

PRIVATISATION IN VICTORIA

**Australian Greens Victoria
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PRIVATISATION BY THE NUMBERS

Victoria is the most privatised state in the nation.

The People's Inquiry into Privatisation lists 118 assets and services Victorian governments have privatised over the last 30 years.

In the 1990s the Kennett Government privatised over \$30 billion worth of state assets.

In the 2010s the Andrews Labor Government is privatising upwards of \$15 billion of state assets and services. The biggest sell off since Kennett.

The Andrews Labor Government's privatisations from 2016-2018 include:

- Port of Melbourne – \$9.7 billion
- Land Titles Office – \$2 billion (estimated)
- Snowy Hydro – \$2.1 billion
- Federation Square – \$0.1 billion

The Andrews Labor Government is also in the process of privatising public housing estates, community services such as Disability Group Homes and it continues to sell-off public land.

Victoria also leads the way on public private partnerships (PPPs), where public money is provided to private companies to make a profit from building assets and providing services to the public. \$30 billion has been invested in 32 PPP projects over the past 20 years, with more to come.

40% of Victoria's infrastructure investment in 2018/19 is being spent through PPPs. This percentage increases to 57% in 2020/21. The interest payments on PPPs are significantly more than if the state just raised debt itself. Over 40% of the government's interest bill is accounted for by private lease payments.

Significant PPPs include private roads like the West Gate Tunnel and North East Link, new school and hospital infrastructure, essential services such as the running of our trams, trains and buses, and prisons.

- Transurban will increase its revenue by \$15 billion from the dodgy secret toll deal it did for the West Gate Tunnel project.
- Victorians are paying \$7 billion to private companies to run our overcrowded and unreliable train and tram services.
- Victoria has the highest rate of private prison incarceration in the country.

WHAT PRIVATISATION MEANS FOR VICTORIANS

Victoria has been no different from the rest of the world where privatisations have led to:

- Higher costs for essential services.
- Poorer quality services.
- Increasing insecure work.
- Lost revenue that can no longer be reinvested into public services.
- Governments powerless to make companies act for the public good, not just for profit.

The Auditor-General has released report after report on how the private companies contracted by government to provide essential services have been failing the community. Whether it is energy, public transport, prisons, TAFE, community services, or any one of the other services it has privatised, the government simply cannot guarantee Victorians will get quality reliable service from their privatisation agenda.

Energy

Victoria has privatised its entire energy system – generation, distribution, transmission and retail. This has resulted in:

- \$300 average increase in standard Victorian power bills in 2017.
- 26,000 Victorians disconnected for not being able to pay their energy bills in the last half of last year.
- 49% increase in emissions released into the air in the La Trobe Valley during the five years to 2016.

Transport

Privatisation has delivered an overcrowded and unreliable public transport system:

- 126% increase in public transport fares since 1992.
- 4,032 train services that skipped the City Loop in 2017.
- Metro Trains and Yarra Trams both failed their performance measures in the first month of their new \$7 billion contracts last year.

Education

One of the biggest victims of privatisation in Victoria has been our TAFE system and young people who want to access quality skills training:

- Victorian TAFEs are the lowest-funded of any state TAFE system.
- Over 47% of government funding in Victoria goes to non-government VET providers.
- 75% of Victorian TAFE teachers are fixed-term or casually employed.

What is privatisation?

Privatisation is a term that covers a multitude of policies and actions.

These can be the outright sale of a public asset or service; outsourcing specialist services within government departments like IT, human resources, or administration; public/private partnerships; or granting of concessions for monopolies (like Crown Casino).

Other examples are when governments do deals that provide public compensation for loss of private competition or deals that limit future government planning and control regarding infrastructure if new public infrastructure hurts the profits of a private company.

Privatisation is one of the hallmarks of the neoliberal economic policies that dominated economic policy making in nations like Australia over the last 30 years. Policies that are now becoming increasingly discredited as we experience growing levels of inequality, wage stagnation and job insecurity.

The report from the People's Commission into Privatisation, an inquiry that travelled around the country talking to communities about the effects of privatisation, outlines the failure of privatisation in a range of sectors from energy to community services to prisons to VET by telling the stories of people's experiences of the privatisation of these essential services.¹

The report notes three justifications used for privatisations: fiscal motives such as paying down debt; the notion that the private sector is more efficient; and the idea that people are just consumers best served by economic competition.

The politicians that have bought these economic myths - that efficiency should trump the public good and that we are all just consumers - and continue to promote them are failing the community.

The report clearly demonstrates that privatisations do not have the support of the people. Privatisations to continue in the face of opposition from the public because the economic rationalist ideology that promote privatisations is shared by the Labor and conservative parties.

But it doesn't have to be this way. All around the world communities are starting to wake up to failure of privatisation, of public private partnerships, of outsourcing and contracting out public functions. And are demanding their government's act in the public interest, not in the interests of corporate profit.

¹ <https://www.peoplesinquiry.org.au/report>

Privatisation in Victoria

During the 1990s Australia was among the most active privatising countries in the world, with Victoria leading all states in the sale of public assets.

During the 90s Victoria sold off about \$30 billion in assets² (c. \$49 billion in 2017 figures.)³

Victoria was in a parlous financial position in the 90s and the privatisation of assets reduced net levels of debt from \$30 billion (at that time this represented 30% of GSP) to about \$2 billion.⁴ This was the main reason touted by the then government for the privatisations.

The People’s Inquiry into Privatisation lists 118 assets and services Victorian Governments have privatised over the last 30 years. Key privatisations are list below with the dates of when these entities were privatised are included in brackets.

Citipower (1995)	Eastern Energy (1995)	Hazelwood/ Energy Brix (1996)
Loy Yang A (1995)	Loy Yang B (1995)	Powercorp (1994)
PowerNet (1998)	Solaris (1995)	Southern Hydro (1998)
United Energy (1996)	Yallourn Energy (1996)	BASS Ticket Sales (1994)
Gas and Fuel Resources (1995 -99)	Grain Elevators Board (1995)	Heatane Division of Gas and Fuel (1993)
Port of Geelong (1996)	Port of Portland (1996)	Portland Smelter Unit Trust (1993)
State insurance Office (1993)	TABCORP (1993)	State Savings Bank of Victoria (1990)
Fulham and Port Phillip Prison (1997)	The Public Transport Corporation (The Met) (1993- 1999)	The Port of Melbourne (2016)

Victoria has also privatised roads, public transport, hospitals, schools and prisons through public private partnerships.

Other privatisations occurred at a federal level but impact Victoria and Victorians, including Aerospace Technologies of Australia, Australian Industry Development Corporation, AUSSAT, Australian Airlines, Qantas, Australian National Rail, Avalon Airport, Melbourne Airport, Commonwealth Serum Laboratories, Commonwealth Bank, Snowy Mountains Engineering Corporation, Medibank, Telstra and parts of Centrelink.

² Reserve Bank of Australia, “Privatisation in Australia”, Reserve Bank Bulletin, Dec 1997, Reserve Bank of Australia

³ Reserve Bank of Australia Inflation Calculator <https://www.rba.gov.au/calculator/annualDecimal.html>

⁴ Reserve Bank of Australia, “Privatisation in Australia”, op cit.

ELECTRICITY: A CASE STUDY

As there are different levels and types of privatisation there are a range of impacts felt by the general public from higher costs and reduced services, to decreased productivity, job losses or losses of industrial protections for workers.

One of the most politically alive impacts of privatisation has been the privatisation of the entire electricity and gas systems in Victoria. The state electricity and gas assets were split into smaller units before being sold so as to capitalise on their value.

The Kennett Government promised that privatisation would increase efficiency in the sector and lower prices for consumers. It also argued that Victoria was not good at maintaining the assets it owned and could not be simultaneously governing and operating a business.

It's important to note that in its last year of operation, the State Electricity Corporation made a profit of \$207 million⁵ after paying \$995 million in interest from its liabilities and after it paid a \$191 million dividend to the Victorian Government.

Electricity prices are a major contributor to cost of living pressures, the cost of electricity increased by 170% from 1995 to 2012 which is four times higher than the rise in CPI.⁶ A standard undiscounted power contract in Victoria increased by an average of \$300 in the second half of 2017. Victoria also saw 26,000 people disconnected for not being able to pay their energy bills in the same timeframe.⁷

Energy prices have risen across the country, not just in Victoria. However, given that Victoria has had the most ambitious electricity privatisation scheme it would be expected that by the logic of the Kennett government and indeed the logic of privatisation Victorians would be benefiting from lower prices relative to the rest of Australia. Instead, we have the highest fixed rate retail prices in Australia.⁸

A report by the Australia Institute found that the price of electricity has increased so much due to three main reasons all linked to privatisation: productivity drops, labour inputs, and asset value inflation.⁹

5 "The Shocking Truth About the Privatisation of Power", Shane Green, The Age 9 November 2013

6 Electricity and Privatisation: What Happened to the Promises, The Australia Institute, Technical Brief No. 22, April 2013

7 Essential Services Commission, "Victorian Energy Market Update: July to December 2017" <https://www.esc.vic.gov.au/document/energy/55678-victorian-energy-market-report-2016-17/>

8 See

https://engage.vic.gov.au/application/files/7415/0267/4425/Retail_Energy_Review_-_Final_Report.pdf

9 Electricity and Privatisation: What Happened to the Promises, The Australia Institute, op cit.

Productivity

A study using ABS data found that between 1995 to 2012 the gross value added per hour of work of all industries in Australia increased by 33.6% however productivity in the electricity, gas, and water sectors across the country fell by 24.9% over the same period.

According to the Productivity Commission the slump is due to the standard productivity measures no longer being applicable in a changing electricity market.¹⁰ The Commission did not in fact consider the impact of privatisation on the sector. It is fair to say that the cost of providing electricity has increased due to a greater mix of peak load this doesn't fully account for the slump in productivity due to labour inputs that is leading to higher consumer prices.

Labour Inputs

In the newly privatised utilities there has been a rapid increase in occupations that do not actually do the work of making electricity or gas.

From 1997 to 2012 there has been an increase of sales workers (from 1,000 to 6,000), managers (6,000 to 19,000) and clerical workers (16,000 to 31,000). The rapid growth of business, human resource, legal, social, welfare, and marketing professionals in privatised electricity companies contribute to the increase in electricity prices for consumers but these professions are not directly involved in the actual production of electricity.

Technicians and trade workers – which is the category of worker most closely aligned with the actual production of electricity – increased by 28% over the same period, but this is roughly in line with the increase in gross value added during the period by the sector as a whole. However the numbers of technicians and trade workers in absolute terms as a share of the workforce fell from 31% to 21%.

Asset Value inflation

As well as the increased labour costs associated with non-core electricity producing functions, private buyers pay a lot more on the value of a power plant and equipment than its worth because the business is given the potential to earn a monopoly or near-monopoly profit. Furthermore, a new owner of a power plant can claim depreciation expenses on their capital asset.

Businesses borrow large amounts of money to fund their purchases and to make winning bids to government. However this becomes a new interest expense that has to be honoured by the new company. This makes the whole cost structure higher than under government ownership and the consumer loses out.

¹⁰ Productivity in Electricity, Gas, and Water: Measurement and Interpretation, Productivity Commission Staff Working Paper, March 2012.

Privatisation Under the Current Victorian Labor Government

The rhetoric that has dominated Victorian public policy embodies the assumption that privatisation is always and everywhere desirable. This has occurred under both Liberal and Labor governments.

The Kennett Government was responsible for the large scale sell-off of public assets but privatisation in many forms has continued ever since.

Victoria is a place where the neoliberal dream of transferring the public good over to big business lives on. The myth that the private sector does it better is a mainstay of whichever party is in power. And the role of government in looking after people continues to diminish.

The 2017 Victorian budget was brought down with a large list of new spending announcements funded by a significant increase in the level of privatisation either through Public Private Partnerships (PPPS) or 'asset recycling initiatives'.¹¹

PPPs can sound great. A government can claim it is building all sorts of things. But there is a catch. The history of PPPs in Australia and around the world show the people get ripped off while the corporations make their millions. They are also more expensive than the government just borrowing money itself as interest rates for private debt is always more expensive.

40% of Victorian Government debt now arises from borrowing entered into with private parties to build, own and operate public assets. Almost half of the Victorian Government's interest bill is accounted for by private lease payments.¹²

If the Labor Government were to rely on Treasury to raise debt Victoria may actually end up having more revenue in the bottom line due to our low cost of borrowing compared to the private sector.¹³

The Orwellian sounding 'asset recycling schemes' have also been fashionable for Victoria's state government, particularly for the sale of the Port of Melbourne. The Port of Melbourne was an income producing business for the state, however, it was sold to pay for new roads that don't directly produce any return on their investment.¹⁴

Due to the monopoly the Port of Melbourne has over the services it provides as well as the guarantee that Victoria will not build a port to compete with it until 2066, Victoria is getting ripped off by this sale. One academic described this as: "the family silver being sold to buy some family bronze. It might be good politics, but it certainly isn't good for the budget bottom line."¹⁵

The Auditor-General has noted that for consumers of services such as trains, trams, buses, prisons, electricity, and gas there is a lack of transparency in performance measures.¹⁶ Even

11 "Why Victoria's budget splash raises questions about privatisation", ABC News, David Hayward, 3 May 2017, <https://theconversation.com/victorian-budget-splash-raises-questions-about-privatisation-77082>

12 Victorian Budget 18/19, Service Delivery, Budget Paper No.3 and Statement of Finances Budget Paper No. 5.

13 "Why Victoria's budget splash raises questions about privatisation", 3 May 2017.

14 Ibid.

15 Ibid.

16 Ibid.

when these are in place private operators can cut corners by either reducing services in other no-performance measured targets or by using opaque pricing systems.

In Victoria, the evidence suggests that privatisation has not provided or delivered what we were promised. There is no evidence of prices falling for consumers or that government spending is reducing or that Victorians are getting better services. In fact, what we are experiencing is the opposite.

Victoria is now spending more money on the privatised public transport system than was the case when it was in public ownership.¹⁷ There has been a 126% increase in public transport fares since 1992.¹⁸ 4032 train services skipped the City Loop in 2017.¹⁹ One third of public transport users are dissatisfied with the service.²⁰ Metro Trains and Yarra Trams both failed their performance measures in the first month of their new contract last year.²¹

One of the biggest victims of privatisation in Victoria has been our TAFE system and young people who want to access quality skills training. Victorian TAFEs are the lowest-funded of any state TAFE system. Almost half of government funding in Victoria goes to non-government VET providers.²² Meanwhile 75% of Victorian TAFE teachers are fixed term or casually employed.²³ The Government's recent budget announcements for TAFE are welcome but do not fix the problem created by privatising VET in Victoria in the first place.

Privatisation in Victoria – What's Next?

Land Titles Registry

The Labor government set money aside in the 2017 budget for the sale of the land titles registry. Tim Pallas is hoping to emulate the \$2.6 billion raised by NSW from the sale of its land titles office in 2017. It's important to note that a key player in the NSW sale was Hastings Fund Management, a wholly owned subsidiary of Westpac.

The sale of the land title registry has been opposed by the Law Institute of Victoria, the CPSU and church groups all worried about the integrity of the property system in Victoria, sensitive data being in private hands, increased costs and implications for the existing workforce.²⁴

Disability Services

In 2017, Minister Foley invited private disability services providers to submit Expressions of Interest to run Department of Health and Human Services disability support services. The

17 Ibid.

18 <https://www.ptua.org.au/2012/03/06/fares-rising-double-inflation/>

19 <https://www.9news.com.au/national/2018/01/09/18/33/train-pain-thousands-of-city-loop-services-cancelled-in-2017>

20 https://static.ptv.vic.gov.au/PTV/PTV%20docs/Custom%20Satisfaction%20Monitor/1521080454/PTV_Customer-Satisfaction-Monitor_Oct-Dec_2017.pdf

21 <http://www.abc.net.au/news/2018-01-13/metro-trains-yarra-trams-fail-to-meet-new-performance-targets/9326622>

22 <http://www.pc.gov.au/research/ongoing/report-on-government-services/2018/child-care-education-and-training/vocational-education-and-training>

23 <http://tafe4all.org.au/>

24 See <http://www.therealcost.org.au/> and [https://www.liv.asn.au/Staying-Informed/Presidents-Blog/LIV-President-s-Blog-2017/August-2017-\(1\)/Why-the-sale-of-Victoria%E2%80%99s-Land-Titles-Registry-wi](https://www.liv.asn.au/Staying-Informed/Presidents-Blog/LIV-President-s-Blog-2017/August-2017-(1)/Why-the-sale-of-Victoria%E2%80%99s-Land-Titles-Registry-wi)

announcement was met with significant community protest from affected families and the union.²⁵

The government claims that their decision is due to the expanding rollout of the National Disability Insurance Scheme that will change the way funding is directed to, and used by, people with disabilities. Rather than choosing a service provider that will deliver a predetermined set of services, under the NDIS people with disabilities can use their funding to choose which providers to buy their support from. However, there is increasing concern that there are significant gaps in the NDIS and there continues to be an important role for publicly run disability services.

Toll Roads

The Victorian Government is also pressing ahead with the West Gate Tunnel project and the North East Link. These privatised road projects will deliver billions to companies like Transurban, but for Melbourne they will lock in car dependence and congestion at the expense of public transport. The West Gate Tunnel project was proposed by Transurban and under the secret deal done by the Labor Government. Transurban will reportedly make \$15 billion in revenue.²⁶

Public housing

The Labor Government's Public Housing Renewal Project is another example of private interests being put before the public. Labor is selling public housing to private developers, asking only for a 10% increase in public housing dwellings on site. Private developers make millions and the state loses prime land it will never get back. It is a project driven by economic policy of the kind described in this paper, rather than policy development focused on addressing the housing crisis in Victoria. It is a policy that makes no sense when there is a waiting list for public housing of almost 40,000, the average public housing unit is 35 years old,²⁷ and there has been a 300% increase in house prices in the last twenty years.²⁸

Public space

The most egregious recent example of selling off public space is the Labor Government's agreement to give a part of Federation Square to Apple. Instead of thinking about how our public square can be the most accessible and inclusive space for all Melbournians, the government has handed it over to one of the biggest corporations in the world. Private profits have once again been put before the public interest. Thousands of Victorians have been outraged by the Labor Government's decision to allow Apple to take over Federation Square, particularly considering the diminishing space for people to come together, to enjoy the outdoors, organise and protest, to meet and build networks. The community suffers when public places are taken away and when governments absolve themselves from the very responsibility they have been elected to take.

25 <https://www.theage.com.au/national/victoria/elderly-parents-keep-on-fighting-this-time-over-plans-for-staterun-care-homes-20170817-gxymn7.html>

26 <https://www.theage.com.au/national/victoria/transurban-wont-hit-superprofits-thanks-to-west-gate-tunnel-deal-20171214-h04utb.html>

27 <https://www.audit.vic.gov.au/sites/default/files/20170621-Public-Housing.pdf>

28 <https://www.domain.com.au/news/how-melbourne-house-prices-of-1997-compare-to-2017/>