Submission No 29

INQUIRY INTO LEASING OF ELECTRICITY INFRASTRUCTURE

Organisation: Unions NSW

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Inquiry into the Leasing of Electricity Infrastructure

NSW Legislative Council

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1. Unions NSW

1.1. Unions NSW is the peak body for trade unions and union members in NSW. We have over 65 affiliated unions and Trades and Labour Councils, representing approximately 600,000 workers across the State. Affiliated unions cover the spectrum of the workforce in both the public and private sectors.

2. Privatisation of the NSW Electricity Transmission and Distribution Assets

2.1. The Baird Liberal Government has made clear their intention to privatise the State's electricity transmission and distribution assets. Under their proposal, the Government will privatise 50.4 per cent of the monopolised electricity distribution assets of Ausgrid and Endeavour and 100 per cent of the transmission asset, Transgrid. The Government has refuted that this constitutes the sale of the publicly owned asset, referring to it as a '99 year lease'. Unions NSW believes that the terms of the proposed lease and its extensive time period means that this proposal is, in effect a sale or privatisation.

2.2. Successive Governments have argued that the privatisation of public assets is necessary in order to "free up" capital which can then be used to "drive down debt" and "balance the State Budget". NSW voters have been relentlessly lobbied to believe that good economic management is synonymous with budget surpluses and that these surpluses will lead to the provision of new infrastructure and better services. The Baird Government has used these same arguments to justify the privatisation of the NSW electricity network.

2.3. Despite claims about the economic advantages of privatisation being made by Premier Baird, the privatisation agenda of the last three decades has resulted in cuts to public services, finalisation of few large scale infrastructure projects and an ongoing budget deficit. The policy objectives set to support the privatisation of public assets have seldom been achieved. There is no evidence that the privatisation of the NSW electricity transmission and distribution assets will be any different to past negative experiences of privatisation.

2.4. The justification for electricity privatisation is flawed and ignores the broader unintended consequences for communities, workers and consumers.

3. The efficiency myth

3.1. The Government has argued that the privatisation of the NSW electricity network would allow it to operate more efficiently than the current regime and result in lower prices for consumers.

3.2. A number of reports have been produced that seek to quantify and compare efficiency levels between the different state networks. These reports have argued that privatised networks are more efficient. A recent McKell Institute report found that these studies overlooked key differences that exist across the Australian electricity network, and are such they are not comparing like-for-like in their analysis[1]. The most significant of these is the physical span associated with each network.

3.3. The McKell Institute report found that after taking into account the number of kilometres covered to service the customers in each network; private providers were underperforming relative to their publicly owned counterparts. In terms of operating expenditures, it was found that NSW public providers were more efficient than comparable private networks.

3.4. Unions NSW believes that only a publicly operated electricity network effectively balances the responsibilities of efficiency, safety and reliable service delivery.

4. Reduced service provision and increased prices;

4.1. Publicly-owned electricity enterprises have consistently provided electricity at no greater cost than privately-owned enterprises and often for prices that were far lower than those charged by private companies.

[1] Koukoulas, S. Devline, T. *Nothing to gain, plenty to lose: why the government, households and business could end up payinf a high price for electricity privatisation*, McKell Institute, December 2015

4.2. One reason the Government is able to offer more affordable electricity to consumers is because they can borrow money at lower rates than private companies and do not expect the high returns on investment that a private company requires.

4.3. Private companies reduce their costs by cutting workforces and maintenance and expenditure on equipment. This seldom translates to lower costs for consumers, yet it often lowers reliability of supply and reduces service. After privatisation in Victoria, blackouts increased by 32%.

4.4. Private companies do not have to meet social obligations and are not concerned by access, equity, their environmental footprint or reliable service delivery in the same way governments are. As such they are able to cut costs by concentrating on more profitable service areas and customers. The cost of social obligations, if they are still met, is borne by taxpayers and consumers and the savings are reaped by shareholders.

5. Job losses and reduced working conditions in privatised industries;

5.1. When compared to the state ownership of electricity assets, private operators have the additional costs of paying dividends to shareholders, funding PR, advertising and lobbying activities while also paying more for their loans than the government.

5.2. The additional operational costs imposed on private companies mean that supposed efficiency gains are made by short term cost savings. Experience has told us that this results in cutting the quality or level of services, lowering rates of pay and conditions for workers and making thousands of public sector workers redundant.

5.3. Significant job losses occurred after both the South Australian and Victorian electricity networks were privatised. In Victoria in 1990, there were 21,500 employees at the Victorian state owned electricity company. By 2005, following corporatisation and privatisation, there were 8,000 jobs left.

5.4. One way that private owners of electricity have cut costs in other states is through cuts to safety, maintenance, training and research budgets, and the jobs that are attached to these areas. This approach allows private enterprises to appear more efficient; however the gains to shareholders are at the expense of workers and consumers, who suffer the decline in service levels. Shortcuts around safety in the provision of electricity can have devastating impacts for employees and consumers.

5.5. Prior to the privatisation of electricity in Victoria, a study showed that Victoria had the highest level of electricity output per employee when compared to NSW, Queensland and South Australia[2]. This figure was taken shortly after 11,000 Victorian electricity jobs had been shed. Despite this perceived increase in efficiency, electricity prices for consumers were still raised by 10 per cent. This was arguably a play to make its enterprise more attractive to buyers, but also demonstrates that jobs losses and "increased efficiency" will not lead to flow on affects for consumers.

5.6. As a publicly owned asset and service, Ausgrid, Essential Energy, Endeavour and Transgrid have played an important role in training future electricians and technicians through their apprenticeship programs. The opportunities that this provides young people in NSW are of significant importance, especially in the context of such high youth unemployment rates across the State. Unions NSW does not believe that private companies will expend the same resources into training and development.

6. Negative long term economic consequences

6.1. The money raised from the sale of government enterprises if often presented as if it is a bonus injection of additional revenue for the government. However, the monetary gain from privatisation is only a one off and can have long term negative consequences.

[2] ERIG, 'Energy Reform', MMA, *Analysis of Productivity Factors in Transmission and Generation for the National Electricity Market: Report to Electricity Reform Implementation Group',* McLennan Magasanik Associated, 28 December 2006.

6.2. Governments do not gain from privatisation in the long term if the savings in interest repayments, together with the tax payments from the new private companies, are less than the combination of lost dividends and additional costs resulting from the privatisation.

6.3. In the 2014 Financial Year the NSW electricity transmission and distribution paid $1.7 billion to the NSW Government, representing a relatively stable and low-risk cash flow for the State. Unions NSW is concerned that the loss of this long term revenue stream will result in budget cuts in other service areas down the road.

6.4. The experience of electricity privatisation in South Australia showed that reducing interest payments on Government debt could not justify forgoing the constant revenue stream provided by a publicly owned electricity network. Dividends matched, if not exceeded the interest on retired debt[3].

6.5. A 2014 survey of Australian and international experience found that privatisation does not improve, and usually worsens, the fiscal position of the governments that undertake it[4].

7. Case Studies of Failed Privatisations

Case Study – Port Macquarie Base Hospital

In July 1991 the NSW Government announced that the new Port Macquarie Base Hospital would be designed, built and administered by a private company. This would be a private hospital that treated public patients.

The experiment of privatising health care was not a successful one and the NSW Government was forced to buy the hospital back (at a significant loss) in 2005.

[3] Blandy, R. 'Cost of Power to the People', *The Australian*, 4 February, 2002, p. 11

[4] Quiggin, J. *Electricity Privatisation in Australia*, commissioned by the Electrical Trades Union, Victoria, February 2014

During its 20 year operation, the State Government paid a monthly ‘availability’ charge to the hospital, totalling about $243 million, plus capital servicing and other charges. In 1996, after just two years of operating, the Auditor-General claimed ‘the government is in effect paying for the hospital twice and giving it away’.

Not only did the economics of the privatised hospital not add up, the services provided to the people of Port Macquarie suffered. The NSW Nurses and Midwives Association note that the hospital was not built to the Australian hospital standards and had smaller rooms, narrower corridors and fixtures that could be removed and used as weapons.

Staffing at the hospital was subjected to cost-cutting. Nurses had their salaries cut and eventually the registered nurses were replaced with enrolled nurses. It was clear to patients, the community of Port Macquarie and the Government that the private owners weren’t interested in patient care as much as they were in making profits.

Issues of accountability and transparency also arose in the hospital. The independent board that was set up to oversee the operations of the hospital became more of an advisory committee and community voices were not acknowledged.

In 2005 the hospital was bought back by the Government at the cost of $29 million plus $6 million of employee liabilities.

The original decision of the NSW Government to privatise the Port Macquarie Base hospital was driven by ideology and a belief that it would be more cost effective to the Government. The failed experiment of a privatised Port Macquarie Base Hospital was an example of the quest for ‘financial efficiency’ clouding the best interests of the NSW people. .

Unions NSW holds grave concerns that the mistakes of Port Macquarie Hospital will be repeated under the NSW Government’s plans for the Northern Beaches Hospital to be privately run as a public hospital.

Case Study – Australian Rail Track Corporation

In 2004 the NSW Government privatised the State's freight lines, leasing it to the Australian Rail Track Corporation (ARTC) on a 60 year lease.

The privatisation of the freight lines resulted in 1500 jobs either outsourced or lost all together, with regional NSW disproportionally affected.

When the lease was signed, no clear benchmarks were set around the maintenance and upkeep of the tracks. Nor was there an agreement about the condition the infrastructure had to be in when the 60 year lease expired. The ARTC's maintenance budget was well below the standards set by State Rail and after three years they outsourced maintenance in a contestability model. This resulted unsatisfactory maintenance of the infrastructure which was effectively 'sweated' of its value.

The cost cutting approach to maintenance also had serious implications for safety. The privatisation meant the State Government lost control over its own Transport Policy and had no control of maintenance levels, safety and costs.

As a result of mismanagement and poor maintenance, the Australian Rail Track Corporation lost the contract for the country rail network, which was awarded to a number of other private operators. There is strong anecdotal evidence of significant damage to the asset.