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HD **New road rules ahead**

BY Mark Ludlow
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Infrastructure A new funding deal will give states an extra incentive to sell public assets but will it spur on NSW and Queensland to sell, writes Mark Ludlow.

When state premiers gather in Canberra on Friday to sign off on an infrastructure deal at the Council of Australian Governments meeting, all eyes will be on the NSW and Queensland governments.

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The funding deal engineered by federal Treasurer Joe Hockey will give states an extra incentive to sell their public assets – with a 15 per cent top-up in Commonwealth funding if the proceeds of privatisation are tipped into much-needed infrastructure projects. But whether the new funding deal will be the catalyst to kick-start for the Queensland and NSW governments to finally embrace privatisation of state-owned companies remains to be seen.

Newly-appointed NSW Premier Mike Baird – who drove the concept of rewarding states for privatisting assets, jumped the gun on his interstate counterparts on Wednesday by announcing the $1.75 **billion sale** of the Port of Newcastle. Unlike his predecessor, Baird appears more ready to embrace the need for asset sales as a way to repair state government balance sheet, or more importantly, to free-up funds to be used on new infrastructure investment.

After the Port of Newcastle, the state's electricity network companies, which could reap the state government up to $47 **billion** according to analysts, are expected to be next cab off the rank. But a spokesman for the Premier says no decision has been made.

Under the Hockey deal, states will have a two-year window to earmark assets to be sold with the proceeds to be used to invest in new infrastructure projects. The 15 per cent top-up would be in addition to what the Commonwealth would already contribute to the project.

With the **mining** investment tapering off in the next few years, especially the big gas projects in Gladstone, public infrastructure spending will need to be ramped up to pick up the slack. Most other states have already sold the bulk of their state-owned assets, with Victoria engaging in a $30 **billion** sell-off of its electricity, gas and transport assets under the Kennett conservative government in the mid-1990s.

The politics of assets sales has partly been responsible for NSW and Queensland for baulking at pushing through privatisation. Former NSW premier Morris Iemma was rolled as leader by the ALP's right after he attempted a sell-off of the state's poles and wires network in 2008. In Queensland, former premier Anna Bligh bit the bullet and launched a $15 **billion** privatisation program in 2009. Assets including the partial-privatisation of Queensland Rail, the Port of Brisbane and the state forestry plantations.

Bligh may have had the courage to push through the reforms, but the asset sales were seen as partly responsible for her government's demise in 2012, given the privatisation was sprung on voters just after the 2009 election. This has shaped Queensland Premier Campbell Newman's cautious approach to asset sales in his Liberal National Party government's first term in office. He has already flatly ruled out the **sale** of the state-owned **energy** companies, Energex, Ergon **Energy** and Powerlink , even though they would deliver between $30 **billion** to $40 **billion** to pay off debt or re-direct funds to build new infrastructure.

It has forced Queensland Treasurer Tim Nicholls to come up with the idea of private **equity** injections for the state-owned electricity network companies – an idea which has been panned by analysts as an unattractive option for investors.

But Hockey's plans to reward states for using the proceeds of asset sales towards new capital works programs could be the catalyst the states need to push through much-needed reforms, according to Infrastructure Partnerships Australia executive director Brendan Lyon.

"These things are always a momentum gain," he says. "If you look at big asset reforms done in the 1990 s and 2000s, it was the use of competition payments that incentivised the states to do it.

"It [the plan] makes sense . It recognises the funding challenge states are in and it reward states for doing something hard."

Victorian Treasurer Michael O'Brien recently bemoaned the fact the incentives could not be applied retrospectively for a states like Victoria and South Australia which have already done the hard yards on reform. But $1 **billion** of new federal funding for the second stage of Melbourne's East West Link announced on Tuesday will help ease some of Victoria's pain. The **sale** of the Port of Melbourne, one of the few prized assets in public ownership, could also help them put their hands up for the new infrastructure incentive.

But there will be some short-term financial pain under the scheme, including the loss of dividends and tax-equivalent payments from government-owned corporations – a revenue stream which state governments had become increasingly reliant on over the past few years.

The Abbott government has yet to announce the final details of the infrastructure plan, but it is expected to announce the new funding will be excluded from existing formulas used by the Commonwealth Grants Commission to allocate revenue to the states. One of the problems of the former federal Labor government's Building Australia Fund was states were penalised for receiving funding for big projects, through the loss tax and equivalent payments.

A letter from Hockey to the Commonwealth Grants Commission to exclude the new funding from their carve-up of GST funding would help insure states aren't penalised for building new infrastructure. It may not cover the full loss of tax equivalent payments but it's a move in the right direction and will encourage states to reallocate money to key capital works programs. Lyon says the tough budgetary position of states was making privatisation a more attractive option for voters, as opposed to tax increases or cuts to government services.

He cites the muted opposition to the Port of Newcastle **sale** as evidence of the shifting tides. "What this shows is that the community has moved on this issue," he says.

"The mild discomfort at the reform of public assets has been replaced by mounting frustration at the journey times when community and the cost of infrastructure services like electricity."

Former NSW premier and privatisation advocate Nick Greiner says the Hockey plan was a significant incentive, saying state government needed incentives more than ever to undertake tough reform. "I think Paul Keating's line about not standing between premiers and a bucket of money is more true now than when he said it because the position of states has deteriorated," he says. "They all know the longer they hold the assets the more the value will erode."

More importantly, says Greiner, is the need for politicians to sell the benefits of the new infrastructure spending.

"I think what the politicians have realised is it's not about asset sales, but what Mike Baird calls asset recycling," he says. "The truth is if you say you're undertaking micro-economic reform and enhancing productivity they [the public] will be unimpressed.

Baird says the **sale** of the Port of Newcastle to Hastings Fund Management and **Chinese** corporation **Chinese** Merchants showed not only was there a strong appetite for infrastructure assets, but that it could be palatable if governments showed the proceeds would be well-spent.

"I think this transaction shows it's very important if you bring the right assets and the right time with the right process you can achieve an incredible result," he says..

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