to conduct a financial analysis of the proposed sale of 49 per cent the NSW electricity transmission networks. However, the committee notes that the predicted sale price of \$20B proposed by the NSW government has been questioned by experts who have suggested that a more likely value for the transaction is \$11B.¹⁹

2.19 Submitters and witnesses noted that federal, state and territory governments are presently operating under significant fiscal constraints.²⁰

2.20 Mr Koukoulas advised the committee that in his view, retaining income generating assets can make an important contribution to government budgets:

...you do run into the problem that, having had a look at the score sheet of asset sales over the last 20-something years... You can only sell these assets once, of course, and in the meantime you have got to rely on other sources

16 Professor John Quiggin, *Submission 21*, p. 8.

17 Community and Public Sector Union, *Submission 2*, p. 1; Stop the Sell Off, *Submission 23*, p. 2.

18 Stephen Koukoulas and Thomas Devlin, The McKell Institute, *Nothing to gain, plenty to lose: Why the government, households and businesses could end up paying a high price for electricity privatisation*, December 2014, p. 6.

19 Stephen Koukoulas and Thomas Devlin, The McKell Institute, *Nothing to gain, plenty to lose: Why the government, households and businesses could end up paying a high price for electricity privatisation*, December 2014, pp 16, 54.

20 Australian Chamber of Commerce and Industry, *Submission 13*, p. 8; Australian Services Union, *Submission 15*, p. 5; Business Council of Australia, *Submission 22*, p. 3; Mr Chris Legg, Chief Adviser, Industries and Infrastructure Division, Department of the Treasury, *Committee Hansard*, 18 February 2015, p. 43.

of revenue. Again, this has arguably been the problem over the last five to 10 years. We are having a debate about, dare I say it, the GST, Medicare co-payments and all these things that are designed to get towards a balanced budget, because there is nothing much else that is generating the revenue. It is a bit more complex than that, but that is the broad sense of it. So we do need some income generating assets for the government sector to be able to get close to balancing its budget.²¹

2.21 The Productivity Commission noted that the net impact of capital recycling on the government's balance sheet remains unclear, and may even create additional long term liabilities:

In effect, a government would be swapping ownership of a mature asset (with known demand and cost characteristics), with ownership of a new (and potentially more risky) greenfields asset (with often unknown demand and cost characteristics). While government is receiving revenue from the asset sale and avoiding future liabilities (including any contingent liabilities), it would also lose access to the future revenue stream from that asset (be it from dividends or otherwise) and be exposed to a new set of assets and liabilities with less reliable estimates of dividends and other revenue.

Ultimately, poorly conceived decisions to link asset sales to new infrastructure investments could in fact have a negative future balance sheet impact and create long term additional liabilities for government.²²

Greenfield versus brownfield assets

2.22 Some submitters argued in favour of the Asset Recycling Initiative on the basis that while government is often better placed to manage the demand risks associated with the early stages of greenfield projects, the private sector is often better placed to efficiently operate brownfield²³ assets that have a steady revenue stream.²⁴ The implication of the above being that mature brownfield assets should be sold and the money invested into new greenfield infrastructure.

2.23 In his submission to the Productivity Commission inquiry into Public Infrastructure, Professor Henry Ergas argued that the same factors that lead to private investors being risk averse towards major new projects with substantial cost and demand uncertainty should also lead the public sector to be wary of those projects.

21 Mr Stephen Koukoulas, Managing Director, Market Economics, *Committee Hansard*, 18 February 2015, p. 12.

22 Productivity Commission, *Public Infrastructure*, Inquiry report, No. 71, May 2014, p. 264.

23 A 'brownfield' investment opportunity is one that involves the sale or re-development of an asset which already has an operating history. This is in contrast to a 'greenfield' project, which involves the development of a new project without an operating history and which typically also involves construction risk, <http://www.herbertsmithfreehills.com/insights/legal-briefings/new-or-recycled-predicting-the-pipeline-of-super-investment-in-infrastructure>, (accessed 11 March 2015).

24 Business Council of Australia, *Submission 22*, p. 3; Treasury, *Submission 28*, p. 10.

In short, ‘asset recycling’ should not be used as an excuse to inefficiently shift risk on to taxpayers. If projects are inherently risky – because their cost and demand characteristics are uncertain in ways that cannot be hedged through diversification, and/or their likely net returns fluctuate with aggregate incomes – then transferring their funding to the public sector cannot in itself eliminate that risk or reduce its costs. That makes it all the more important to ensure proper project evaluation, along with the other safeguards discussed above.²⁵

Alternative funding mechanisms

2.24 The committee considered evidence on whether binding privatisation with infrastructure funding may distort the way states and territories consider other forms of funding including taxes, borrowing, user charges, and Commonwealth grants.

2.25 Mr Koukoulas made the following observations, questioning the appropriateness of binding infrastructure funding with privatisation under the Asset Recycling Initiative:

- if the private sector thought it was profitable within the existing regulatory environment for them to build infrastructure, they would do it; and
- if it is worthwhile undertaking public infrastructure spending, it should be done regardless of whether there is asset recycling or whether interest rates are high or low; it should be based on need and not any other incentive.²⁶

2.26 The Productivity Commission noted that a further potential risk is that the availability of funds from privatisation may mute or distort the incentives for state governments to properly consider how user charges could be used to fund new infrastructure. It also noted that capital recycling could prevent funds from being directed to higher value uses, which may not necessarily be new infrastructure investment.²⁷

2.27 Many witnesses noted that public sector debt is currently relatively inexpensive and suggested that governments should take advantage of current low borrowing rates for infrastructure funding.²⁸ In his submission to the Productivity Commission inquiry into Public Infrastructure, Professor Henry Ergas argued that the public sector cost of debt does not reflect the cost to tax payers of making funding available:

...current bond rates do not reflect an unusually low social cost of risk but rather the opposite: individual savers demand a higher than usual premium

25 Professor Henry Ergas, Productivity Commission *Public Infrastructure* inquiry, *Submission 87*, p. 17.

26 Mr Stephen Koukoulas, Managing Director, Market Economics, *Committee Hansard*, 18 February 2015, pp 8–11.

27 Productivity Commission, *Public Infrastructure*, Inquiry report, No. 71, May 2014, p. 262.

28 Mr David Richardson, Senior Research Fellow, The Australia Institute, *Committee Hansard*, 18 February 2015, p. 5; Mr Stephen Koukoulas, Managing Director, Market Economics, *Committee Hansard*, 18 February 2015, p. 11.

to bear risk. There is no reason to believe taxpayers differ from savers in that respect.²⁹

...it is the cost to taxpayers of making funding available, not the public sector cost of debt, that must be used. That cost to taxpayers is unlikely to be below the private sector cost of capital, except where the public sector has access to risk-pooling opportunities unavailable to the private sector. Moreover, because taxes distort economic activity, the cost of those distortions must be fully accounted for in assessing the projects that are being considered for funding.³⁰

Rushed privatisation

2.28 This section discusses the committee's consideration of the potential for binding infrastructure funding and privatisation to create incentives to needlessly rush decisions without establishing appropriate corporate structures, safeguards and regulatory arrangements, or undertaking public consultation or cost-benefit analysis.

2.29 In its inquiry into Public Infrastructure the Productivity Commission commented on Australia's experience with privatisation. These comments highlight some of the important steps for privatisation to be successful:

As in many countries, Australia's experience with privatisation has been mixed. A key lesson is that the structure of the industry and relevant markets should be well defined prior to any privatisation, and the method chosen to privatise assets should be designed to maximise net benefits to the community. Practices designed to reach inflated sale prices are rarely successful, can disadvantage further efforts at privatisation and lead to an overall net cost to the community over the long term.³¹

Above all, privatisation should be undertaken not for its own sake, but to achieve a more efficient outcome for the community at large.³²

29 Professor Henry Ergas, Productivity Commission *Public Infrastructure* inquiry, *Submission 87*, p. 17.

30 Professor Henry Ergas, Productivity Commission *Public Infrastructure* inquiry, *Submission 87*, p. 17.

31 Productivity Commission, *Public Infrastructure*, Inquiry report, No. 71, May 2014, p. 63.

32 Productivity Commission, *Public Infrastructure*, Inquiry report, No. 71, May 2014, p. 64.

Consultation and public disclosure

2.30 A common concern identified by many submitters and witnesses was the lack of public disclosure of the benefits and costs of privatisation, including transaction costs, retained liabilities and regulatory costs associated with privatisation.³³

2.31 In the Northern Territory, the committee repeatedly heard concerns about a lack of public consultation in relation to the privatisation of the Territory Insurance Office (TIO) and other assets in the Northern Territory.³⁴ The Northern Territory opposition raised concerns about privatisation of assets being rushed and the lack of public debate that occurred about the sale when compared to other jurisdictions.³⁵

2.32 The Hon Delia Lawrie MLA asserted that TIO was sold without public consultation on the merits of the sale and with a lack of real scrutiny.³⁶ United Voice NT raised related concerns in its submission.³⁷ Independent MLA Mr Gerry Wood informed the committee that:

In the Territory, unfortunately, I think the big issue in relation to the sale of assets has been (1) the lack of consultation with the people and (2) the lack of consultation even with parliament. A classic example would be the recent sale of TIO.

...the real issue was that the government did not take the issue to the people to put their case in an open way so people could at least hear the arguments for it.³⁸

2.33 Officials from the Northern Territory government did provide evidence of some recent attempts at public consultation,³⁹ but the committee notes that this may not have provided the community with an adequate level of information, or enough time to consider a response.

2.34 The Transport Workers Union also identified concerns regarding the lack of consultation around the sale of the Darwin bus service:

This decision was made on the last day of parliamentary sittings, and was therefore met with limited parliamentary scrutiny. Public transport plays a

33 Mr Peter Emery, *Submission 14*, P. 5; Emeritus Professor Bob Walker and Dr Betty Con Walker, *Submission 30*, p. 8; Australian Workers Union, *Submission 32*, p. 7.

34 Northern Territory Opposition, *Submission 33*, p. 1; United Voice NT, *Submission 27*, p. 2. Ms Kay Densley, Northern Territory Regional Director, Community and Public Sector Union, *Committee Hansard*, 16 February 2015, p. 11.

35 Northern Territory Opposition, *Submission 33*, pp 1–2.

36 The Hon Delia Lawrie MLA, Leader of the Opposition in the Northern Territory, *Committee Hansard*, 16 February 2015, p. 1.

37 United Voice NT, *Submission 27*, p. 2.

38 Mr Gerry Wood MLA, Northern Territory Parliament, *Committee Hansard*, 16 February 2015, p. 37.

39 Mr Richard Harding, Former CEO, Territory Insurance Office, *Committee Hansard*, 16 February 2015, p. 50.

critical role in Northern Territory life. Every day, members of our community rely solely on a safe, cost-effective and efficient public transport system. There was no pre-election commitment to privatise the Darwin bus service. There was no meaningful consultation with the community, the union or employees over the decision to privatise the Darwin bus service.⁴⁰

2.35 Similar concerns have been raised about public consultation in relation to the proposed leasing of the Darwin Port.⁴¹ The committee notes that a Northern Territory parliamentary committee was established in relation to the leasing of the Darwin Port.⁴²

Disclosure of transaction and regulatory costs of privatisation

2.36 The committee heard concerns relating to the disclosure of transaction and regulatory costs associated with privatisation. Mr Peter Emery submitted that in his view, transparency around the sale of state owned assets in South Australia had been insufficient to allow the community to make informed decisions about whether the privatisation was beneficial. He submitted that the degree of disclosure and detail of financial analysis and transactions entered into between the South Australian government, intermediaries and the buyers of assets had been very low, and that there was no significant detail on the public record.⁴³

2.37 Some submitters raised concerns about the possible lack of disclosure of liabilities that are retained by governments when assets are privatised. Emeritus Professor Bob Walker and Dr Betty Con Walker submitted that in their view, the privatisation of the State Bank of NSW in 1995 did not properly account for risks relating to bad debts that were retained by the NSW government.⁴⁴ The NSW Greens submitted that in their view, lack of disclosure of liabilities associated with the 50 year lease of the NSW desalination plant did not permit an open public debate on the lease.⁴⁵

2.38 Other potential costs are feasibility or scoping studies, cost-benefit analyses, corporate restructuring, and the structural separation of monopoly and competitive elements. Emeritus Professor Walker informed the committee that he estimates transactions costs are approximately six per cent of the transaction value, without including the cost of feasibility studies.⁴⁶

40 Ms Elise McLay, Northern Territory Organiser, Transport Workers Union, *Committee Hansard*, 16 February 2015, p. 11.

41 Northern Territory Opposition, *Submission 33*, p. 2.

42 Mr Gary Barnes, Coordinator-General of Major Projects and Investments, Northern Territory Government, *Committee Hansard*, 16 February 2015, p. 46.

43 Mr Peter Emery, *Submission 14*, p. 5.

44 Emeritus Professor Bob Walker and Dr Betty Con Walker, *Submission 30*, p. 13.

45 NSW Greens, *Submission 34*, pp 5–6.

46 Emeritus Professor Bob Walker, private capacity, *Committee Hansard*, 18 February 2015, p. 14.

2.39 The Northern Territory government noted that for relatively small projects, such as those that are likely to occur in less developed or regional and remote areas of Australia, a substantial amount of the Commonwealth contribution under the Assets Recycling Initiative would be likely to be consumed by the transaction costs associated with the privatisation process.⁴⁷

2.40 Some submitters suggested the cost of regulating privatised functions should be included when assessing the total costs of a privatisation. These costs could include the cost of establishing a relevant regulatory body, as well as the costs of compliance for the private entities involved. Mr David Richardson informed the committee that:

...you are also going to need a good regulatory environment. That is a costly thing. If you look at Telstra, for example, the Commonwealth sold that but had already corporatised it and, having corporatised it, you then need to set up a regulatory structure. So now you have the position where you have an army of people in the ACCC regulating Telstra and you have an army of people in Telstra providing information to the ACCC. This is a crazy resource cost that is usually not factored in. In each state you have a similar thing. Now that the electricity authorities have been corporatised, we have a bureaucracy that monitors those state authorities, and they employ a significant number of people putting together facts and figures to satisfy the regulators.⁴⁸

2.41 In its report on Public Infrastructure the Productivity Commission noted that private sector involvement in infrastructure development and/or financing would only deliver efficiency gains with careful planning and implementation. Government guarantees and tax concessions still involve both risks and costs, and ultimately, it is the users and/or taxpayers who will absorb these.⁴⁹ The transition to privatisation involves a range of activities, including effective communication with the community, which requires careful management and leadership.⁵⁰

The value of future earnings

2.42 Submitters raised concerns about the disclosure of discount rates used to estimate the value of future earnings.⁵¹ The value of the potential sale relative to the future earnings of the entity to be privatised is an important consideration. The sale and the future earnings will happen in different timeframes, and adjustments should evaluate the possible changing value over time:

This involves forecasting the future cash profits a business will generate, and discounting these back to the present day at the Weighted Average Cost

47 Northern Territory Government, *Submission 31*, p. 2.

48 Mr David Richardson, Senior Research Fellow, The Australia Institute, *Committee Hansard*, 18 February 2015, pp 3–4.

49 Productivity Commission, *Public Infrastructure*, Inquiry report, No. 71, 27 May 2014, p. 2.

50 Productivity Commission, *Public Infrastructure*, Inquiry report, No. 71, May 2014, p. 2, 89.

51 Mr Peter Emery, *Submission 14*, P. 6; Emeritus Professor Bob Walker and Dr Betty Con Walker, *Submission 30*, pp 13–14;

of Capital. The cash flows are discounted to reflect the time value of money, where \$1 today is worth more than \$1 tomorrow due to the returns that could be made by investing the \$1.⁵²

2.43 Emeritus Professor Bob Walker and Dr Betty Con Walker submitted that in their view, the privatisation of the State Bank of NSW in 1995 led to a poor financial outcome for the State of NSW, with the sale price being a fraction of what the bank was worth. Central to this concern was the very high 18.9 per cent discount rate used.⁵³

Committee comment

2.44 The committee is concerned about the possibility that incentives under the Asset Recycling Initiative may encourage privatisation without effective public consultation and communication strategies, and without appropriate consideration or analysis of future costs. The committee strongly encourages governments to conduct proper, rigorous analysis of the all current and future costs associated with privatisation projects. In addition, thorough and appropriate public consultation should be always be undertaken, including consultation around transactions costs and the cost of creating an appropriate regulatory environment and compliance with those arrangements.

Recommendation 1

2.45 The committee recommends that proper and rigorous analysis of total costs associated with privatisation projects be conducted when privatisation is proposed by governments at any level. In addition, appropriate public consultation should be undertaken, including consultation around transactions costs and the cost of creating an appropriate regulatory environment and compliance with those arrangements.

52 Stephen Koukoulas and Thomas Devlin, The McKell Institute, *Nothing to gain, plenty to lose: Why the government, households and businesses could end up paying a high price for electricity privatisation*, December 2014, p. 53.

53 Emeritus Professor Bob Walker and Dr Betty Con Walker, *Submission 30*, pp 12, 13–14.

Public safeguards and the regulatory environment

2.46 This section addresses concerns raised about public safeguards and regulatory arrangements.⁵⁴ Submitters and witnesses identified the importance of ensuring that these were put in place before privatisation occurred, particularly in relation to natural monopolies.⁵⁵

2.47 The Australian Competition and Consumer Commission (ACCC) indicated that the benefits of privatisation could be at risk if actions to maximise the sale price limit competition or inhibit appropriate regulation. These concerns are increased where, in the case of the Asset Recycling Initiative, the Commonwealth proposes to provide incentive payments of 15 per cent of the sale proceeds.⁵⁶ The ACCC indicated that:

- it is important not only for competition reasons but also important for bidders in terms of ensuring certainty about the regulatory regime when they bid in the sale process; and
- not having a mechanism that ensures appropriate up-front regulatory arrangements are reached may be distorting incentives.⁵⁷

2.48 The ACCC had previously raised concerns in its June 2014 submission to the government's competition policy review noting Australian governments are focusing on short term budget goals without sufficient regard to longer term competition. The ACCC indicated that anti-competitive provisions have been included in contracts between the states and potential acquirers that effectively impose a tax on future generations and hinder Australia's competitiveness in the global market.⁵⁸

2.49 To highlight these concerns the ACCC provided the committee with the example of the right of first refusal that was provided to the acquirer of Sydney Airport to operate a second airport:

The right of first refusal, along with certain provisions of the *Airports Act 1996*, confers on the operator of Sydney Airport a potential monopoly over the supply of aeronautical services for international and most domestic flights in the Sydney Basin, with the real prospect that the potential for competition between Sydney Airport and an independent operator of a

54 Emeritus Professor Bob Walker, Private Capacity, *Committee Hansard*, 18 February 2015, p. 14; ACCC, *Submission 8*, p. 3; Community and Public Sector Union, *Submission 2*, p. 2; Australian Services Union, *Submission 15*, pp 24–25; Business Council of Australia, *Submission 22*, pp 8–9; Maritime Union of Australia, *Submission 36*, pp 28–29; Dr Penny Howard, National Research Officer, National Office, Maritime Union of Australia, *Committee Hansard*, 18 February 2015, p. 37.

55 ACCC, *Submission 8*, p. 3; Australian Sugar Industry Alliance, *Submission 18*, p. 1; Northern Territory Government, *Submission 31*, p. 3.

56 ACCC, *Submission 8*, p. 3.

57 Mr Michael Cosgrave, Executive General Manager, Infrastructure Regulation Division, Australian Competition and Consumer Commission, *Committee Hansard*, p. 44.

58 ACCC, *Submission 8*, pp 5–6.

second airport will be foreclosed. Indeed, the National Audit Office has found that the sale price for Sydney Airport was higher than a number of possible valuation benchmarks, including the government's own estimate of the sale price in the 2001-02 budget.⁵⁹

2.50 The ACCC went on to recommend that:

...the Commonwealth require the states and territories to demonstrate that appropriate market structure and/or access and pricing arrangements have been put in place as part of the privatisation process, and link this requirement to any payments made under the Commonwealth Government's proposed incentive scheme for privatisations (the Asset Recycling Initiative).⁶⁰

2.51 This view was confirmed by the Productivity Commission, who emphasised the importance of addressing structural arrangements and regulation prior to privatisation, including separating natural monopoly components from competitive components. The Productivity Commission noted that:

Structural separation can bring benefits because it can make it easier to achieve effective competition in those components where competition is possible. This is because a vertically-integrated firm with a monopoly over network infrastructure has an incentive to discriminate against competing firms that need to access this infrastructure. Regulating against such discrimination, for example in the telecommunications sector, can be difficult.⁶¹

2.52 The Productivity Commission also suggested that the highest priority for the sale of government owned assets is not to secure the highest price, but to first ensure that:

- economic efficiency is achieved;
- the risks to consumers and other public interests are managed;
- the market structure is amenable to the privatisation; and
- the sale is conducted efficiently, ethically and transparently.⁶²

2.53 The Business Council of Australia (BCA) supported introducing appropriate pricing and access arrangements prior to privatisation, even if those arrangements may reduce the sale price of the asset.⁶³ The BCA submitted that:

These regulatory arrangements will enable potential investors to have a clear understanding of the terms under which the asset will be permitted to operate, and should allow customers to raise any issues or concerns they

59 ACCC, *Submission 8*, pp 5–6.

60 ACCC, *Submission 8*, p. 3.

61 Productivity Commission, *Public Infrastructure*, Inquiry report, No. 71, May 2014, p. 85.

62 Productivity Commission, *Public Infrastructure*, Inquiry report, No. 71, May 2014, p. 18.

63 Business Council of Australia, *Submission 22*, p. 8.

may have. It minimises the risk of pressure for post-sale regulation in subsequent years that, in turn, would undermine the confidence of investors and their willingness to invest in growing these businesses.⁶⁴

2.54 Treasury indicated that in its view, states and territories are accountable to their constituents for ensuring that the necessary regulatory arrangements are in place. Treasury also submitted that the Commonwealth respects the role of the states and territories to make decisions about appropriate regulatory arrangements within their jurisdiction.⁶⁵

2.55 The committee did not receive much evidence on parliamentary scrutiny of privatisation. However, the Northern Territory government submitted that in its view, the current levels of parliamentary scrutiny and other regulatory and legislative safeguards are sufficient to ensure an appropriate balance between maintaining the long term interests of the public and allowing sufficient flexibility in achieving the best outcomes for investment in new economic infrastructure.⁶⁶

Committee comment

2.56 The committee considers that appropriate safeguards and regulatory arrangements should be put in place for all asset privatisation, well in advance of the sale process commencing. The committee is concerned about the evidence it has received that the Asset Recycling Initiative may encourage states and territories to take shortcuts on safeguards and regulatory arrangements in order to meet the timeframes established by the Asset Recycling Initiative.

Recommendation 2

2.57 The committee recommends that prior to privatisation of assets, governments at all levels introduce appropriate regulatory arrangements and safeguards, including safeguards against anti-competitive behaviour to ensure that future costs are known and established.

64 Business Council of Australia, *Submission 22*, p. 8.

65 Treasury, *Submission 28*, p. 11.

66 Northern Territory Government, *Submission 31*, p. 3.

Inequity of the initiative across states and territories

2.58 This section discusses the committee's consideration of the possible inequity of the Asset Recycling Initiative across states and territories. Binding infrastructure funding to privatisation may lead to unfairness and inequity across states and territories because it:

- disadvantages those jurisdictions that have already undertaken significant privatisations;
- operates on a 'first in first served' basis, benefiting those jurisdictions with assets to sell or prepared for sale, rather than those jurisdictions most in need of infrastructure funding; and
- the fixed 15 per cent incentive does not correlate to infrastructure need and may be substantially consumed by transaction costs for small projects in small jurisdictions.

2.59 The section also notes that steps have been taken to minimise the impact of the Asset Recycling Initiative on the distribution of GST proceeds.

Some jurisdictions are disadvantaged

2.60 Several submitters and witnesses reminded the committee that those states and territories which have already undertaken significant privatisation activities may be disadvantaged by the Asset Recycling Initiative.⁶⁷

2.61 Some raised concerns about the 'first in first served' nature of the Initiative.⁶⁸ The Northern Territory government submitted that:

...some jurisdictions appear to be at a much more advanced stage of preparation for asset sales and have a large pipeline of potential privatisations. It is foreseeable that the existing pipeline of privatisations in the larger jurisdictions may significantly eat into the pool of funds allocated for incentive payments under the asset recycling initiative.⁶⁹

2.62 The Business Council of Australia suggested that the Asset Recycling Initiative should be designed to prevent one or two states from capturing all of the available \$5 billion in funding through large-scale privatisation projects.⁷⁰

2.63 Emeritus Professor Bob Walker and Dr Betty Con Walker also suggested that incentives for privatisation from the Commonwealth may encourage states and

67 Mr Peter Emery, *Submission 14*, p. 9; Electrical Trades Union, *Submission 19*, p. 9; Business Council of Australia, *Submission 22*, p. 10; Emeritus Professor Bob Walker and Dr Betty Con Walker, *Submission 30*, p. 16; Northern Territory Government, *Submission 31*, p. 5.

68 Business Council of Australia, *Submission 22*, p. 10; Northern Territory Government, *Submission 31*, p. 5; Mr David Richardson, Senior Research Fellow, The Australia Institute, *Committee Hansard*, 18 February 2015, p. 5.

69 Northern Territory Government, *Submission 31*, p. 5.

70 Business Council of Australia, *Submission 22*, p. 10.

territories to sell their most profitable businesses, which are currently providing essential services.⁷¹

Fifteen per cent incentive

2.64 The committee heard several concerns about the seemingly arbitrary and fixed 15 per cent figure of the Asset Recycling Initiative, and assertions that it may not be a sufficient incentive for some new infrastructure projects.⁷² Both the Northern Territory government and Northern Territory opposition shared this concern.⁷³ The Northern Territory government submitted that:

There is also inequity in the size of potential Commonwealth contributions due to the fixed 15 per cent contribution rate. As previously noted, a flat rate of 15 per cent represents a significant contribution for larger projects. However, for relatively small projects (under \$200 million) such as those that are likely to occur in less developed or regional and remote areas of Australia, a substantial amount of the Commonwealth contribution may be offset by transaction costs.⁷⁴

2.65 Treasury confirmed that the figure of 15 per cent was not a result of economic modelling, but of negotiation between the Commonwealth (seeking to achieve the lowest percentage possible) and the states and territories (seeking to achieve the highest percentage possible).⁷⁵

Impact on GST redistribution

2.66 The committee notes that the Asset Recycling Initiative does acknowledge inequities between the states and territories by exempting the Initiative payments from the GST redistribution treatment undertaken by the Commonwealth Grants Commission:

If the incentive payments were not fully exempt, an incentive payment to a state or territory would have also resulted in a decreased GST allocation for that jurisdiction over time. The net effect of this would have been to reallocate any incentive payment made across all states and territories according to their respective population shares, irrespective of their commitment to recycle capital into additional infrastructure. This would have greatly diminished the incentive effect of the payments.⁷⁶

71 Emeritus Professor Bob Walker and Dr Betty Con Walker, *Submission 30*, p. 16.

72 Dr Betty Con Walker, *Committee Hansard*, 18 February 2015, pp 17–18; Professor John Quiggin, *Committee Hansard*, 18 February 2015, pp 23–24.

73 Northern Territory Government, *Submission 31*, p. 5; The Hon Delia Lawrie MLA, Leader of the Opposition in the Northern Territory, *Committee Hansard*, 16 February 2015, p. 5.

74 Northern Territory Government, *Submission 31*, p. 5.

75 Mr Chris Legg, Chief Adviser, Industries and Infrastructure Division, Department of the Treasury, *Committee Hansard*, 18 February 2015, p. 42.

76 Treasury, *Submission 28*, p. 14.

Committee comment on the Asset Recycling Initiative

2.67 The committee has considered a wide range of evidence on the Asset Recycling Initiative and in particular, evidence on the link that the Initiative creates between privatisation and investment in infrastructure.

2.68 The committee notes that in its inquiry into Public Infrastructure, the Productivity Commission considered the Asset Recycling Initiative and concluded that on balance:

- the aims of the Asset Recycling Initiative are laudable, but the risks are significant;
- decisions to privatise a state owned asset and procure new infrastructure should be separate;
- there is a distinct risk that states and territories will take shortcuts to avoid thorough and transparent analysis; and
- governments should avoid creating expectations in the community that privatisation is only acceptable when the proceeds are used for procuring new infrastructure, constraining future governments from optimising their balance sheets in the public interest.⁷⁷

2.69 The committee is very concerned that binding privatisation with investment in infrastructure may lead to several significant problems including:

- potentially distorting decisions by states and territories on infrastructure investment, leading to projects being pursued that would not stand on their own merits;
- potentially distorting decisions leading to privatisation that would not go ahead if they were considered on a case-by-case basis;
- the possibility that privatisation and infrastructure projects will be rushed without:
 - appropriate public consultation and debate leading to poor outcomes; and
 - appropriate safeguards, corporate structures and regulatory arrangements in place; and
- the potential to create inequitable outcomes between states and territories as the Initiative may unfairly benefit those jurisdictions which currently have assets for sale or prepared for sale, rather than those jurisdictions where the infrastructure is most needed.

2.70 For the reasons set out above the link between privatisation and infrastructure funding under the Asset Recycling Initiative should be removed. This would provide an environment where states and territories consider the merits of privatisation on a

77 Productivity Commission, *Public Infrastructure*, Inquiry report, No. 71, May 2014, p. 264.

case by case basis and fund infrastructure projects based on community and economic need. The Commonwealth should contribute funding based on the merits of proposed projects while considering the equitable distribution of funds across states and territories.

Recommendation 3

2.71 The committee recommends that the link between privatisation of assets and infrastructure funding under the Asset Recycling Initiative should be removed. This would provide an environment where:

- **states and territories are encouraged to consider the merits of privatisation on a case by case basis;**
- **decisions to fund infrastructure projects are based on the community and economic need; and**
- **the Commonwealth contributes funding based on the merits of proposed infrastructure projects while considering the equitable distribution of funds across states and territories.**

Senator Sam Dastyari

Chair

Dissenting Report by Government Senators

1.1 While the majority report of the Committee contains some informative discussion of some elements of the Commonwealth Government's Asset Recycling Initiative, it provides an unbalanced presentation of the evidence and arguments received during the course of the inquiry. A number of the issues raised by participants to the inquiry highlight some of the benefits of the Government's asset recycling policy as well as evidence on the wider benefits from infrastructure privatisation were not considered or only received limited attention. This imbalance has resulted in recommendations of the majority report that are either unnecessary — as they call for processes or actions for which there are already established mechanisms within governments — or misguided, and hence cannot be supported.

Importance of Infrastructure to Economic Growth

1.2 Spending on productivity enhancing infrastructure is one of the keys to economic growth and prosperity. The Government is responding to the needs of the economy by building infrastructure that will drive economic growth, create jobs and improve productivity:

1.3 A core element of the Government's Economic Action Strategy is the commitment of an additional \$11.6 billion for the Infrastructure Growth Package. Part of the 2014–15 Budget, the Growth Package delivered \$5 billion for the Asset Recycling Initiative, \$3.7 billion to boost infrastructure investments to expenditure projects and \$2.9 billion for the Western Sydney Infrastructure Plan. The Commonwealth's total investment in infrastructure through to 2019–20 will be around \$50 billion.

1.4 This investment will generate significant additional state and private sector participation to build the infrastructure that Australia needs and will transform infrastructure across the country to lay the foundations for future growth. When the construction projects supported by the Government's infrastructure initiatives are completed, they will add around 1 percentage point to GDP.

Asset Recycling Initiative

1.5 The Asset Recycling Initiative is designed to provide incentives to States and Territories to realise existing assets (sale or lease) and invest the proceeds in new, productivity enhancing infrastructure. This 'recycling' frees money currently locked up to help fund the projects that the States and Territories consider important to their future economic prosperity. The Initiative taps into private sector investment interest in current assets in order to fund new infrastructure.

1.6 The Commonwealth will provide incentive payments to the States and Territories of 15 per cent of the sale price of assets, but only on the condition that proceeds are reinvested in productivity enhancing assets. The initiative is estimated to support up to \$38 billion in new infrastructure spending according to the Department of Infrastructure and Regional Development.¹

1.7 The first Asset Recycling Initiative agreement was signed with the Labor Government of the ACT on 19 February 2015 – around \$60 million in incentive payments following the ACT’s decision to sell ACTTAB along with some property assets.

1.8 On 8 March 2015 the Commonwealth Government announced \$2 billion in incentive payments for crucial infrastructure projects in conjunction with the NSW State Government.²

Privatisations under previous governments

1.9 In addition to placing heavy reliance on the views of union witnesses, the committee majority has placed a very heavy reliance in their report on testimony from Mr Stephen Koukoulas, quoting him at length. Mr Koukoulas was an economic adviser to the former Labor Government, serving as Senior Economic Adviser to Prime Minister Julia Gillard from September 2010 to July 2011.³ It is not very convincing for the Labor majority to place heavy reliance on the opinions of a former Federal Labor adviser in support of the Federal Labor prejudice against privatisation.

1.10 The former Labor Government presided over a period when privatisations at a federal level were dormant, because of the economic prejudices of that Government. The former Hawke and Keating Labor Governments were far more reformist and modern in their outlook, undertaking a series of privatisations across different points in the economic cycle (see Table 1 below). In contrast to the Rudd/Gillard/Rudd Labor Government’s record, state Labor governments have also pursued a number of privatisations including several that straddled the same period (see Table 2 below).

1 Department of Infrastructure and Regional Development, *The Asset Recycling Initiative*, http://investment.infrastructure.gov.au/publications/reports/pdf/factsheets2014/Factsheet_The_Asset_Recycling_Initiative.pdf, (accessed 5 March 2015).

2 The Hon Joe Hockey MP, Media release, *\$2 billion Asset Recycling deal to rebuild NSW*, <http://jbh.ministers.treasury.gov.au/media-release/016-2015/>, (accessed 18 March 2015).

3 Stephen Koukoulas, <http://www.marketeconomics.com.au/stephen-koukoulas>, (accessed 18 March 2015).

Table 1: Commonwealth Privatisations under Labor

Commonwealth Privatisations under Labor	Sale Proceeds (\$m)	Government
April 1988 Commonwealth Accommodation and Catering Services	14.9	Hawke
November 1988 Defence Service House Corporation Loan Portfolio	1,515	Hawke
May 1991 Australian Defence Force Home Loan Franchise	42	Hawke
June 1991 Commonwealth Housing Loan Assistance Schemes in the ACT	47.3	Hawke
September 1992 Australian Airlines	400	Keating
March 1993 25% of Qantas	665	Keating
October 1993 Commonwealth Bank Secondary Public Share Offer	1,700	Keating
November 1993 Snowy Mountains Engineering Corporation	1.5	Keating
June 1994 Moomba-Sydney Pipeline System	534	Keating
June 1994 CSL (former Commonwealth Serum Laboratories) Public Share Offer	300	Keating
June 1994 Commonwealth Uranium Stockpile	57	Keating
June 1995 Aerospace Technologies of Australia Pty Ltd	40	Keating
July 1995 Qantas Public Share Offer	1,400	Keating

Table 2: Privatisations under state Labor governments

Year	State	Asset	Price (\$m)	Government
1994	Queensland	Gladstone Power Station	750	Goss (ALP)
1997	NSW	NSW TAB	936	Carr (ALP)
1999	Queensland	Queensland TAB	268	Beattie (ALP)
2006	NSW	DirectLink	170	Iemma (ALP)
2006	Queensland	Allgas Energy	535	Beattie/Bligh (ALP)
2006	Queensland	Sun Retail	1,202	Beattie/Bligh (ALP)
2007	Queensland	Powerdirect	1,200	Beattie/Bligh (ALP)
2010	Queensland	QR National 66% sale	4,050	Bligh (ALP)
2010	NSW	NSW Lotteries	1011	Rees/Keneally (ALP)
2010	NSW	First tranche of electricity assets	5,300	Keneally (ALP)

Income substitution effects

1.11 In their report, the committee majority claims that privatisation of an income producing business would cause a state or territory government to lose dividend streams, as well as tax equivalent payments under the National Tax Equivalence Regime.

1.12 This argument simply ignores that the cessation of future dividend flows would be compensated through capital proceeds from sale (which implicitly recognise long-run income producing potential, net of holding costs and other factors affecting the value of the business in question).

1.13 It also ignores the fact that direct dividends to taxpayers through a state or territory government would be replaced in future with corporate income tax and income tax from resident shareholders who receive dividend streams. While these tax streams would flow to the Commonwealth following privatisation, the 15 per cent incentive provides an up-front incentive to partly recognise the movement of benefits between tiers of government. Far from the incentive “distorting” decisions, as the majority contend, it helps make the decisions stand more clearly on their merits by removing a current disincentive to privatisation.

1.14 Government Business Enterprises face inherent difficulties in doing their job well and it is these problems that have impelled governments to increasingly look at alternative forms of delivery, such as privatisation.

1.15 Government run business operations have found it increasingly difficult to obtain funding injections from Government because they have to compete against other high priority pressures for taxpayer spending. As a result Government Business Enterprises can be prevented from or hamstrung in the extent to which they can upgrade new plant and equipment or invest in business innovation or re-engineering (eg: modern IT or improved business processes). As a result, while these business operations are in public hands, the value creating capacity of these operations can be constrained. Private operators in practice have better flexibility to access capital and improve business efficiency and output. This means that private control and investment can also maximise the profitability of such business operations and the tax yield which flows back into public hands.

Evidence about specific privatisations

1.16 The committee majority has placed an unusual level of reliance on examples from the Northern Territory, citing testimony from the Northern Territory Labor Party and trade union officials. Curiously the committee has not taken any interest in the privatisation proposals announced by the Australian Capital Territory. The ACT Labor Government became the first administration to sign up to a privatisation program under the Australian Government's Asset Recycling Initiative.

1.17 The committee majority also ignored the recent Medibank Private sale, which is an exemplary case of a privatisation done well and is a key part of the Asset Recycling Initiative. This is one of the largest floats in Australian history. This sale provides \$5.679 billion in proceeds that will be re-invested into productivity enhancing infrastructure through the Government's Asset Recycling Initiative.

1.18 The committee majority has floated some short-sighted testimony from particular opponents of privatisation. Mr David Richardson of the left-wing Australia Institute argued that privatisation sometimes requires an investment by taxpayers in improving the regulatory oversight of an industry, where previously there was inadequate supervision to protect consumer interests. This view overlooks the fact that continued public ownership of a business operation can place the Government in a conflicted position, as both regulator and provider of services. That conflict can work against the interests of consumers and business. The desirability of sound regulation does not disappear where a Government operator is a participant in the market.

1.19 The committee majority contradicts itself where it subsequently stresses the importance of good regulation, to ensure fairness in competition and to give certainty to the operators in a market ahead of privatisation. The arguments for good regulation and for safeguards against anti-competitive behaviour are not exclusively applicable to privatisation, but equally well apply to Government monopolies.

Impacts of infrastructure privatisation on consumers and capital productivity

1.20 An unfortunate result of the majority report's selective use of evidence is that considerable relevant information and evidence available was ignored or received limited consideration. For example, there is substantial evidence that privatisation of infrastructure tends to lead to reduced prices to consumers and more productive use of infrastructure assets. The improved outcomes in terms of prices are likely to reflect several factors. Governments that own infrastructure face mixed incentives, particularly as higher prices can assist with budget bottom lines. Privatised operations generally face higher incentives for efficiency. This has been confirmed in a number of studies, including several released during the final months of the inquiry.

- A report by Ernst and Young, prepared for Infrastructure Partnerships Australia concluded that in privatised networks businesses generally operate more efficiently, resulting in lower price increases.⁴ These results were achieved without compromising service standards, and applied across both urban and rural customers.
- An Australian Industry (AI) Group report released in January concluded overinvestment in the network over time had substantially increased the state's electricity prices.⁵ The report found that Queensland's electricity prices could be expected to fall substantially if power companies were privatised. Another benefit of privatisation identified in the report was the capacity to free up capital for reinvestment.
- A report by CME commissioned by UnitingCare on electricity prices released in February 2015 showed how costs to Victorian consumers, specifically network charges, were about half those in the Queensland and NSW level.⁶ Further, the privatised Victorian system has seen network charges also increased at a lower rate.
- Analysis by Tony Wood of the Grattan Institute released in March 2015 addressing the anti-privatisation campaign in New South Wales noted the benefits of privatisation in terms of electricity prices to consumers.⁷ A detailed comparison between government and private ownership, published in the Grattan Institute's 2012 report found that government-owned companies had more physical infrastructure per customer and spent more on capital investment than did privately owned companies.⁸

4 Ernst and Young Australia, *Network Pricing Trends, Queensland Perspective*, January, 2015.

5 Australian Industry Group, *AI Group Statement*, January 2015

6 UnitingCare Australia, *Network tariffs applicable to households in Australia: empirical evidence*, Report prepared for UnitingCare Australia by Carbon and Energy Markets, February 2015.

7 Wood, T., NSW power privatisation: *Stop the Sell Off claims put to the test*, The Conversation, 10 March 2015.

8 Wood, T., *Putting the customer back in front: How to make electricity cheaper*, Grattan Institute, December, 2012.

Process for privatisation

1.21 The committee has recommended that any privatisation be based upon rigorous analysis of all costs and be preceded by public consultation. This is precisely what governments ordinarily do as part of considering any option for privatisation. The Commonwealth for example conducts scoping studies, as a means of identifying the most effective approach to deliver a service. Such exercises do not proceed from a bias towards privatisation, rather they are exercises aimed at identifying the best delivery method for a service to the community. A scoping study may for instance recommend better regulation, greater competition, or restructuring of government delivery mechanisms.

1.22 A scoping study is traditionally run by department officials and informed by independent advice from business advisers and legal advisers who have the expertise to assess the relevant service and market in fine detail. This work is done at arms length from Ministers and at arms length from those who currently have vested interests in the market.

1.23 These studies usually involve extensive consultation, including with consumer groups, current providers and potential future providers (including institutional investors). There is nothing new or profound in what the committee majority is recommending.

Arguments against the Asset Recycling Initiative

1.24 Some of the criticisms of the Asset Recycling Initiative are not particularly convincing. Plainly the measure is aimed at encouraging future investment in new infrastructure, but some critics complain that this does not benefit jurisdictions which have undertaken past privatisations. This criticism is not contending that the initiative is innately undesirable, but that it isn't as available as widely as possible. The complaint however shows poor understanding of sound public policy principles. It is normal for any incentive scheme to operate prospectively, where the policy intention is to encourage activity which might not otherwise occur.

1.25 Other critics worry that a 'first come first served' model might disadvantage late comers. Again this is a criticism that a desirable scheme it isn't as available as widely as possible. As we live in a world of finite resources, it is not possible to have an open-ended scheme. Given that the Government has made very clear up front how decisions would be taken, all states and territories begin with the same opportunity to put forward their best cases early.

1.26 The criticism that 15 per cent is not as much as some would like, is another concession that the scheme is intrinsically a desirable one. As the figure was negotiated between the Commonwealth and the states and territories, this figure strikes the right balance to provide a sufficient incentive to unleash locked-up capital.

1.27 Some of the criticism is entirely speculative and counter-intuitive. The majority assert that “there is a distinct risk that states and territories will take shortcuts to avoid thorough and transparent analysis.” In fact, in a competitive scheme, states and territories will be under pressure to present the most convincing analysis. Moreover public interest in privatisations will compel governments to be transparent. Governments are always conscious that if they fail to be sufficiently transparent, they can be held accountable through the democratic process.

1.28 Several participants to the inquiry highlighted the benefits that asset recycling can provide governments. For example, the Australian Logistics Council stated that one of the benefits of asset recycling is its capacity to provide governments with constrained balance sheets the ability to unlock capital tied up in mature assets. It also stated that the idea was by no means novel, noting:

For instance, the Infrastructure Finance Working Group (established by the previous government in 2011 to provide advice to Infrastructure Australia on infrastructure finance policy) recommended State and Territory governments conduct strategic reviews of ‘brownfield assets’ to: identify and monetise suitable candidates so as to allow the freed up capital and [allow for] avoided debt repayments to be recycled/invested into infrastructure projects.

...the budgets of most Australian governments are likely to be in deficit for the foreseeable future, and likely to remain so, with growing demand for recurrent spending on health, education, NDIS etc. It is therefore necessary to identify alternative funding sources for the roads and infrastructure hitherto regarded as public goods funded from consolidated revenue.⁹

1.29 Finally, the quotation and paraphrasing of the discussion in the Productivity Commission inquiry into Public Infrastructure on asset recycling in the majority report (paragraph 2.68), while noting the Commission’s concerns about risks, omitted to include the Commission’s concluding paragraph which noted:

[T]he Initiative does not obviate the need for good governance and transparent and sound analysis of privatisation and procurement decisions. Only under these constraints can the additional risks of the initiative be managed in a way that preserves the interests of the broader community.¹⁰

1.30 As noted above, Government accepts that rigorous analysis of costs and benefits as well as sound decision making processes are necessary to protect the interests of the wider community.

9 Australian Logistics Council, *Submission 12*, p. 4.

10 Productivity Commission, *Public Infrastructure*, Inquiry report, No. 71, May 2014, p. 264.

Comments on recommendations

1.31 **Response to recommendation 1.** This recommendation calling for good processes prior to privatisation decisions, including a full assessment of the costs of projects as well as extensive consultation, is consistent with the Government's proposed policy that the full costs of any privatisation and investment projects as well as an assessment of the benefits should be undertaken, before decisions are made to proceed. It is noted, however, that primary responsibility for this lies with State and Territory Governments.

1.32 **Response to recommendation 2.** The introduction of appropriate regulatory arrangements and safeguards against anti-competitive behaviour are important considerations for governments undertaking privatisation. These are, however, matters for the responsible State and Territory Governments.

1.33 **Response to recommendation 3.** For the reasons outlined in the preceding discussion, this recommendation is not supported.

Senator Sean Edwards
Deputy Chair

Senator Matthew Canavan
Committee Member

Additional Comments by the Australian Greens

1.1 The Australian Greens believe that public assets should remain in public hands unless there is a very compelling case for them to be sold. This senate inquiry into the privatisation of state and territory assets and new infrastructure has elicited important evidence demonstrating that selling public assets presents significant risks to the public interest, and that it is not a way to solve revenue problems.

1.2 The committee report is an excellent summary of the risks and issues involved when infrastructure funding is linked to privatisation. It is a clear exposition of the safeguards and accountability measures required when privatisation is considered. The evidence provided shows that it is vital to protect the public interest from sell-offs, which lead to higher prices, job cuts, attacks on workers' pay and conditions, declining services, and reduced revenue to state governments.

1.3 The Greens have opposed the government's Asset Recycling Initiative as an incentive to privatise assets. We believe that bribing financially stretched State Governments to sell assets in return for funding expensive urban freeways and tunnels shows a poverty of vision when it comes to funding for new infrastructure.

1.4 The Abbott government's Asset Recycling scheme is designed to push state and territory governments to privatise their public assets. 'Asset recycling' involves 15 per cent "bonus" payments to state governments that sell public assets and use that money to pay for so-called new infrastructure — mainly big privatised road projects. The report includes evidence that this 15 per cent incentive figure was determined not through any kind of economic analysis or analysis of loss of revenues associated with asset sales, rather it was decided upon as an apparently arbitrary figure following negotiations between the Commonwealth and state and territory governments.¹

1.5 The Greens echo the contributions of several witnesses recorded in the report, who provided evidence for seeking alternative funding mechanisms for infrastructure. We agree with the evidence of Mr Stephen Koukoulas who observed that, if it is worthwhile undertaking public infrastructure spending, it should be done regardless of whether there is asset recycling, and that it should be based on need and not any other incentive.²

1.6 While we support the overall intentions of the recommendations contained in the report, the Australian Greens feel that stronger emphasis needs to be placed in order to take into account the issues noted in these comments. We propose the following revisions to the report's recommendations.

1 Mr Chris Legg, Chief Adviser, Industries and Infrastructure Division, Department of the Treasury, *Committee Hansard*, 20 February 2015, p. 42.

2 Mr Stephen Koukoulas, Managing Director, Market Economics, *Committee Hansard*, 18 February 2015, pp 8–11.

Recommendation 1

1.7 The Australian Greens recommend that proper and rigorous analysis of total costs and projected benefits associated with privatisation projects be conducted when privatisation is proposed by governments at any level. Appropriate public consultation should be undertaken as part of this analysis, including consultation around transactions costs, the cost of creating an appropriate regulatory environment and compliance with those arrangements, the value of foregone income from state owned assets and appropriate discount rates to be applied to financial analysis.

Recommendation 2

1.8 The Australian Greens recommend that prior to proposed privatisation of assets, governments at all levels introduce appropriate regulatory arrangements and safeguards, including safeguards against anti-competitive behaviour to ensure that future costs are known and established; and mechanisms to ensure transparency of operations of the privatised entity.

Recommendation 3

1.9 The Australian Greens recommend that the 15 per cent funding to states under the Asset Recycling Initiative should be abolished. Decisions to fund infrastructure projects should be based on the community and economic need. The Commonwealth should contribute funding based on the merits of proposed infrastructure projects while considering the equitable distribution of funds across states and territories.

Senator Janet Rice
Australian Greens

APPENDIX 1

Submissions received

Submission Number	Submitter
1.	The Hon Tom Koutsantonis MP
2.	Community and Public Sector Union
3.	Name Withheld
4.	Queensland Nurses' Union
5.	Mr Brian Collingburn
6.	Consult Australia
7.	Professionals Australia
8.	Australian Competition and Consumer Commission
9.	The Chamber of Minerals and Energy of Western Australia
10.	Water Services Association of Australia
11.	Association of Superannuation Funds of Australia
12.	Australian Logistics Council
13.	Australian Chamber of Commerce and Industry
14.	Mr Peter Emery
15.	Australian Services Union
16.	Arid Lands Environment Centre
17.	The Australia Institute
18.	Australian Sugar Industry Alliance
19.	Electrical Trades Union
20.	Electrical Trades Union NSW Branch
21.	Professor John Quiggin
22.	Business Council of Australia
23.	Stop the Sell Off
24.	Health Services Union
25.	Chamber of Commerce and Industry of Western Australia
26.	NSW Nurses and Midwives' Association
27.	United Voice Northern Territory Branch
28.	Treasury
29.	Unions NSW
30.	Emeritus Professor Bob Walker and Dr Betty Con Walker

31. Northern Territory Government
32. Australian Workers Union
33. Northern Territory Opposition
34. Greens NSW
35. Collieries' Staff and Officials Association
36. Maritime Union of Australia
37. Australian Horticultural Exporters Association

Answers to questions on notice

1. Answer to question on notice asked at a public hearing on 18 February 2015, received from Treasury on 18 March 2015.
2. Answer to written question on notice sent on 20 February 2015, received from Treasury on 18 March 2015.

APPENDIX 2

Public hearings and witnesses

DARWIN, 16 FEBRUARY 2015

BARNES, Mr Gary, Coordinator-General of Major Projects and Investments

COCKING, Mr Jimmy, Director, Arid Lands Environment Centre

DENSLEY, Ms Kay, Northern Territory Regional Director, Community and Public Sector Union

EARLY, Ms Erina, Acting Branch Secretary, United Voice NT

HARDING, Mr Richard, Former CEO, Territory Insurance Office

HOWARD, Ms Penny, Research Officer, Maritime Union of Australia

KIRBY, Mr Paul, Organiser, Electrical Trades Union (Northern Territory Branch)

LAWRIE, the Hon Delia MLA, Member for Karama, Leader of the Opposition in the Northern Territory

MAYOR, Mr Thomas, Secretary, Northern Territory Branch, Maritime Union of Australia

McLAY, Ms Elise, Northern Territory Organiser, Transport Workers Union

PETERS, Ms Sonia, Office of the Leader of the Opposition in the Northern Territory

RYAN, Ms Jodie, Under Treasurer, Northern Territory Department of Treasury and Finance

TILBROOK, Mr Phil, President, Prison Officers Association NT

WOOD, Mr Gerry, Member for Nelson, Northern Territory Parliament

SYDNEY, 18 FEBRUARY 2015

BALI, Mr Stephen, Assistant Secretary, NSW Branch, Australian Workers' Union

BOLGER, Ms Catherine, Director, Collieries' Staff and Officials Association; and Director, Professionals Australia

BUTLER, Mr Steve, Secretary, NSW Branch, Electrical Trades Union of Australia

COSGRAVE, Mr Michael, Executive General Manager, Infrastructure Regulation Division, Australian Competition and Consumer Commission

HAYES, Mr Gerard, Secretary, NSW Branch, Health Services Union

HOLMES, Mr Brett, General Secretary, NSW Nurses and Midwives' Association

HOWARD, Dr Penny, National Research Officer, National Office, Maritime Union of Australia

KERSLAKE, Mr Adam, Director, Stop the Sell Off campaign

KOUKOULAS, Mr Stephen, Managing Director, Market Economics

LEGG, Mr Chris, Chief Adviser, Industries and Infrastructure Division, Department of the Treasury

LENNON, Mr Mark, Secretary, Unions NSW

McCALLUM, Mr Lance, National Policy Officer, Electrical Trades Union

McLEAN, Mr Greg, Assistant National Secretary, and Head, Public Services Division, Australian Services Union

POWELL, Mr Steven, Analyst, Department of the Treasury

QUIGGIN, Professor John, Australian Research Council Laureate Fellow, University of Queensland

RICHARDSON, Mr David, Senior Research Fellow, The Australia Institute

SHEPPARD, Ms Sarah, Director, Regulated Access—Rail, Australian Competition and Consumer Commission

WALKER, Dr Betty Con, Private Capacity

WALKER, Professor Bob, Private Capacity