THE PRIVATISATION BETRAYAL

Losing the things we value

Australian Services Union

A•S•U

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Foreword

As outlined in this document privatisation of public services has taken many names and forms, but the principle is the same: a service now operated one way or another by the private sector that was previously undertaken by the public sector.

The ASU National and its State Branches, have been long term campaigners for essential public services provision, public accountability of these services (through politicians not selective shareholders) and ensuring essential services are distributed on a needs basis and not just on price or favouring one section of society. We campaign with our members, political parties and politicians that support ASU members' views, as well as with NGOs and the broader community to ensure that citizens know what losses privatisation mean for their community, from services to jobs and local community spend.

The ASU is recognised as playing an important role in our local communities at a state and national level, and as working with international colleagues to share resources, including with other unions and the Public Services International (PSI). International as well as local academic rigor show we are right and communities lose many times over through privatisation. We continue to change community and politicians' views, as well as standing up to power players for what is good for our communities.

In this paper we seek to update and provide new information to those we work with as well as politicians, ASU members, their families and the broad community. We will continue to be a strong voice for anti-privatisation. I ask you to read this important paper and circulate it to all you can that are interested in this important issue.

Greg McLean OAM
ASU Assistant National Secretary

About the ASU

The Australian Municipal, Administrative, Clerical and Services Union (ASU) is one of Australia's largest unions, representing approximately 120,000 members. The ASU was created in 1993. It brought together three large unions – the Federated Clerks' Union, the Municipal Officers' Association and the Municipal Employees' Union, as well as a number of smaller organisations representing social welfare, information technology.

Today, the ASU's members work in a wide variety of industries and occupations and especially in the following industries and occupations:

- Local government (both blue and white collar employment)
- Social and community services, including employment services
- Transport, including passenger air and rail transport, road, rail and airfreight transport
- Clerical and administrative employees in commerce and industry generally
- Call centres
- Electricity generation, transmission and distribution
- Water industry
- Higher education (Queensland and South Australia).

The Union has a long history of involvement in the electricity industry and water industry. That history reaches back through our local government heritage - with local government involvement in water supply going back to 1871 and electricity from the mid-1890s. We are a community-based organisation that continues to maintain a strong interest in local government, state government and the privatised industries.

The ASU has members in every State and Territory of Australia, as well as in most regional centres. Our members tend to live in the communities where they work.

In both urban and regional areas, the local council is often the largest single employer; therefore, uncertainty has significant economic impacts locally. The economic interests of Australian urban, rural and remote communities need a resolution.[1]

Therefore, ASU advocacy extends beyond negotiated industrial outcomes for members. The ASU has a true commitment to the local government industry with a proud history, since 1881, of representing employees and that has a far-reaching effect on the sustainability of all communities. The ASU is a significant advocate and our issues are representative of all Australians.

[1] Parliament of Australia, <www.aph.gov.au> 2013. Final report on the majority finding of the Expert Panel on Constitutional Recognition of Local Government; the case for financial recognition, the likelihood of success and lessons from the history of constitutional referenda. [ONLINE] Available at: <http://www.aph.gov.au/parliamentary_business/committees/house_of_representatives_committees?url=jsclg/localgovt/finalreport.htm>

Introduction

In recent times the Commonwealth Government of Australia and many state governments have focussed on reducing budget outlays and cutting services. Under the leadership of Prime Minister Tony Abbott, proposed cuts would affect some of the most vulnerable members of our society[2].

But a growing proportion of taxpayers' money traditionally used for services and valued infrastructure is increasingly being diverted to profit-making organisations. In addition, valued public institutions (such as TAFE colleges) have been starved of funds while new training centres spring to life in the environment of competition and inadequate regulation – with taxpayers' money increasingly viewed as a cash cow for profit hunters.[3]

By fast-tracking privatisation, various governments are turning off some of the best revenue raising sources which have been used to sustain the Australian way of life. Some public sector enterprises have been so successful in raising revenue, that the dividends and other payments made to governments have sustained budgets year after year - enabling the governments to cross-subsidise and provide funding for schools, hospitals, scientific research, public housing, crisis accommodation and a broad range of essential services. Yet increasingly Australian politicians are prepared to sell out the public interest and cloak their actions in spurious arguments designed to circumvent public opposition against the privatisation of public assets.

At the same time, the successful public sector enterprises have drawn the attention of global corporations which are now keen to own and control those enterprises and assets. These corporations and (in some cases) foreign governments, have no particular allegiances to local communities in Australia and it can be difficult to call them to account when things go wrong.

Although this report does not aim to provide a comprehensive discussion of all these issues, it will discuss some key aspects which have been of particular concern to the ASU and the communities that are provided valuable services by Union members. It gives particular attention to some essential services, most notably in the electricity and water industries.

This report shows that privatisation can have a detrimental impact on finances (which would otherwise be available for services such as hospitals and education) and have consequent negative social equity impacts.

As a growing number of academic studies have exposed the fallacy of economic justification for privatisation, reference will be made to some of this work. In addition, the report will draw on information and data from various government departments, research centres, labour organisations as well as tapping into some of the vast knowledge of ASU members employed in a broad range of industries.

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[2] For example, proposed cuts to legal aid will affect many people who would otherwise not be able to access legal services. Cuts to legal aid services will have a detrimental impact on fair access to the law and justice system. Cuts have targeted Legal Aid Commissions, Community Legal Centres, as well as the Aboriginal Legal Service. The high incarceration rate of Indigenous Australians and ongoing issues relating to Aboriginal deaths in custody makes this issue of particular concern. For media article on the cuts see Sydney Morning Herald article by James Massola, Michaela Whitbourn and Richard Willingham, 'Warning of Crisis in legal funding', *SMH*, 7-8 March 2015, p 11.

[3] For an article on the perspective of the NSW TAFE teachers union, see Clair Aird and Alison Branley, "TAFE teachers union says job cuts 50pc higher than figure announced by NSW Government", *ABC News*, 20 September 2014, <http://www.abc.net.au/news/2014-09-20/tafe-teachers-say-nsw-state-government-doubled-job-cuts/5756974> accessed 17 March 2015.

The negative impacts of privatisation are not unique to Australia therefore this report will also include reference to overseas experiences and the activity of community groups and trade unions resisting privatisation measures and in some cases successfully turning back the tide.

Quality public services

The Australian Services Union is of the view that the rationale for government ownership and provision of a range of assets and services remains strong. This is particularly the case in relation to essential services needed by communities. Public Services International expressed the importance of quality public services in the following way:

> *Quality public services are the foundation of democratic societies and successful economies. They ensure that everyone has equal access to vital services, including health care, education, electricity, clean water and sanitation. When these services are privatised, maximizing corporate profits replaces the public interest as the driving force. Privatisation is a dangerous trend that must be reversed.*[4]

In addition, there are strong social, economic, accountability and control reasons for maintaining public ownership and operation of a range of services. (This is largely because the objectives of the public sector differ from those of profit-making organisations. For example, see the principle objectives of State Owned Corporations as defined in the NSW State Owned Corporations Act. It includes the requirement to "exhibit a sense of social responsibility", activities are to comply with "ecologically sustainable development" as well as having a "responsibility towards regional development" and other obligations.[5])

A well-resourced, quality public sector has an important role to play in sustaining living standards and helping to build fairness and socially inclusive societies. Below is a list of some of the advantages of having public sector ownership and operation of assets and activities:

- Maintains the reach and influence of public policy and democratic influence
- Maintains service delivery in response to market failure
- Safe guards the public interest e.g. where there are natural monopolies and the capacity to set high prices
- Provides a stable source of revenues from businesses which have characteristics of natural monopolies
- Provides capacity for wealth and resource redistribution where needed
- Is a more direct means of achieving social objectives and more resilient communities
- Avoids consumers being exploited by private sector control of monopolies providing basic services
- Can enable fair minded governments to set standards for employment practices, anti-discrimination and equal opportunity
- Can enable the planning for better integrated services without being derailed by competitive concerns of different units seeking profit for private owners
- Can enable a focus on safety issues as needed
- Enables public accountability and scrutiny instead of hiding things under "commercial confidentiality" clauses
- Allows flexibility to adapt for emergency community needs instead of sticking to limits of contractual clauses

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[4] This broad statement appears on the homepage of Public Services International. This is an organisation to which the ASU is affiliated. See the Public Services International website, <http://www.world-psi.org/en/issue/privatisation> accessed 20 January 2015.

[5] State Owed Corporations Act 1989 (NSW) s8.

- Enables long term investments in local infrastructure as opposed to profits shifting out of the nation
- Fosters the valuing of traineeships and staff development with a focus on quality outcomes
- Easier to regulate with checks and balances in place (compare to difficulty in regulating multinational corporations whose key interests are not with local communities)
- Knock-on longer term social benefits of a fairer society will cause less economic burden on the public purse in the longer term

Definition of privatisation

In this document, the term privatisation is understood to mean any process aimed at shifting functions and/or responsibilities, including the day to day management of a service previously provided by the public sector (the state) , either in whole or in part, from the government to the private sector or non-government sector. However, this document will focus on privatisation which results in an increased role for private profit-making organisations.

Privatisation can take various forms. A few examples of privatisation measures include the following:

- the transfer of ownership of assets from public ownership to private ownership
- the contracting out (also known as outsourcing) of activities traditionally performed by the public sector
- the leasing of public assets to corporations in the private sector
- the introduction of public private partnership (PPP) arrangements for tasks previously provided by the public sector or for new ventures involving PPPs
- the use of social bonds or similar to finance these endeavours
- a system of individual vouchering or other incentives which can result in funding shifts away from the public sector
- the management and or operation (including day to day) by the private sector of a service previously managed and or operated by the public sector
- the operation of shared services or other models of public service provision, now managed and or operated by the private sector

Advocates of privatisation often promote the process as a means of increasing performance, efficiency and competition while reduced prices for consumers.[6] But the results of extensive studies on privatisation do not provide strong evidence for these claims and a range of international studies have found very mixed results when analysing purported economic benefits and service improvements from the privatisation process.[7] Consequently an OECD report on Regulation, Competition and Privatisation noted the following:

> *The empirical work presented confirms that there is no automatic relationship between privatisation and performance improvement. Privatisation has been associated with improvements in performance in a number of cases but not all. Also, improvements in performance often pre-dated actual privatisation, leaving open the question of whether ownership matters.*[8]

Not only is it the case that purported benefits can fail to materialise, but further down the track it can become evident that there are many negative consequences for communities. An increasing range of studies have revealed the fallacy of assumptions about the private sector being inherently more efficient

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[6] For example see Infrastructure Australia, Australia's Public Infrastructure – Part of the Answer to Removing the Infrastructure Deficit, Infrastructure Australia, Canberra, 2012

[7] For example, see discussion in Valarie J. Sands and Graeme A. Hodge, Faculty of Law, Monash University, Clayton, Australia, "The Victorian Government's prison privatisation project (1992-2010): The pathway to cost efficiency? A longitudinal analysis"

[8] Stuart Holder, National Economic Research Associates (UK), "Privatisation and Competition: the Evidence for Utility and Infrastructure Privatisation in the UK", Twelfth Plenary Session of the OECD Advisory Group on Privatisation (AGP), OECD website <http://www.oecd.org/daf/ca/corporategovernanceofstate-ownedenterprises/1929658.pdf> accessed 12 March 2015.

than the public sector, as well as noting negative consequences following the privatisation of assets and services. Some of these latter studies will be explored in this report.

Over recent years community members have become more sceptical and pessimistic about claims of privatisation outcomes. This is particularly the case where they have directly experienced negative impacts. In order to deal with this level of scepticism, advocates of privatisation tend to adjust their rhetoric accordingly.

In an extensive report by the Centre of Full Employment and Equity ((University of Newcastle NSW) the current privatisation discourse is summarised in the following way:

> *Privatisation was initially justified on the promise of superior private sector cost-efficiency and service quality gains, vis-a-vis the public sector. As these largely failed to eventuate, emphasis shifted to exaggerating the necessity of public asset sales to lower or avoid public debt.*[9]

[9] Beth Cook, Victor Quirk and William Mitchel, *The Impact on Community Services of Staff and Service Reductions, Privatisation and Outsourcing of Public Services in Australian States*, Report 1, Centre of Full Employment and Equity (CofFEE), report prepared for the Community and Public Sector Unions (SPSF Group), Published by Centre of Full Employment and Equity, University of Newcastle, Callaghan NSW, June 2012.

Current privatisation environment

Infrastructure Australia (IA) is a statutory body, established under *the Infrastructure Australia Act 2008*. In October 2012, IA prepared a paper titled *Australia's Public Infrastructure – Part of the Answer to Removing the Infrastructure Deficit*.[10] The paper identified 82 profit-making government assets that they proposed could be sold to the private sector relatively quickly "with little structural or regulatory changes required".[11] These assets included power generators, airports, ports and water utilities. It was proposed that the list of assets for sale could include Snowy Hydro; the three NSW energy distributors (Ausgrid, Essential Energy and Endeavour Energy), water retailer Sydney Water; and ports in Newcastle, Gladstone, across Western Australia and in Tasmania.

It was argued that the sale of particular assets could result in significant funds which could be reinvested into new infrastructure. For example it was argued that: electricity sales could raise $108bn; water $96bn; ports $11bn; rail and airports $5bn.[12]

The report by Infrastructure Australia was well received by advocates of privatisation and those who believe that the sale of assets could lead to savings for households.[13] However others argued that many of the assumptions on which the paper was based are unrealistic and the privatisation would deplete public sector revenue raising avenues and leave big holes in government budgets further down the track. (This latter point will be explored further in later chapters of this document.)

The Infrastructure Australia report was uncritically embraced by Prime Minister Tony Abbott and in 2013 the federal government focussed on encouraging state governments to sell a broad range of public assets. As an inducement, the government agreed to contribute an additional 15 percent of the value of the state owned assets sold in order to re-invest the revenue into new infrastructure. Certain conditions were attached to this measure but the arrangements were none-the-less designed to encourage the sale of assets by state governments.

It should be noted however that Chris Legg, a Chief Adviser within the Commonwealth Treasury, has acknowledged that the Commonwealth Government could benefit from the taxing of the privatised entities. He was also aware that the 15% contribution was not intended to fully compensate a state for the loss of the revenues from the tax equivalents that the states would normally be able to keep had the assets remained in public ownership.[14]

The federal government's inducement scheme has been met with mixed reaction by State Premiers. For example when Prime Minister Tony Abbott travelled to Tasmania in July 2014 in an effort to convince that

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[10] Infrastructure Australia, Op. Cit.
[11] Ibid., p 29.
[12] Jacob Greber, "Adviser seeks $220bn privatisation to pay for new infrastructure", *Australian Financial Review, 18 October 2012,* <http://www.afr.com/p/national/adviser_seeks_bn_privatisation_to_0LDvT11tw50f1sjJRHZzyH> accessed 12 March 2015.
[13] Joanna Heath, "Gillard backs electricity sell-off report" *Australian Financial Review*, 18 October, 2012, <http://www.afr.com/p/national/govt_backs_electricity_sell_off_lALSG3JYmOFTShNKB4QWVL> accessed 12 March 2015.
[14] Emeritus Prof Bob Walker and Dr Betty Con Walker, *Electricity Privatisation: Bad Financial Management*, Briefing Paper, February 2015, p21.

state to sell its energy assets, the Premier, Will Hodgman, reaffirmed the State Government's intention to turn down the deal.[15]

The Western Australian government, under the leadership of Colin Barnett has been very receptive to Tony Abbott's privatisation agenda. As noted by the ASU WA Branch Secretary Wayne Wood who said:

> *"Since being elected, Colin Barnett has privatised hospitals and prisons, and he is now moving on to water, ports and power".*[16]

While some Premiers have agreed with the Abbott approach, public opposition to privatisation remains strong.

[15] ABC News, 'Tony Abbott, Joe Hockey push for energy asset sales as Tasmanian Economic Council meets', ABC website 31 July 2014, <http://www.abc.net.au/news/2014-07-31/prime-minister-tony-abbott-to-join-tasmanian-economic-council-m/5637226> accessed 4 March 2015.

[16] Useyourpower.com.au, Media release, "Barnett must take privatisation plans to election, following Queensland result", Monday 2 February 2015, <http://www.useyourpower.com.au/media-releases/barnett-must-take-privatisation-plans-to-election-following-queensland-result-14> accessed 5 March 2015.

Public opposition to privatisation

There is considerable public opposition to privatisation because of experiences of the longer term negative economic and social impacts. As a consequence, governments of various political persuasions have experienced an electoral backlash when pushing privatisation agendas.[17]

Perhaps it is timely to remind governments that many voters are of the view that the public assets belong to the people - governments are merely the stewards of those assets.[18] The extent to which government action reflects the wishes of the public on the issue of privatisation is a reflection of their degree of commitment to democratic processes and the interests of the population over and against other interests.

As has been indicated previously, a more recent strategy used to try to persuade communities to agree to privatisation, has been to link together the issue of asset sales with the need for new infrastructure investment – sometimes with added financial incentives! This form of persuasion can appear to be quite coercive or manipulative when couched in rhetoric highlighting the 'urgency' of the process and accompanied by threats or financial penalties if the privatisation strategy is not supported.[19]

Because strong community opposition to privatisation has arisen from the experience of privatisation in practice, it is appropriate that this section of the report includes a privatisation experience which was dubbed "a financial disaster" – the sale of the State Bank of NSW.[20]

CASE STUDY: Sale of the State Bank of NSW

> The following information about the Sale of the State Bank is drawn from extracts of various publications and submissions by Professor Bob Walker and Dr Betty Con Walker.[21]
>
> There have been experiences which demonstrated that governments have made premature sales and under conditions which should have undergone closer scrutiny. Such was the case with the 1995 sale of the State Bank by the Fahey Liberal Government in NSW. The Bank was sold to Colonial Mutual for the headline price of $576 million.
>
> One of the conditions of the sale was that the NSW Government would assume most of the risks of bad debts on a $13 billion loan book. After the first $60 million in bad debts, prospective purchasers were to be reimbursed for 90% of any further losses.

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[17] In recognition of this, some politicians and advocates go to significant lengths to avoid using the term 'privatisation' and may use other euphemisms for the same strategy. Some adopt strategies which can be referred to as "privatisation by stealth" and insist on low profile measures in an attempt to avoid attention or public scrutiny. For critical discussion on the tendency of various governments to ignore public opinion on privatisation and the electoral consequences see Mike Seccombe, "Sell! Sell! Sell!", *The Saturday Paper*, 4-10 October 2014 p8.

[18] This view is strongly presented in Michael Johnson and Stephen Rix. (eds), *Water in Australia: Managing Economic, Environmental and Community Reform*, Pluto Press Australia in association with the Public Sector Research Centre, University of NSW, 1993.

[19] John Ferguson, 'Vote for Victorian Labor and you can kiss goodbye to $3bn, says Tony Abbott', The Australian, 26 November 2014

[20] For more detail see the publication by the then Dr Bob Walker and Betty Con Walker, *Privatisation: sell off or sell out? The Australian experience*, Published by ABC books for the Australian Broadcasting Commission, 2000, p 265f.

[21] Ibid. See also the reissued publication with a New Introduction by Sydney University Press in 2008.

The headline price paid from the sale was quickly eroded by indemnity payouts. The net sale proceeds were as little as $80 - $100 million. This was less than one year's profits. In the first year of private ownership the bank recorded a pre-tax profit of $146.9 million.

"Before Colonial merged with the Commonwealth Bank in 2000, an Independent Expert's Report included a valuation of Colonial's banking business – which, (apart from very minor investments in Tasmania and Fiji), was for all intents and purposes the old State Bank of NSW. The valuation, only four years after the State Government's sale of the bank for what may be as little as $80 million, was in the range $2.5 billion - $2.75 billion. In other words, the State of NSW lost more than $2.5 billion."

The major mistake was to evaluate the 'sell' or 'retain' options using a discount rate based on market-determined estimates of the private sector cost of capital.

Professor Bob Walker and Dr Betty Con Walker considered that this sale "deserves to be regarded as one of Australia's worst financial scandals of the last century." The arrangements put in place meant that "the State of NSW lost around $2.5 billion" from the premature sale "sold at the wrong time", "for the wrong reasons" and "on the wrong terms".[22]

Australian communities are not alone in raising concerns about privatisation and challenging assumptions on which pro-privatisation arguments are based. By way of example, a research centre based in Washington called *In the Public Interest* (IPI) provides resources for communities which are concerned about impending privatisation measures or have experienced significant losses resulting from privatisation.[23] The organisation examined the race to the bottom for local economies, as wages and benefits fall while corporate profits rise. IPI has revealed many experiences which have caused dismay and anger in communities and highlighted the need for greater transparency and accountability. The following is an example of a Mayor who failed to address basic questions before deciding to contract out a service.[24]

For example, former Chicago Mayor Richard Daley rushed the proposal to lease the city's parking meters for 75 years through the city council in just a few days after they (and the public) were given the details of the deal.

Daley made the hard sell promising a buyer with $1.15 billion to fill Chicago's budget hole if they acted quickly. Only after the deal was done and the dust settled did they learn that they sold nearly $1 billion too cheaply and that they had given away their rights for 75 years to manage the city's traffic and land use to investment giants Morgan Stanley, Abu Dhabi Investment Authority and Allianz Capital Partners. [Note: Daley just joined Katten Muchin Rosenman LLP, the law firm that negotiated the deal to privatize Chicago's parking meters.][25]

Along with the description of this Chicago experience, IPI presented ten questions and commentary which should be put to decision makers. The list below is a paraphrase of this information:

1. **Does the contract limit our democratic rights?** (Questions should be raised about particular types of clauses in the contracts.)

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[22] Ibid, see also Prof Bob Walker and Dr. Betty Con Walker, Submission to "Consultative Reference Committee on Proposed Changes to Electricity Supply in NSW", February 2008, p 28f <http://sydney.edu.au/business/__data/assets/pdf_file/0003/92442/Submission_Electricity_Sale_Bob_Walker.pdf> accessed 11 March 2015.

[23] See website of In the Public Interest: A Comprehensive Resource Center on Privatisation and Responsible Contracting, <http://www.inthepublicinterest.org/about-us>.

[24] In the Public Interest, leaflet available from the website titled "Ask the Right Questions Before Privatization", <http://www.inthepublicinterest.org/about-us> accessed 5 March 2015.

[25] Ibid.

2. **Will we still have the "Right To Know"?** (give attention to confidentiality arrangements and implications for accountability and transparency)
3. **Are there perverse incentives that could work against our public policy goals?** (What are the implications of the shift away from 'public good' to profit making and how can it derail broad social objectives).
4. **How will we hold the contractors accountable to the public?** (Contractors need to be watched closely but if public agencies have experienced staffing cuts there will not be enough ability for adequate monitoring).
5. **Do we have a Plan B?** (When contractors fail to deliver, how do you step back and fill the void after you have already sold off the equipment and downsized frontline workers who knew how to do the work?)
6. **Will all the out-sourced jobs have health care benefits?** (The related discussion on this point raises a number of issues about how private corporations may cut costs in a way which reduces benefits and protections for workers).
7. **If a private company thinks they can make money owning our parking lots, why can't we?** (selling revenue-generating assets doesn't make economic sense in the long run).
8. **What are the limits on the private contractor's ability to raise fees, tolls or rates?** (After privatisation, the public often ends up paying higher charges and the money goes to the private corporation, so why not keep the assets in public hands and raise changes to put back into expanding public services?)
9. **50 years? 75 years? You're kidding?** (A lot can change in the life time of long term contracts; future generations may have to face problems relating to a bailout because politicians thought they knew what was in the future!)
10. **Have you read the contract? (the devil is always in the details)** (Contracts often have provisions which can have an impact on things we care about. Close public scrutiny is needed).[26]

There are always important questions which need to be asked prior to any decision about whether or not to privatise assets and services. The questioning and decision-making should involve communities and be part of a more transparent and accountable process.

[26] Ibid.


ELECTRICITY
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PRICES
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THE NSW
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SELLOFF

Privatisation and deteriorating funding streams

Public sector ownership and operation of revenue generating business enterprises have played an essential role in the core business of government because they have helped ensured the supply of funds that enable the government to meet its obligations. The sale of many public assets proved to be unwise and resulted in detrimental impacts on the public purse (refer previous discussion on the sale of the State Bank of NSW).

Taxation and other measures also raise revenue needed, but governments have been hesitant to increase taxes. At the same time, governments complain that they are increasingly facing situations where they do not have an adequate supply of revenue coming into the public purse to meet the needs of the nation.

Some analysts are now arguing that it is time to expand those sources of revenue by ensuring multinational corporations pay their fair share of taxes[27] and that governments should also commit to the retention and expansion of public sector business opportunities for raising funds (reversing privatisation strategies).[28]

Whilst advocates of privatisation argue that certain revenue raising activities are not part of the 'core business' of government, this approach fails to acknowledge that a core responsibility of government is to ensure that sufficient revenue is available to provide services and facilities needed by the nation.

The appearance of benefit derived from a one-off sale of an asset (or leasing to the private sector) needs to be compared to the loss of long term benefit which would normally derive from continuing public ownership and control of assets and activities.

A number of academic studies have demonstrated that whilst privatisation may provide an initial injection of funds into the state coffers, it does not solve the problem of funding shortfalls for infrastructure in the longer term. Indeed it can make the situation significantly worse.[29] As governments privatise profitable public sector enterprises they curiously turn to the public and claim there is over-spending, while failing to acknowledge their own role in reducing the supply of funding coming into the public purse.

By way of example, a briefing paper by Prof Bob Walker and Dr Betty Con Walker[30] demonstrates that the NSW Government's plan, to privatise profitable electricity assets in order to fund a claimed $20 billion worth of projects over ten years, is bad policy and bad financial management. Dr Bob Walker, an Emeritus Professor of Accounting at the University of Sydney argued that:

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[27] United Voice and the Tax Justice Network - Australia, in consultation with corporate tax expert Dr Roman Lanis of the School of Accounting at the University of Technology, Sydney, *Who pays for our common wealth? Tax practices of the ASX 200*, <http://www.unitedvoice.org.au/news/who-pays-our-common-wealth> accessed 27 November 2014.
[28] John Quiggin Opinion and Consulting, *Electricity Privatisation in Australia: A Record of Failure*, Report Commissioned by the Victorian Branch of the Electrical Trades Union, February 2014, <https://www.etuvic.com.au/sites/etuvic.com.au/files/etu_electricity_privatisation_report-lr.pdf> accessed 16 December 2014.
[29] Walker and Con Walker Electricity Privatisation: Bad Financial Management, Op.Cit.
[30] Ibid.

> *If two of the agencies slated for partial or full sale had prepared their financial statements on the same basis as listed public companies, they would have reported returns on shareholders' funds of 80% to 82% per annum – returns he describes as 'super profits'.*[31]

Prof Walker also stated that:

> *Obviously it's crazy to be selling assets that are producing such high rates of return – before getting any benefits from their just-completed five year program of capital works. Earnings from their retention could help pay for future investment in priority infrastructure projects, particularly in schools, hospitals and public transport.*[32]

At this point, it is worthwhile reiterating that many public assets generate ongoing income streams, some of which get put into the State Budget. For example dividends and tax equivalents go toward the State Budget for redistribution to other services such as health and education. When a state owned business is privatised, the states no longer obtain these dividends and tax equivalents. But this only tells part of the story. In addition, to the dividends and tax equivalents there are the loan guarantee fees (which do not go directly into the Budget) and there are retained earnings.[33] For instance, the NSW network agencies pay loan guarantee fees (estimated to be approximately $340 million per annum which go to TCorp). In addition, there are undistributed profits of the network agencies which total approximately $2.6 billion.[34]

Walker and Con Walker identified that the budget impact of the partial privatisation of electricity which took place in NSW in 2010, would have a negative impact on the budget of $347 million in the period to 2014-15.[35] Nevertheless the remaining electricity businesses continued to be a boost to the NSW State Budget.

> The 2014-15 Budget Papers show that in the period 2012-13 to 2017-18, the state Budget was expected to receive some $7.075 billion from electricity agencies, with most - $6.956 billion coming from network agencies. Following higher than expected payments of $1.701 billion in 2013-14, on the basis of the Budget data, the total would actually be $7.438 billion.[36]

In early 2015 however, the Baird Coalition Government continued to work toward further sale of the electricity assets and planned to plough the proceeds into infrastructure which would not generate dividends. Consequently the budget is expected to experience a considerable loss of funds over time if this strategy were to eventuate.

The Walker and Con Walker Briefing Paper provided examples of how the NSW State budget would be detrimentally affected without the contributions from the electricity agencies boosting the Budget.[37] This is shown in the following table which has been reproduced from the Walker and Con Walker briefing paper[38]:

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[31] Prof Bob Walker & Dr Betty Con Walker, Media Release - Electricity Privatisation: Bad Financial Management, 27 February 2015, p1.
[32] Ibid.
[33] Walker and Con Walker, Electricity Privatisation, Briefing Paper, Op.Cit.
[34] Ibid, p i-iv and p8.
[35] Ibid., p 4.
[36] Ibid., p5.
[37] Ibid. p6.
[38] Ibid. Table 4, p6

NSW Budget results 2011-12 to 2017-18: Impact of loss of electricity revenues

	2011-12 Actual $m	2012-13 Actual $m	2013-14 Actual $m	2014-15 Revised $m	2015-16 Estimate $m	2016-17 Estimate $m	2017-18 Estimate $m
Budget result with electricity revenues	660	(1300)	1,247	272	402	1,096	1,038
Less electricity revenues	1,427	1,790	1,701	1,194	952	946	855
Budget result without electricity revenues	**(767)**	**(3,090)**	**(454)**	**(922)**	**(550)**	**150**	**183**

Source: Emeritus Prof Bob Walker and Dr Betty Con Walker, *Electricity Privatisation: Bad Financial Management*, February 2015, Table 4, p6, based on data presented in 2013-14 NSW Budget Paper No. 2, p1-3, 2014-15 NSW Budget Paper No. 2, Report on State Finances 2013-14, p 4-2,Auditor-General's Report to Parliament Volume Five 2014 focusing on Electricity and Water, 11 November 2014, and the 2014-15 Half-Yearly Review, 18 December 2014, p.11.

As can be seen from the table above, without electricity revenue, the State Coalition Government would have recorded deficits in each of its four years in office and continue to have impacts into the future. The State's 2013-14 Budget surplus of $1,247 billion would have been a deficit of $454 million and the 2014-15 forecast surplus of $272 million would be a deficit of $922 million.

The Walker and Con Walker briefing paper provides evidence which demonstrates why the NSW Baird Government's privatisation plan is "bad financial management". This is argued on the bases of evidence that further electricity privatisation would damage State finances and is not in the public interest. In addition, the paper explores sources of information which demonstrate how the State Government's privatisation proposals have included false and misleading information.[39]

Recent media revelations have also drawn attention to accusations that the NSW Premier, Mike Baird, interfered with a report by UBS on the privatisation of electricity assets.[40] UBS is one of the government's own privatisation advisors.

> The UBS issued a briefing note to clients on Tuesday that said the privatisation was good for the state, but bad for the state budget in the long run.[41]

After the release of the briefing note, the Premier was said to have admitted that the report "was altered after his office contacted the bank". The issue was said to be "particularly sensitive for UBS, which is one of two banks advising the government on the sale".[42]

Despite what may have happened behind the scenes at UBS, evidence is mounting about the economic and social benefits of retaining public assets such as electricity networks. Other studies have been consistent with the analysis of Walker and Con Walker. For example, Professor John Quiggin[43] explored evidence of

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[39] Ibid. p3-33

[40] See Mark Coultan and Simon King, "UBS altered power report after call from Baird's staff", *The Australian,* 19 March 2015, p8.

[41] Ibid.

[42] Ibid.

[43] Professor John Quiggin is an Australian economist, and an Australian Research Council Federation Fellow and a Laureate Fellow at the University of Queensland.

the financial disadvantage faced by states that privatised their electricity sectors in the 1990s (Victoria and South Australia) compared to those that retained their public ownership at that time.[44]

Quiggin's extensive study concludes that:

> *Privatisation has produced no benefits to consumers, but has resulted in large fiscal losses to the public.*[45]

Dr Phillip Toner in his analysis of the electricity industry also stressed the benefits of retaining public ownership. He also notes that where state government is itself a major consumer of electricity there can be particular advantages -

> *By retaining the assets government effectively internalises the expenditure and revenue to the direct benefit of taxpayers. By retaining the assets not only is government increasing its revenue base….*
>
> *It is also adding significantly to growth in its net asset base by helping to pay off infrastructure investments.*[46]

Studies which draw attention to the undervaluing of assets in the lead up to privatisation have received particular attention by some media outlets. For example, an article in *The Saturday Paper* published in October 2014 noted:

> *"One study by Bob Walker, professor of accounting at Sydney University, and Betty Con Walker, an economist and former treasury official, which compared the share values post-privatisation to the float prices, reckoned Commonwealth privatisations alone were $43 billion undervalued".*[47]

The undervaluing of assets within any privatisation process is a particularly disturbing means of betraying the taxpayers who helped to build the assets in the first instance.

As has been noted, in addition to dividends, state governments derive benefit from notional tax equivalents paid by the state-owned enterprises under the National Tax Equivalent Regime[48]. Once the state owned corporation is privatise, the taxes paid by the private companies will normally go to the Commonwealth Government. However, privatisation can expand opportunities for tax minimisation strategies of private corporations - significantly reduce the amount of anticipated taxes from the new private owners of the assets. The dispute between the Australian Taxation Office and the owners of Victoria and South Australia's privatised electricity networks is an example which has spilled over into the public arena. On 17 March 2015, an article in *The Australian* reviewed the ATO battle over the profit shifting and tax minimisation activities of the corporations.[49] The article reported that the owners of the networks have now forfeited $1.1billion in tax losses as part of the process and Spark Infrastructure and AusNet Services have also been forced to pay tens of millions of dollars in back taxes as a result of action relating to financing structures widely used in infrastructure and property financing. The ATO is continuing its pursuit of Spark Infrastructure under anti-avoidance provisions.[50]

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[44] John Quiggin Opinion and Consulting, Op Cit.
[45] Ibid p39.
[46] Dr Phillip Toner, *Electricity Privatisation in Australia: A Briefing Note*, Department of Political Economy, University of Sydney, Australia, October 2012, p6.
[47] Mike Seccombe, "Sell! Sell! Sell!", *The Saturday Paper*, 4-10 October 2014 p8.
[48] See ATO, *Manual on the National Tax Equivalent Regime* available on the Australian Taxation Officer website <https://www.ato.gov.au/Business/Bus/National-tax-equivalent-regime-manual/>.
[49] Andrew White, 'Power firms in $1.1bn tax stoush', *The Australian*, 17 March, 2015, p 19 and 23.
[50] Ibid, p19.

In its submission to the Senate inquiry[51] into corporate tax avoidance, the ATO stated the following:

> *Privatisation and infrastructure investments give rise to a number of tax issues, spanning financing tax risk, tax deductibility of certain expenditure (capital gains tax on sales of capital assets) and capital allowing for depreciable assets".*[52]

In relation to offshore tax evasion, the ATO submission noted that such evasion "often involves the use of complex structures and secrecy jurisdictions to conceal assets and income".[53]

The Australian article noted that the schemes attacked by the ATO involved loans to the operating divisions of Spark and AusNet by their majority owners, Hong Kong's Cheung Kong Infrastructure and Singapore Power. The lower tax bills allowed Spark and AusNet Services (formerly SP AusNet) to pass on higher profits to offshore investors.[54]

Whilst it may be possible for the ATO to claw back some of the taxes (which should have already been paid by the various corporations), it is clear that the pursuit of such companies by the ATO and other regulatory authorities requires adequate funding and ongoing vigilance. The associated legal and other cost involved in monitoring and regulating privatised infrastructure investments tend to be overlooked by proponents of privatisation when they argue in favour of the financial benefits of the process.

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[51] On 2 October 2014 the Senate referred the inquiry into corporate tax avoidance to the Senate Economics References Committee for inquiry and report by the first sitting day in June 2015, Australian Parliament House - Current Senate Inquiries website, <http://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Economics/Corporate_Tax_Avoidance> accessed 17 March 2015.

[52] Australian Taxation Office, ATO Submission – Senate Economics Reference Committee, Inquiry into corporate tax avoidance and minimization, 2 February 2015, p26.

[53] Ibid p25.

[54] Andrew White, Australian, Op. Cit.


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Natural monopolies and essential services

In the formative years of infrastructure development in Australia, key decision makers (including colonial governors and later elected governments) had the foresight to recognise the importance of investment in large infrastructure projects. Over time, the provision of important services such as waste removal and the provision of fresh water to key population centres, helped to dramatically improve the health and life expectancy of growing populations.[55] As technology developed, energy and gas supply became essential to modern living. Many of these valued services and assets have characteristics of natural monopolies - with high capital costs, significant market size and technological costs which would restrict competition or make competition undesired.

Professor John Quiggin, University of Queensland made the following observation:

> *While the ideology of privatisation is almost universally accepted among the policy elite and in the financial sector, it's the reverse of the view that prevailed in Australia for most of our history, and worked well enough to provide us with the assets we are now arguing about.*[56]

Public sector enterprises which are natural monopolies or have oligopolistic structures should be considered particularly unsuitable for competitive markets and privatisation for a number of reasons. Chief among these is that the market power gained by the private owner would give them the capacity to abuse their position in favour of shareholders but against the public interests.[57]

'Essential services,' as the name implies, are basic for public needs. Today, the type of items which members of the public may considered 'essential services' could include infrastructure relating to water, sewerage and electricity.[58] (However, there may be various other services which individuals also considered essential in a modern society.)

Because of the essential nature of such commodities, governments tend to be committed to ensuring that such service provision is of a certain standard of quality and reliability. It is understandable that they should want to reduce the risk from significant disruptions to supply. Public sector management and control of such assets have been critical and played a significant role in the health of the community and the strength of the national economy.

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[55] For example, the introduction to waste collection and street cleaning services in urban environments are reputed to have had a considerable impact on the decline of disease for example see historical notes, 'Minding the Streets'; on the City of Sydney Council website <http://history.cityofsydney.nsw.gov.au/sydneystreets/Minding_the_Streets/Street_Cleaning/default.html>.

[56] John Quiggin, '*Privatisation is not a magic pudding', 22 August 2014*, <http://johnquiggin.com/2014/08/22/privatisation-is-not-a-magic-pudding/> accessed 16 October 2014.

[57] It should be noted at this point that political rhetoric about the advantages of increased competition and privatisation tend to rely on economic theory of perfect competition and the "invisible hand" guiding rational self-interest to achieve optimal outcomes. However when applied in arguments to advance the privatisation of many valued public assets, the arguments are often based on slim evidence. Textbook models of perfect competition are based on a number of assumptions. These include assumptions about the availability of numerous potential suppliers; absence of risk; free entry and costless exit of suppliers; in addition it assumes that consumers are perfectly informed of their options. Most, if not all, of these assumed elements do not exist in many of the circumstances in which competition policy and privatisation processes have been initiated in public sector essential services (such as in the electricity industry).

[58] NB this definition here in this document is not used in the narrow legislative sense as defined in various Essential Services Legislation but in a broader sense of common usage.

If private corporations are allowed to take ownership and control of these important assets, they can be fairly confident of secure income streams and a relatively influential position in the economy. Knowledge that governments do not want market failure to take place also provides the private company with some leverage with the governments, as well as significant market power.

Corporations, which gain control over assets or obtain contracts for services in areas of natural monopolies, can further strengthen their market dominance as they drive away competition or absorb competitors to form even larger conglomerates.[59] Whilst natural monopolies (such as electricity generation, transmission and distribution) have been subject to competition and privatisation in various nations, it has been with considerable risk and cost to governments and their populations.

In many respects the privatisation of essential services is poorly conceived policy. Indeed, Professor John Quiggin goes further and refers to the high rates of return for the low investment risk in the privatised electricity industry as "unjustifiable and irresponsible."[60]

[59]For example discussion by Lyn Fraser, on the privatisation of waste management services contains relevant discussion on this topic in the publication, *Competitive Tendering and Contracting-out of Local Government Services in Australia*, Discussion Paper No. 26, Public Sector Research Centre, University of NSW, 1992, section titled 'Strategic Behaviour of Private Contractors' on p9f

[60]John Quiggin Opinion and Consulting, *Electricity Privatisation in Australia: Op Cit.* p5

Ensuring the quality and supply of water

Water is the basic building block of all life. It is essential for our livelihood, the functioning of our industries, the sustaining of the environment and the quality of our lives. The nature of the substance is such that its quantity, quality and distribution has significant impacts on living standards, the environment and human activity.[61]

Access to water is a key public good and the water industry is considered to have characteristics of a natural monopoly.[62] On a global scale, many water resources have been subjected to significant degradation. In 2010 the United Nations (UN) recognised water as a human right and yet almost one quarter of the world's population faces economic water shortage. Indeed, water scarcity is considered by the UN to be among the main problems to be faced by the World in the 21st Century.[63] Consequently decisions and action taken at a national or regional level may have far reaching impacts extending beyond the bounds of a nation state.[64]

In Australia, the management of water is a fairly complex arrangement involving five levels – national; cross-border; state/territory; regional and local.[65] At the current time, the Australian Government, National Water Market website, lists five water management functions. These include the following:

- Water pricing and economic regulation
- Water planning and management
- Water markets
- Water supply and services
- Water quality management[66]

In 1993 an extensive range of professionals, including scientists, economists, academics, environmentalists and others[67] contributed to a ground-breaking publication titled *Water in Australia: Managing Economic,*

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[61] M Johnson and S Rix (Eds*), Op. Cit*, p131.
[62] Ibid.
[63] See United Nations website for the International Decade for Action 'Water for Life' 2005-2015, <http://www.un.org/waterforlifedecade/scarcity.shtml> accessed 25 February 2015.
[64]Threats to our future water supply and natural aquafers are not insignificant. Indeed, the development of some industries has exacerbated the threat to some water resources and escalated conflict between various industries and communities. Whilst exploration of the range of such issues do not fall within the scope of this current paper, it should be noted that in recent times community members have increasingly expressed frustration at the perceived cavalier attitude of some industries in relation to water resources, for example see SBS News item, CSG ban in NSW 'doesn't protect drinking water' SBS <http://www.sbs.com.au/news/article/2013/02/19/csg-ban-nsw-doesnt-protect-drinking-water>. Furthermore, the privatisation of publically owned and operated water infrastructure remains unpopular with voters who hold the view that water supply should not be simply treated as yet another saleable commodity.
[65] Australian Government, National Water Market, Water Management <http://www.nationalwatermarket.gov.au/about/management/index.html> accessed 26 February 2015.
[66] Ibid.
[67] The list of contributors included: Jason Alexandra (Australian Conservation Foundation), Kevin Daly (University of Western Sydney), Peter Ewer (private consultant), David N Eyre (Australian Conservation Foundation), David Howell (private engineering consultant), Michael Johnson (Public Sector Research Centre at University of NSW), Colm Kearney (Professor of Economics, University of Western Sydney), Clem Lloyd (Professor of Journalism, University of Wollongong), Karen Manning (Lecturer, Victoria University of Technology), Stephen Rix (Public Sector Research Centre), Robert Walker (Professor of Accounting University of NSW), Genevieve Watson (Assoc Lecturer in Economics, University of Western Sydney).

Environmental and Community Reform.[68] This forward looking publication explored various aspects of the water industry. It noted that water cycles could not be taken for granted and an extensive range of recommendations were put forward with the aim of assisting to improve the sustainability of water resources through improved and appropriate planning and management. A number of threats to the sustainability of water supply were identified in the document, along with the recommendations for addressing the issues of concern.

In relation to the issue of the corporatisation and privatisation of waste, sewerage and drainage services, the document noted that, rather than improving service provision these measures were "likely to make control and coordination of the industry difficult".[69] The publication concluded that there continues to be "strong rationale for public involvement in the industry including the provision of its capital infrastructure."[70]

By 1994, water reform was placed on the COAG national agenda and a National Water Initiative was agreed to at the 2004 COAG meeting.

Since the turn of the 21st century, there have been various attempts to privatise the water industry in Australia.

The current Abbott Liberal/Coalition Government is working with state and territory governments to develop a National Water Market System. In addition, legislation governing water trade in Australia is going through a "reform" process at the national and state/territory levels. The stated aim of the reform is to "remove barriers to water trade, thus reducing market distortions and facilitating a freer trading process."[71]

In addition, the Australian Government has been enthusiastically promoting an expansion of private sector investment opportunities to international investors.[72] As part of this process the Australian Trade Commission publication *Investment Opportunities in Australian Infrastructure*, promotes investment in Australia because it is "stable", "resilient" and "prosperous." It noted that:

> The Australian Government sees private sector investment as a key to accelerating infrastructure development at a time of constrained public budgets. It is actively investigating ways to make it easier for private companies to participate in the country's infrastructure sector.[73]

Because water is an essential need for survival, many community members are increasingly of the view that control of water should not be given to entities whose primary purpose is to maximise profit. A key concern is that the process reduces government and public accountability and control geared toward quality issues, continuity of supply and sustainable planning.

At the present time of increased uncertainty and concern (particularly about the depletion of valued resources, environmental degradation, increased intensity of weather patterns and severity of natural disasters) it seems that a prudent move would be to maintain options which allow for continued public accountability and control in the management of key resources.

[68] M. Johnson and S Rix (Eds*), Op Cit.*
[69] Ibid. p xvii
[70] Ibid, p132.
[71] Australian Government, National Water Market*, Op. Cit.*
[72] Australian Trade Commission (ATC) and Australia Unlimited, *Investment Opportunities in Australian Infrastructure*, ATC, Sydney, June 2014.
[73] Ibid p5

Nevertheless, various governments in Australia have implemented privatisation measures in sections of the water industry and engaged in the granting of contracts which have raised the ire of communities and in some cases has had electoral consequences. There is particular concern about water privatisation which leads to control by foreign water companies which have already had a history of flouting community water quality standards or had a negative impact on local democracy.

As contracts are usually developed under the cloak of secrecy and protected by 'commercial in confidence' clauses, it is little wonder that many communities are concerned that some privatisation processes provide increased opportunity for conflicts of interest, loss of accountability and possibly corruption, in the absence of adequate transparency measures.

For example, in Victoria, the Office of Living Victoria (OLV) was established in May 2012 by the previous Napthine Liberal/Coalition Government to integrate the planning of Melbourne's water cycle system (rainwater, storm water and wastewater) into the broader urban planning framework and to change the way water services were managed in the State. However, community concerns grew because of reports of conflicts of interests in contractual arrangements.[74]

In August 2014, a Victoria Auditor General report discussed the extensive use of private public partnerships to finance, design, build and operate new water and wastewater treatment facilities.[75] Increasingly, projects were being designed to establish a State-wide water market to facilitate the privatisation of Victoria's water.

On the 28 February 2015, the newly elected Labor Government launched an independent inquiry into the water agency (OLV) in response to growing community concerns and an Ombudsman's report which was critical about conflicts of interest in relation to OLV arrangements with contractors and consultants hired to do work for the office.[76] Many communities across Victoria will have a keen interest in the outcome of this inquiry because of the revelations of conflict of interest which have already been uncovered.

In NSW in 2014, privatisation proposals included strategies, for the State-owned Sydney Water, to outsource the treatment of water discharged into rivers and oceans.[77] ASU members within the NSW and ACT (Services) Branch have consistently campaigned against water privatisation raising various concerns including: possible customer price increases; uncertainty about the preservation of water quality; possible ownership by foreign corporations (with scant accountability to local communities); loss of job security; loss of corporate local knowledge as local employees are displaced, as well as other negative consequences for current employees and communities.[78]

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[74] ABC, ABC News, "Office of Living Victoria contracts, enders to be examined by independent inquiry", <http://www.abc.net.au/news/2015-02-25/victorian-water-agency-contracts-grants-to-be-examined/6260588> accessed 12 March 2015.

[75] Victorian Auditor-General's Report, *Operating Water Infrastructure Using Public Private Partnerships*, August 2014, <http://www.audit.vic.gov.au/publications/20130821-Water-infrastructure-PPPs/20130821-Water-infrastructure-PPPs.pdf>, accessed 26 February 2015.

[76] See Victorian Ombudsman website for publication *Investigation into allegations of improper conduct in the Office Of Living Victoria*, <https://www.ombudsman.vic.gov.au/Publications/Parliamentary-Reports/Improper-conduct-in-the-Office-of-Living-Victoria>.

[77] Nicole Hasham, 'Sydney Water looking at privatisation, documents reveal', *SMH*, 3 August 2014, <http://www.smh.com.au/nsw/sydney-water-looking-at-privatisation-documents-reveal-20140803-zyfsx.html> accessed 3 March 2015.

[78] ASU, Sydney Water Not For Sale, ASU website: <http://www.asumembers.org.au/sydney-water-not-for-sale.html> accessed 12 March 2015

At the present time, both foreign corporations and home grown private companies are increasing their involvement in Australia's water industry. There are many examples of this private sector expansion for example, the private public partnership relating to the Mundaring Water Treatment Plant facility in Western Australia is a particularly long term project of 35 years. It consists of a consortium of Brookfield Multiplex, Acciona Agua and United Utilities Australia. The project involves the design, building, operating and financing and is valued at $360 mil.[79]

Two large French multinational companies - Suez Lyonnaise des Eaux and Vivendi (previously known as General des Eaux) -continue to increase their dominance on the global stage and have also established themselves in Australia. By 2002, these two corporations controlled over two thirds of the global water market infrastructure in over 100 countries and were active in other industrial sectors through various subsidiaries.[80]

In Australia they have benefitted from the privatisation of state government facilities. For example Vivendi held a stake in United Water which managed Adelaide water system following its privatisation through contracting out in 1996. It has also operated facilities in other states and has been involved in take-overs of various other companies active in Australia (for example US Filter Corporation).[81]

These corporations have actively lobbied governments and promoted privatisation. It has also been contended that they have been known to undermine local democracy. For example, see below extract from a paper by Mick Paddon et al[82] on corporate globalisation. The paper, prepared for the ACTU, provided a critical perspective of the activities of Suez Lyonnaise des Eaux and Vivendi.[83] It was argued that the activities of the two corporations contributed to the "weakening of local democracy" in the following ways:

- **Putting pressure on democratic institutions**: these [multinational corporations] MNCs have been parties to the pressure from international agencies, such as the World Bank and similar regional institutions, to pressure governments to accept privatization agendas. The European Bank of Reconstruction and Development issued its first loan, of 90m pounds sterling, for municipal services in Central and Eastern Europe in 1995. The money went to Lyonnaise des Eaux, not a country or government[84].
- **Cronyism and corruption**: the French system of privatization through delegated management has led to widespread corruption in which officials of both companies have been convicted. In 1996 a former mayor and government minister and senior executive of Lyonnaise des Eaux both received prison sentences for receiving and giving bribes to award a water contract to a subsidiary of Lyonnaise des Eaux in the French town of Grenoble. Executives of Generale des Eaux were convicted of bribing the mayor or St Denis I France to obtain water contracts. Both companies (with a third French MNC) were subject to investigation about a corrupt cartel for building work for schools in the Ile de France region near Paris[85].
- **Perversions of Local Justice:** Both companies have tried to avoid accountability to local courts or processes when issues have arisen about contracts. In Tucuman, Argentina, when an incoming government tried to

[79] Australian Government, ATC, Australia Unlimited, *Investment Opportunities in Australian Infrastructure brochure*, June 2014, p11
[80] See Melita Grant, *Privatising and Corporatising Australia's Water*, Aid/Watch, October 2002 <http://www.aidwatch.org.au/wp-content/uploads/2014/06/article-water-privatisation-2002.pdf>
[81] M. Paddon, P. Ewer, K. Skilros, *The Face of Corporate Globalisation*, [prepared for Australian Council of Trade Unions], Australian Council of Trade Unions, Melbourne,2000, pp. 1-18.
[82] Ibid.
[83] Ibid.
[84] David Hall and Jan Willem Goudriaan "Privatisation and Democracy" *Working Papers in Local Governance and Democracy* 1999/1 p 5 as cited in M. Paddon Op. Cit.
[85] David Hall "Privatisation, Multinationals and Corruption" *Development in Practice* Volume 9, Number 5, November 1999, as cited in M. Paddon Op. Cit

rescind a contract because of alleged corruption, Vivendi insisted that the matter be arbitrated outside the country. The water concession in Buenos Aries awarded to a consortium involving both Vivendi and SLDE, provides that any adjudication arising from contractual disputes should be heard in French not Argentinean Courts.[86]

- **Organising Competition**: a report by the French equivalent of the Auditor General in 1997, on the water industry, points to a wide range of irregularities involving the two companies (amongst others) These included major cost overruns and overcharging on projects (a subsidiary of Generale des Eaux in the town of Bandol-Savery); pervasive corruption; and a tactic, now illegal, called "entry payments" by which the companies paid money to councils to win concessions (a company jointly owned by Generale des Eaux, and Lyonnaise des Eaux in the town of St Etienne).[87]

More recently in Australia, community concerns about the activities of some multinationals have included concerns about dramatic increases in charges for water. This was reflected in an article which appeared on the ABC website in 2011.[88]

> Nationwide, the corporatisation of water utilities has resulted in price hikes and an accent on fixed rather than consumption-based charging; stimulating concerted public protests, such as those currently taking place in south-east Queensland, amid fears that corporatisation is a precursor to privatisation.
>
> To date, South Australia is the only state to have dabbled with privatisation of water supplies - and Adelaide consumers have literally been paying the price: last year the State Government announced that it would not be renewing its contract with *United Water*, a wholly owned subsidiary of Paris-based, water colossus *Veolia Environment*, due to allegations of over-charging, to the tune of tens of millions of dollars. Nonetheless, publications such as that released by *Deloittes* in March 2010 seem to be priming Australians for the progressive sell-off of public water utilities.

Concerns about privatisation are generally considered to have played a significant role in recent elections in both Queensland and Victoria where both states witnessed a swing away from the conservative governments and toward Labor Governments.[89]

ASU Branches in those states had successfully worked with communities to get the message out that they don't want privatisation (whether from outright asset sales or long term leasing of assets). The '*Not4Sale*' campaign was an example of such community activity focussed on resisting privatisation measures and the union movement has launched similar campaigns in other states.[90]

Despite community opposition to privatisation, many Australian politicians seemed to be somewhat fixated on implementing increased competition and privatisation measures in relation to water, electricity and other industries. But international experiences indicate there can be many unanticipated negative consequences of such strategies.

The following section notes international cases wherein communities have regained public control over water services after negative experiences from privately run control and operation of water services.

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[86] David Hall and Jan Willem Goudriaan Op Cit. p 7
[87] Ibid p 9-10
[88] Ian Douglas, "Water wars: the battle between public and private", The Drum, ABC News, <http://www.abc.net.au/news/2011-05-26/douglaswater/2731364> accessed 11 March 2015.
[89] See Steven Wardill, "Queensland privatisation plan: $12b infrastructure boost the sweetener", *Courier Mail*, <http://www.couriermail.com.au/news/queensland/queensland-privatisation-plan-12b-infrastructure-boost-the-sweetener/story-fnihsrf2-1227081768066>
[90] For example, see campaign information on The Services Union website, <http://theservicesunion.com.au/campaigns/not4sale/>.

CASE STUDY: Water – reverting to public control

In 2014 the three organisations - Transnational Institute, Public Services International Research Unit and the Multinational Observatory - released a report which revealed that more than 180 cities and communities in 35 countries have re-asserted public control and ownership of water services. The PSI described the issue in the following terms:

> *This process of reverting to public control of services, known as remunicipalisation, is taking place in both the North and South, including in prominent cities such as Buenos Aires, Johannesburg, Paris, Accra, Berlin, Atlanta and Kuala Lumpur. Remunicipalisation is also accelerating: 81 remunicipalisations took place in high-income countries between 2010-2014, double the number of the five previous years. Over the same period, there have been very few new cases of water privatisation in large cities.*
>
> *Most noticeably remunicipalisation is surging in France, the country with the longest history of water privatisation and home to the leading water multinationals. French local authorities and citizens have experienced first-hand the "private management model" that global water companies Veolia and Suez have sought to export to other countries.*
>
> *The reasons local policy-makers are putting water back under public control are similar across the world. They include poor performance, under-investment, soaring water bills, lack of transparency and poor service quality.*[91]

As noted in the above cases, public control was reasserted due to concerns about poor performance, under-investment, increasing water bills, lack of transparency and poor service quality by the private corporations.

[91] Public Services International <http://www.world-psi.org/en/water-remunicipalisation-global-trend> accessed 20 January 2015

Consumer dissatisfaction – examples from the electricity industry

State government assets help ensure that community members have access to certain standards of quality in the provision of essential services.[92] As previous noted, communities benefit from public ownership of assets in a range of ways. Conversely, there can be negative consequences resulting from the privatisation of such assets. Some of these negative aspects were explored by Professor John Quiggin[93] who provided evidence of the spectacular failures of free-market electricity reforms in Australia. Most notably, his report revealed:

- increased prices being paid by consumers, particularly in states where privatisation has taken place
- increased consumer dissatisfaction about the quality of the privatised services
- declining reliability
- failure to deliver efficient investment (in Victoria this resulted in avoidable blackouts)[94]
- failure to deliver anticipated operational efficiencies as resources have been diverted away from operational functions[95]

Quiggin notes that whilst proponents of competition and privatisation often claim that the processes would result in cheaper costs for consumers, in reality the process rarely produces favourable outcomes for consumers in the long term.[96]

Professor Sharon Beder described the pressure on private owners to obtain a return on their investment rather than having a concern about the welfare of consumers. She wrote:

> They have a strong incentive to achieve ''efficiencies'' because they need to make profits. These profits must be delivered despite paying more to borrow money than governments, as well as having to cover marketing and lobbying costs, political donations, higher executive salaries and shareholder dividends. However, efficiencies inevitably come at the expense of service reliability and quality as they involve cutting and/or casualising workforces; reducing worker training; skimping on infrastructure maintenance and investment; and neglecting services for remote customers and those less able to pay.[97]

Whilst more commonly debated issues tend to relate to the (weighted average) 'cost of capital' (rather than whether or not private companies pay more to borrow money) it is worth noting that governments are able to finance their investments in infrastructure at a lower cost than the private sector.[98] The implications of this are noted by Professor Walker and Dr Con Walker:

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[92] Dr Phillip Toner, *Electricity Privatisation in Australia* – A briefing Note, October 2012.
[93] John Quiggin Opinion and Consulting, Op. Cit.
[94] Ibid p7.
[95] Ibid. p5.
[96] Toner, Op. Cit.
[97] See article by Sharon Beder, visiting professor at the University of Wollongong and the author of Power Play: The Struggle to Control the World's Electricity, her article titled "*Privatisation provides no dividends for the poor"* appeared in the SMH, 10 January 2014 <http://www.smh.com.au/comment/privatisation-provides-no-dividends-for-the-poor-20140109-30k95.html> accessed 27 January 2015.
[98] See Walker and Con Walker, *Privatisation: sell off or sell out* Op. Cit and particularly note the outlining history of the concept relating to 'cost of capital' in appendix to this publication.

> ….governments are able to finance their investments in infrastructure at a lower cost than private sector firms, and can afford to be more patient investors as they are not necessarily seeking a financial return within the lifetimes of individual shareholders. Governments may consciously invest in infrastructure for the benefit of current and future generations.[99]

When assets are privatised, it is no longer 'business as usual'. When essential services are privatised, consumers are likely to end up paying extra costs in the future, in order to use the assets they once owned![100] This can occur even when prices were on a downward trajectory when in the public hands. This point was explored by Professor Quiggin in his analysis of electricity privatisation in Australia.[101]

However, in some instances it has also been observed that governments have sought to increase the sale price of assets by raising consumer costs prior to privatisation or allowing price increases after privatisation.[102]

Companies with significant market power are able to use this power to increase costs significantly. In relation to privatised electricity companies, they can even create artificial shortages of electricity to force the price up to very high levels.[103]

When the public is charged more for basic essential services, it has a significantly negative impact on community members who are on low incomes and face possible disconnection as a result of increases. In addition, increased charges for essential services (such as electricity) can also have a crippling impact on small business - with subsequent implications for small local economies.

It is worth mentioning at this point that South Australia, which has had a fully privatised electricity industry for over 15 years,[104] has consistently had higher charges for electricity compared with other states. Indeed, the cost of the privatised electricity in South Australian was much higher than the consumer electricity costs in NSW prior to the privatisation in NSW.[105] Significantly, reports by both the AECM[106] and the Victorian Essential Services Commission (ESCV)[107] indicated that South Australia continues to have high electricity prices as well as the highest rates of electricity disconnections, many of which are the result of customers unable to pay bills on time.[108] According to the Australian Energy Regulator, Tasmania, followed by South Australia has the highest energy costs as a percentage of disposable income for low income households.[109]

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[99]Bob Walker and Betty Con Walker, *Privatisation: sell off or sell out? The Australian experience, with a new introduction*, Sydney University Press, 2008.
[100] Toner Op. Cit, p8.
[101] See John Quiggin Opinion and Consulting, Op. Cit.
[102] Ibid. p12.
[103] Toner, Op. Cit.
[104] Amid considerable controversy the South Australian Government had privatised the electricity industry in 1999.
[105] Toner op. cit p8, citing NSW Commission of Audit (2012:196)
[106] See Australian Energy Market Commission (AEMC) Final Report, 2013 Residential Electricity Pricing Trends available from the AECM website, <http://www.aemc.gov.au>.
[107] Essential Services Commission Victoria (ESCV) Energy retailers comparative performance report – customer service 2012-13 Table 3.2, p31 available from <http://www.esc.vic.gov.au/Energy/Energy-retail-performance-reports> accessed 20 January 2015.
[108] See also the Australian Energy Regulator (AER), State of the Energy Market 2014, published by Australian Competition and Consumer Commission, Melbourne, 2014, Figure 5.7, p 140 <https://www.aer.gov.au/sites/default/files/State%20of%20the%20energy%20market%202014%20-%20Complete%20report%20%28A4%29.pdf> accessed 30 January 2015.
[109] Ibid.

CASE STUDY: electricity disconnections

A report by The Essential Services Commission Victoria provided information on customer service that retailers provided to Victorian electricity and gas consumers in 2012-2013. The report included comparative data from different states and included data on the number of disconnections per state. Below is an extract of this information, showing the rate of residential electricity disconnections for the period 2011-12 and 2012-13

Disconnections, by Jurisdiction –Residential Electricity Per 100 customers, 2012-13		
Jurisdiction	2011-12	2012-13
Victoria	1.02	1.07
New South Wales	0.80	na
ACT	na	0.05
South Australia	1.35	1.50
Queensland	1.16	0.94a
Tasmania	0.08	0.46
Western Australia	0.87	0.72

Source: Extract from Essential Services Commission, *Energy Retailers Comparative Performance Report – Customer Service, 2012-13*, Table 3.2 p31, citing Data sources including Independent Pricing and Regulatory Tribunal (IPART), Essential Services Commission of South Australia (ESCOSA), Economic Regulation Authority (ERA), Department of Energy and Water Supply (DEWS), Australian Energy Regulator (AER).

As can be seen from the table above, energy companies in South Australia have initiated the highest number of disconnections, at the rate of 1.50 per 100 customers. This is followed by Victoria which had a rate of 1.07 per 100 customers.

Additional information provided by Essential Services Commission noted an increase in the proportion of disconnected electricity customers who were concession card customers.[110] The Commission also noted that:

> As a result of energy price increases, the Victorian Government increased its spending on energy concessions by 26 per cent in 20011-12 and 13 percent in 2012-13.[111]

In 2014 the South Australian Council of Social Service (SACOSS), the peak body for the community services sector in South Australia, made a submission to the Australian Energy Market Commission 2014 Retail Competition Review. In that submission SACOSS referred to the electricity prices and rate of disconnections in South Australia and stated that their research showed that "the cost of basic necessities like electricity impacts greatly and disproportionately on vulnerable and disadvantaged people".[112]

Whilst regulators may step in to force price controls and other controls on essential services, such action is not without its risks and the private corporations are likely to find other ways to cut costs to ensure their profits continue to rise. Some efforts to regulate as a means of clawing back a semblance of important control and accountability measures (which previously existed when the assets were within the public sector domain) can become complex and fail to achieve their goal. On this point, Dr Phillip Toner of the University of Sydney summarised the problem in the following way:

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[110] ESCV, Op cit p38.
[111] ESCV Op. Cit, p 41.
[112] SACOSS submission to Australian Energy Market Commission, in relation to the 2014 Retail Competition Review Approach Paper, dated 26 February 2014 <http://www.aemc.gov.au/getattachment/fd384bb1-c7a5-4b42-a337-b1e59501ccd8/SACOSS.aspx> accessed 20 January 2015.

> Given these industry characteristics [of natural monopoly and oligopoly] privatised electricity markets, in Australia and globally, are subject to government regulation. Ironically, much of the regulation is designed to replicate the type of co-ordination of supply and demand; forward planning and standardisation of infrastructure design and investment that existed under direct vertically integrated public ownership of provision. Moreover, such regulation is intrusive and costly to administer. It is also only partially effective.[113]

While the effectiveness of price regulation is one which will continue to be an issue of interest for communities, it is clear that communities expect their governments to act in the public interest and the interests of the nation. When governments make it easier for multinationals to increase their profits at the expense of the disadvantaged, they are helping to create a society which is less fair and less equitable.

Since the global financial crisis (GFC), there has been increased awareness of the interrelated nature of national economies and the need for adequate and effective regulation of corporations. It is also noteworthy that in the shadow of the GFC the Managing Director of the International Monetary Fund, Ms Christine Lagarde, has identified growing inequality as "rising to the top of the agenda"[114]. In her 2014 speech on *Economic Inclusion and Financial Integrity*,[115] Ms Lagarde provided brief historical reflections on the risks of excesses within capitalism and the association with high unemployment, rising social tensions and growing political disillusion. She followed this reflection with the view that economic growth must be inclusive, "favouring the many, not just the few."

It is significant that the conservative institution, the IMF, appears to have developed an appreciation of the economic and social consequences of the mal-distribution of wealth. Lagarde's statements are a salient reminder that wealth concentrated in the hands of the few can have significant far reaching impacts and is not without its economic and political consequences.

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[113] Toner, Op Cit. p3
[114] Christine Lagarde, Speech on 'Economic Inclusion and Financial Integrity – an Address to the Conference on Inclusive Capitalism, London 27 May 2014, available on IMF website <https://www.imf.org/external/np/speeches/2014/052714.htm> accessed 27 January 2015.
[115] Ibid.

Profits going overseas

Multinational and transnational corporations trawl the globe for low risk and profitable investment opportunities that can become available when governments decide to privatise publically owned infrastructure and services. On a global scale, privatisation measures have helped bolster the size and influence of such corporations, many of which have an annual profit turnover which dwarfs that of whole nation states.

The global corporate and financial sector is understandably enthusiastically anticipating the privatisation of more assets in Australia. This was made clear by statements on the International and Institutional Banking (IIB) website (which has a global focus on large multinational companies and institutions). For example, the Australian Trade Commission (ATC) noted the following statement from *IIB Insights*:

> *"The next [infrastructure] boom will be dominated not by brownfield or greenfield development but by asset disposal programs. The bulk of disposals will be the privatisation of state owned assets."*
> *– ANZ Bank, IIB Insights, April 2014.*[116]

Through the ATC, the current Australian Government is promoting an expansion of private sector investment opportunities to international investors. In order to encourage such investment, the Australian Trade Commission promotional terminology described Australia as "stable", "resilient" and "prosperous".[117] It further noted that:

> The Australian Government sees private sector investment as a key to accelerating infrastructure development at a time of constrained public budgets. It is actively investigating ways to make it easier for private companies to participate in the country's infrastructure sector.[118]

Interestingly, ANZ IIB Insights suggests that Australian infrastructure companies do very well in comparison to those of other countries. The ANZ IIB comment stated:

> *Listed Australian infrastructure companies outperform global peers.*[119]

Such commentary suggests that corporate investment in Australian infrastructure is understood to be quite profitable.

Not surprisingly, in 1998 the prominent business magazine, *Business Review Weekly*, commented that:

> In Australia, investment bankers are salivating at the prospect of water privatisation. Many have hired specialists from the public sector to prepare them for when the lobbying intensifies.[120]

It should also be noted that the finance sector and associated companies (which may include some consulting, legal and accounting firms) are often called upon to advise governments about the pros and cons of privatisation - yet they too benefit from the privatisation measures.

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[116] Australian Trade Commission (ATC) and Australia Unlimited, Investment Opportunities in Australian Infrastructure, ATC, Sydney, June 2014, p 9.
[117] Ibid., p1.
[118] Ibid. p5
[119] ANZ Media Centre, ANZ IIB Insights BlueNotes, "The Infrastructure pipeline" published 17 April 2014
[120] Business Review Weekly 20th April 1998 in Walker, B and B (2000) *Privatisation: Sell Off or Sell Out, The Australian Experience.* Australian Broadcasting Corporation, Sydney, p 28.

Because of the rising dominance of global corporations and corporate advisors, the role of civil society becomes increasingly significant in debates about the relationship between governments and business.[121]

When public assets in Australia are put up for sale it is often the case that, control and ownership will eventually end up in the hands of multinational corporations or foreign state owned companies (for example in Victoria the majority of electricity networks are now owned by Singapore and Chinese Government-owned entities).[122]

Whilst some corporations may act responsibly, others have found ways to dodge their fair share of taxes, engage in anti-competitive practices and other activities which are not adequately taken into hand by ill resourced regulators whose powers may be too limited. Indeed, it is astounding that corporate questionable activity can be assisted by cuts to public service areas involved in research, monitoring, regulatory, compliance and enforcement activities. Whilst such cuts are conducted under the guise of 'reducing red tap' or 'cutting wastage' they allow further gaps to emerge which make transparency and control issues more difficult. These corporations, and the politicians who support them, need to be called to account for their actions.

CASE STUDY: UK railway experience

Crucial lessons can be learnt from experiences in the UK where the Conservative government established a complex structure for the rail industry in preparation for privatising the railway system in the 1990s. Subsequent to the restructure and privatisation, fares escalated and significant accountability issues developed.[123]

The Conservative Party's shadow transport spokesperson, Chris Grayling admitted to some of these negative consequences when he stated the following:

> *"We think, with hindsight, that the complete separation of track and train into separate businesses at the time of privatisation was not right for our railways. We think that the separation has helped push up the cost of running the railways—and hence fares—and is now slowing decisions about capacity improvements. Too many people and organisations are now involved in getting things done—so nothing happens. As a result, the industry lacks clarity about who is in charge and accountable for decisions."*[124]

In the UK, twenty of the twenty seven private rail contracts are now owned by foreign state owned/backed railways.[125] These are mostly France, Germany and the Netherlands. The UK now has the highest rail fares in Europe. Consequently there is mounting community concern that the sale of public railways in the UK has resulted in foreign states being able to benefit from lower fares and better services in those European countries, at the expense of UK passengers.

Higher costs as well as loss of control and accountability have been the consequence of the privatisation and preparations for privatisation. As a major mode of transport for the working population and job seekers, such consequences can have a dragging effect on the productive output of the nation.

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[121] This point appears to be understood by the international accounting firm KPMG who has been active in promoting privatisation measures. The organisation collaborated in a project which resulted in the report titled *The Future Role of Civil Society*, published by the World Economic Forum <http://www.weforum.org/reports/future-role-civil-society>.
[122] See discussion in John Quiggin Opinion and Consulting, Op Cit. p7.
[123] BBC, "Tories change policy on railways", *BBC Online*, 17 July 2006 <http://news.bbc.co.uk/2/hi/uk_news/politics/5186196.stm> Accessed 28 November 2014.
[124] Ibid.
[125] Rmt, website, article "Research Shows three quarters of UK Rail Now Foreign Owned", <http://www.rmt.org.uk/news/research-shows-three-quarters-of-uk-rail-now-foreign-owned/> accessed 28 November 2014.

Loss of job security and the shrinking of the public sector

The loss of job security is a key concern for public sector workers when facing possible privatisation. It has also been observed by analysts that some governments have used privatisation for purposes of curbing the strength of public sector unions.[126]

But the loss of employment will not only affect public sector workers, it will also affect their families (who rely on their income) and the local communities to whom they provide services as well as the local business from whom they buy goods. In addition, within the Australian industrial relations environment, there is considerable concern that shifting services from public sector to private sector provision will lead to reductions in wages and conditions of workers.[127]

In recent decades the Australian population has grown and the total workforce has also grown. It is not surprising therefore that between 1984 and 2011 state and local government employment did experience some increase in absolute terms. However the growth was slower than the rate of total employment growth. Commonwealth public sector employment declined in both absolute terms and relative terms compared to total employment.[128]

Between 1984 and 2011 total employment in Australia grew by five million but the modest growth in the number of public sector workers has not kept pace with this growth in total employment.[129]

Over recent decades, policies, designed to 'reduce the size of government' and expand the role of market forces, have reduce the proportion of public sector workers relative to the total workforce.

The Centre of Full Employment and Equity has tracked the declining share of public sector employment relative to total employment and found that between 1984 and 2011 the share of public sector employment fell from 25.6% to 16.6% as a proportion of total employment in Australia.[130]

The rate of shrinkage of public sector employment is likely to accelerate under the policies of Tony Abbott. For example, The Canberra Times reported in January 2015 that:

> *Tens of thousands more Australian public service jobs are to be sized-up for potential privatisation as the Abbott government begins work on its "contestability program".*
>
> *One public sector expert has warned the program is the beginning of a "slow bleed" of the federal bureaucracy that could ultimately see more than 30,000 Commonwealth government jobs lost in the coming years.*[131]

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[126] For example this point was noted in Cook, Quirk and Mitchell, Op. Cit, p102.
[127] For example, Neil Henderson, Secretary of the ASU's Queensland (Services and Northern Administrative) Branch (The Services Union) discussed the anti-privatisation campaign against asset sales in Queensland and some of the many issues of concern included loss of jobs as well as reductions in wages and conditions of workers. For further information see the campaign website - www.not4sale.org.au and the YouTube link at <https://www.youtube.com/watch?v=7tpuirS6zrI>
[128] Cook et al, p 61
[129] Ibid
[130] Ibid

As noted earlier in this report, the rate of privatisation varies from state to state and job loss goes hand in hand with the privatisation. As local government is a creature of state legislation, privatisation commitments of State Premiers can also dramatically affect local government employment. This was evident in Victoria following the election of Jeff Kennett in 1992. Kennett, introduced processes in local government to compel amalgamations, suspend democratic process, force rate cuts and established a severe competitive tendering and contracting out regime. The ASU estimates that approximately 11,000 council jobs were lost in Victoria as a result of Kennett's strategies.[132]

A number of studies have drawn attention to the employment reductions experienced in Australian local government between 1994 and 2000. At least some of the reduction has been attributed to job loss following council mergers and privatisation measures following competitive tendering processes. For example the Australian Government, Department of Infrastructure and Regional Development 2000-2001 national report noted the following:

> *Local government employment reached 158,300 in February 1994, declined to a low of 139,100 in February 1999 and recovered to 145,200 in February 2001. The biggest reductions were in Victoria where the workforce fell by 13,000 from 44,500 in February 1994 to 31,500 in February 1999 but then made a modest recovery to 33,000 in February 2001. The reductions in Victoria followed reforms that led to compulsory mergers, compulsory competitive tenders and mandated rate cuts.*[133]

The loss of public sector employment also represents other issues for Australia. For example it represents a shrinking sphere of influence for a range of employment and social policy commitments; diminished opportunities for wealth redistribution; diminished opportunities for democratic transparency and accountability and diminished opportunities for diverting funds toward activities which are in the public interest.

The following section will explore one of the losses which can have a long term negative impact on individuals, families and the national economy – reduced investment in traineeships and apprenticeships which appear to result from privatisation processes.

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[131] Noel Towell, Thousands more public service jobs to be scoped for privatisation, The Canberra Times <http://www.canberratimes.com.au/national/public-service/thousands-more-public-service-jobs-to-be-scoped-for-privatisation-20150120-12tvn8.html> accessed 5 March 2015.

[132] Royce Millar and Jason Dowling, 'Kennett's blitz a decade on', The Age, April 25, 2004, <http://www.theage.com.au/articles/2004/04/24/1082719671977.html?from=storyrhs> accessed 25 September 2014.

[133] DIRD, *The National Picture*, last updated 22 August 2014, <http://www.regional.gov.au/local/publications/reports/2000_2001/C4.aspx> accessed 25 September 2014

Reduced investment in traineeships and apprenticeships

Public sector utilities make considerable efficiency improvements through investment in apprenticeship and cadetships. Such investments also help the government fulfil other broader economic and social commitments by assisting to address skill shortages and ensuring an adequate supply of skilled, trained workers to meet the future needs of the economy and industry.

Local communities tended to view such commitments as an investment in young local workers who would become the future skilled workers of local industry.

In some government utilities, investment in traineeships has involved commitments to maintaining specific apprenticeship numbers or proportions of the overall workforce by way of enterprise agreements and other industrial instruments.

In addition, studies by the National Centre for Vocational Education Research (NCVER) show that apprentices with government employers are more likely to complete their apprenticeship as compared to those in private sector employment. This was shown in a 2014 NCVER Occasional Paper which noted that completion rates that apprentices with government employers were approximately 25 to 30 percentage points higher than those with private employers or group training organisations.[134]

Unfortunately, in more recent times some government strategies have adopted the tactic of curbing the multiple public sector objectives in preparation for privatisation. For example, various Unions have reported reduced commitments to apprentice intakes in some states as the governments work toward the privatisation of particular utilities. In some cases, it has been argued that this has been done with a view to making the asset sale appear more attractive to private corporations.[135]

The ASU previously explored this issue in a submission in response to the Draft Energy White Paper 2011.[136] Within that submission information was provided which noted that the largest contribution to the employment of trainees and apprentices in the Australian electricity distribution industry was by the publically owned and operated providers. The following table provides an extract of some of the information on apprentice recruitment in 2010-2011 that was provided in a table within that submission. Whilst there are many variables which should be considered when analysing such data, it nonetheless provides a useful indication of the different approaches to apprentice recruitment.

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[134] Alice Bednarz, National Centre for Vocational Education Research, Australian Government Department of Industry, Occasional Paper, *Understanding the non-completion of apprentices*, NCVER, 2014, Adelaide, page 24, available on NCVER website <http://www.ncver.edu.au> accessed 20 January 2015.

[135] See for example, ETU Media Release 14 October 2014, 'LNP, Energex privatisation push sells out future generations: Energex set to slash apprentice numbers, Ergon and Powerlink expected to follow suite.' <http://not4sale.org.au/sites/default/files/get-the-facts/LNP%20Energex%20selling%20out%20the%20future%20141014.pdf> Accessed 20 January 2015.

[136] ASU 2011, submission to Australian Government, Department of Resources, Energy and Tourism, Draft Energy White Paper 2011 Consultation.

Table showing Apprentice Recruitment 2010-11, Public and Private Electricity Distributors, NSW and Queensland

Distributor		Number recruited 2010-11
PUBLIC		
	Ausgrid	153
	Endeavour	60
	Energex	76
	Ergon	61
	Essential	102
	Horizon	0
	Western Power	0
	Public Average	**65**
PRIVATE		
	Actew/AGL	42
	Alinta	0
	Aurora	47
	CitiPower	19
	Power and Water	21
	SP Ausnet	0
	Private Average	**22**

Source: ASU submission to Draft Energy White Paper 2011, extract from Table p: 8 which was Based on Annual Reports

As can be seen from the table above, an average of 65 apprentices were recruited by publically owned authorities while the private operators had a significantly lower average of 22 apprentices.

On 11 August 2014, the ETU NSW raised alarm about the dramatic reduction of investment in apprentices in the electricity poles and wires companies in the lead up to privatisation by the Coalition State Government.[137] The ETU media release noted that for the first time in more than half a century there are expected to be no new apprentices starting in the electricity poles and wires companies in NSW. In addition, the NSW Secretary noted:

> *"At the start of 2011, Endeavour Energy, Ausgrid and Essential Energy hired a combined 315 new apprentices across NSW…. By this year [2014], the number of new apprenticeships offered had plunged to just 88."*[138]

On the 7 January 2015, an ETU media release reported that 15 electrical apprentices with the NSW Government-owned Endeavour Energy were advised of their impending termination and a further 41 apprentices who recently completed their fourth year of training were offered six month job contracts. This was the first time that graduating apprentices were being terminated.

The ETU also noted that Ausgrid told 130 apprentices they would be placed on six month contracts rather than being given full time employment.

The ASU is of the opinion that this loss of commitment to training will contribute to skill shortages in future generations and can have long term economic and social impacts on individuals, communities and the

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[137] ETU, Media Release, "No New Apprentices for NSW", ETU website, <http://www.etunsw.asn.au/etu-media-releases/no-new-apprentices-for-nsw-electricity-network-as-companies-fattened-up-for-privatisation>

[138] Ibid.

economy. However such losses are often not taken into account by advocates of privatisation who see benefit in the narrow profit making focus of corporations rather than wider public interests or the impact on young workers and their families.

CASE STUDY: Victoria electricity

> *Victoria's State Electricity Commission (SEC) generated and sold power to Victorian consumers from 1926 to 1998. In every single year it reduced the real price of power to customers. This meant that for ordinary households buying electricity took a smaller part of their earnings in each successive year.*
>
> *Since privatisation, however, electricity prices to the consumer have gone up 50 per cent.*
>
> *Managing price was undoubtedly the SEC's crowning achievement. But the SEC also trained thousands of apprentices in electricity and other workplace skills. Eventually, many of these highly skilled tradesmen found their way into the wider workforce. In a similar manner, the SEC also trained engineers and other skilled workers, not all of whom chose to remain in the commission's employ. Either way, the community got the benefit of skills-training provided by the SEC.*
>
> *The current Economic Affairs, Privately-owned generating company does none of this.*[139]

As noted above, the experience in some industries suggests that, as the focus shifts toward profit making (with the privatisation of utilities), there is a decline in investment in training and apprenticeships. This is an area which deserves further study because of the important implications for economic and social policy commitments of governments.

[139] Colin Teese, article "Privatisation has failed to deliver cheaper electricity", NewsWeekly, 1 May, 2010, <http://newsweekly.com.au/article.php?id=4292> accessed 20 January 2015

Conclusion

This paper has covered some of the terrain on privatisation which has been of particular concern to the Union, its members and their communities.

It has included discussion on some of the negative consequences of the privatisation of public assets and services. These have included issues such as: the negative impact on government revenue, reductions in employment and services, implications for the cost and quality of services, the increasing dominance and influence of multinational corporations and foreign governments in the Australian economy, reduced public control and accountability, the reduced ability for Australian governments to implement broad social objectives, as well as concerns about public funds being use to boost profits going overseas.

Not surprisingly this report has also noted the strong public opposition to privatisation and more recent strategies by proponents of privatisation to side-step this opposition. But where transparency and open government is inadequate, the politicians can leave themselves open to criticism and possible electoral backlash.

There are a broad range of social and ecological commitments which have traditionally operated within the domain of the public sector in Australia. However, as avenues for privatisation expand, there is increased concern that privatisation is resulting in the jettisoning of these commitments in an environment of reduced accountability and transparency.

Increased privatisation and the dumping of broad commitments to local communities, represents a betrayal of those communities.

In contrast to the approach of ‘privatise and later try to adjust and regulate to compensate for the failures’, the Union reiterates the view that the rationale remains strongly in favour of maintaining public ownership and control of valued assets and services.

The Union will therefore continue to work with communities and other sections of the labour movement and civil society to draw attention to the irresponsible nature of privatisation strategies and demand increased accountability of those who are prepared to sell out the interests of the nation to those whose main goal is to make a profit.

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