

Privileges Committee

**Citizen's Right of Reply
(Prof Bob Walker and Ms
Betty Con Walker)**

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Terms of Reference

The inquiry was conducted in accordance with standing orders 202 and 203, which were adopted by the Legislative Council on 5 May 2004: *Minutes of the Proceedings of the Legislative Council*, No 52, Wednesday 5 May 2004, Entry No. 10.

Committee Membership

The Hon Kaye Griffin MLC *Chair*

Australian Labor Party

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Liberal Party

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Table of Contents

Report		1
Appendix 1	Response by Professor Bob Walker and Ms Betty Con Walker, as agreed to by Professor Bob Walker and Ms Betty Con Walker and the Committee, according to standing order 203(4)(b)	4

Report

- 1.1 On 3 April 2008, the President of the Legislative Council, the Honourable Peter Primrose MLC, received a submission from Professor Bob Walker and Ms Betty Con Walker requesting the incorporation of a response under standing orders 202 and 203 of the Legislative Council relating to the protection of persons referred to in the Legislative Council.
- 1.2 The submission referred to statements made by the Hon Michael Costa MLC, Treasurer, Minister for Infrastructure and Minister for the Hunter, during Question Time in the Legislative Council on 6 March 2008.¹ The President, having considered the submission under standing order 202(2), referred it to the Privileges Committee on 8 April 2008.
- 1.3 The Committee met in private session on 14 May 2008, and decided, according to standing order 203, to consider the submission. The Committee, having consulted with Professor Bob Walker and Ms Betty Con Walker in writing, met again on 18 June 2008 and agreed to the attached response. The response, which the Committee now recommends for incorporation in *Hansard*, has been agreed to by Professor Bob Walker and Ms Betty Con Walker and the Committee in accordance with standing order 203(4)(b).
- 1.4 The Committee draws attention to standing order 203(3)(b) which requires that, in considering a submission under the resolution, the Committee must not consider or judge the truth of any statements made in the House or in the submission.
- 1.5 The Committee recommends:

Recommendation 1

That a response by Professor Bob Walker and Ms Betty Con Walker, in the terms specified at Appendix 1, as agreed to by Professor Bob Walker and Ms Betty Con Walker and the Committee, be incorporated in *Hansard*.

The Hon Kayee Griffin MLC
Chair

¹ *LC Hansard* (6/3/2008) 5972-5973

Appendix 1

Response by Professor Bob Walker and Ms Betty Con Walker, agreed to by Professor Bob Walker and Ms Betty Con Walker and the Committee, according to standing order 203(4)(b)

Appendix 1

Response by Professor Bob Walker and Ms Betty Con Walker, agreed to by Professor Bob Walker and Ms Betty Con Walker and the Committee, according to standing order 203(4)(b)

We seek a Citizen's Right of Reply regarding comments made by the Hon Michael Costa MLC in the Legislative Council on 6 March 2008 regarding the proposed privatisation of the State's electricity industry and issues relating to public sector financial management.

We believe that Mr Costa's statements under privilege are wrong and that they have adversely affected our reputation; and have the potential to injure us in our occupation and/or trade (Bob Walker as a Professor of Accounting with expertise in government finances; Betty Con Walker as an economist with experience in both the public and private sectors).

Mr. Costa was asked a question by Dr John Kaye on the basis of the contents of our jointly authored book, *Privatisation: Sell off or sell out?* released with a *New Introduction* that morning at Parliament House.

Dr Kaye specifically referred to two pieces of information contained in the *New Introduction*, namely: the more than 25 per cent rate of return on equity of the six electricity agencies being considered for privatisation, and the 93 per cent of the electricity retail market served by the three Government agencies with 7 per cent being served by privately owned retailers.

Dr Kaye asked Mr Costa why the Government's submission to the Unsworth Inquiry referred to a much lower rate of return of 5 per cent and a much higher proportion of 20 per cent of electricity customers as being served by privately owned retailers.

The rate of return on equity of 25.2 per cent rate, reported in the *New Introduction*, was calculated on the basis of detailed analysis of the audited financial statements of the six agencies for 2006-07. Data regarding the **market share of state-owned retailers** (Energy Australia: 44.1%, Integral Energy: 25.0%, and Country Energy: 23.8%) **and of privately owned retailers** (7%) was sourced from the Standard & Poor's, *Industry Report Card: After Weathering A Stormy Year, Will Valuations Hold Up For Australian Government-Owned Energy Utilities Facing Privatization?*, 12 February 2008.

Mr Costa did not answer Dr Kaye's questions. Instead he attacked the content of our book, and did so by referring to one of the authors – Bob Walker. Since the book is a joint publication, we believe that any attack on its content is an attack on both authors.

In particular, Mr Costa accused Bob Walker of being wrong on four separate times without providing a single example. He stated variously:

Bob Walker is wrong.

Bob Walker has been wrong on a number of issues.

Bob Walker is consistently wrong.

Bob Walker gets these analyses wrong because he assumes that State governments and some national governments can borrow at some preferential rate.

Mr Costa also stated:

One problem Bob Walker has regarding his economic and financial analysis ... is that he thinks that governments can borrow for nothing. That is his fundamental problem.

These statements are false. Neither of us has ever made such claims. A reading of our book or of several submissions prepared to various Parliamentary inquiries will show that to be the case. The differential between the cost of public sector and private sector borrowings and the impact of that differential are reviewed in our book at Ch 5 and elsewhere, while a 22 page technical appendix examines the related concept of the 'cost of capital'.

Mr Costa also asserted a lack of understanding on our part of key financial management issues (which are our areas of expertise) on a further four occasions. The assertions focused on our understanding of credit ratings, and their impact on interest costs.

In response, we note that the use of credit ratings began in NSW in the 1980s. Before then, governments were able to borrow without the benefit of credit ratings.

Contrary to Mr Costa's assertions that we believe that government borrowings are 'cost free or at a very low cost', our book provides an extended discussion of yield differentials between differently-rated securities. That discussion was based (among other sources) on information presented in the 1994-95 NSW Budget Papers, which reported that during 1993-94 the average yield differential was only 0.25 to 0.35 per cent, and that a downgrading of the NSW credit rating by two notches - from AAA to AA - would have added less than \$20 million to the NSW Government interest bill in the first year (at a time when Gross State Debt was reported to be almost \$31 billion).

Further, our book acknowledged that governments with high levels of borrowings relative to Gross National Product or Gross State Product, may have to commit a high proportion of their expenditures to interest costs. However it also pointed out that this was not relevant to Australian federal or state governments, because of their relatively low (and historically low) levels of debt.

We also noted that on 11 October 2007, the credit rating agency, Moody's Investors Service, in confirming its Aaa credit rating of the State and describing the outlook as 'stable', reported that the State has the capacity to take on more debt, and that State Owned Corporations, such as water and electricity utilities, are capable of funding new infrastructure investment since their debt is self-supporting.

In summary, each one of Mr Costa's defamatory statements is contrary to evidence.