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Australian Government

Australian Government response to the
Economics References Committee report:

Privatisation of state and territory assets and new
infrastructure

JULY 2015

ECONOMICS REFERENCES COMMITTEE

**PRIVATISATION OF STATE AND TERRITORY ASSETS AND NEW
INFRASTRUCTURE**

Introduction

On 30 October 2014, the Senate referred the matter of privatisation of state and territory assets and new infrastructure to the Senate Economics References Committee for inquiry and report by 2 March 2015. The committee was to examine:

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

(a) the role of the Commonwealth in working with states and territories to fund nation-building infrastructure, including:

- (i) the appropriateness of the Commonwealth providing funding, and*
- (ii) the capacity of the Commonwealth to contribute an additional 15 per cent, or alternative amounts, of reinvested sale proceeds;*

(b) the economics of incentives to privatise assets;

(c) what safeguards would be necessary to ensure any privatisations were in the interests of the state or territory, the Commonwealth and the public;

(d) the process for evaluating potential projects and for making recommendations about grants payments, including the application of cost-benefit analyses and measurement of productivity and other benefits;

(e) parliamentary scrutiny;

(f) alternative mechanisms for funding infrastructure development in states and territories;

(g) equity impacts between states and territories arising from Commonwealth incentives for future asset sales; and

(h) any related matter.

On 2 December 2014, the Senate granted an extension to the Committee to report by 20 March 2015. On 19 March 2015, the Committee tabled its final report.

The report contains three recommendations and includes a dissenting report from Government Senators. The report also includes a section containing additional commentary by the Australian Greens. The Australian Greens state that they support the overall intentions of the majority report's recommendations but propose several revisions to those recommendations in order to take account of the issues they have raised. As the revisions do not materially alter the majority report's recommendations, the Government's response does not separately respond to those recommendations.

Government Response

The Australian Government has considered the three recommendations contained in the report and provides the following responses.

Recommendation 1

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

Noted.

The committee has recommended that any privatisation be based upon rigorous analysis of all costs and be preceded by public consultation. This is what governments ordinarily do as part of considering any option for privatisation. State and territory governments are responsible for selecting the assets they consider appropriate to be sold in order to participate in the Initiative. As a consequence, they are ultimately accountable to their constituents for the assets that they decide to divest and the pricing and service outcomes resulting from them.

Recommendation 2

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

Noted.

Appropriate regulatory arrangements and safeguards against anti-competitive behaviour are important considerations for governments undertaking privatisation. State and territory governments can, and have, put in place mechanisms to address competition issues that may result from the privatisation of assets. Commonwealth legislation also exists to address monopoly pricing and access issues as well as anti-competitive behaviours.

Recommendation 3

- The committee recommends that the link between privatisation of assets and infrastructure funding under the Asset Recycling Initiative should be removed. This would provide an environment where: states and territories are encouraged to consider the merits of privatisation on a case by case basis; decisions to fund infrastructure projects are based on the community and economic need; and the Commonwealth contributes funding based on the merits of proposed infrastructure projects while considering the equitable distribution of funds across states and territories.

Not agreed.

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The Asset Recycling Initiative is designed to encourage states and territories to invest in additional infrastructure, while recognising the reality of constrained fiscal positions at every level of government.

The Initiative seeks to encourage states to fund new productive capacity enhancing infrastructure by unlocking capital from existing mature assets, which would be transferred to the private sector. The Initiative also explicitly seeks to encourage private sector funding of green field infrastructure wherever possible, by requiring funding and financing options to be considered as one of the three eligibility criteria for new infrastructure proposals.

The Asset Recycling Initiative does not prevent state or territory governments from considering the merits of a privatisation or making decisions to fund new infrastructure based on community and economic need. The Initiative provides adequate time for all of these aspects to be properly considered. Moreover, the existence of the Initiative has clearly not discouraged community debate on the merits of individual asset sales or proposed new infrastructure projects. All infrastructure projects to be funded under the Initiative must demonstrate: a clear net positive benefit; enhance the long term productive capacity of the economy; and, where possible, provide for enhanced private sector involvement in both the funding and financing of the infrastructure.

Through the Initiative, the Government is responding to the needs of the economy by building infrastructure that will drive economic growth, create jobs and improve productivity. This investment aims to generate significant additional state and private sector participation to build the infrastructure that Australia needs and will lay the foundations for future growth.