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The People's Inquiry into Privatisation in Australia

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UnionsWA Submission to the *People's Inquiry into Privatisation*

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Who we are

UnionsWA is the governing peak body of the trade union movement in Western Australia, and the Western Australian Branch of the Australian Council of Trade Unions (ACTU). As a peak body we are dedicated to strengthening WA unions through co-operation and co-ordination on campaigning and common industrial matters. UnionsWA represents around 30 affiliate unions, who in turn represent approximately 140,000 Western Australian workers.

UnionsWA thanks the Public Services International (PSI) Australia, and its affiliated unions, for the opportunity to make a submission to the People's Inquiry into Privatisation. We have deep and long standing concerns about the impacts of privatisation on the quality of life for the people of Western Australia.

UnionsWA congratulates the People's Inquiry for embracing a broad definition of privatisation in its terms of reference.

Privatisation includes the outsourcing of service delivery, sale of public assets, 'user choice', voucher systems, public-private partnerships, commissioning, social impact investment, and mutualisation.

The experience of UnionsWA, and its public sector affiliates, is that governments recognise that the term 'privatisation' is deeply unpopular. Therefore they will try to hide it behind all kinds of euphemisms. This is the case even with policies as crude as funding cuts to service delivery (often called 'efficiency dividends'). Cuts are not just about 'saving money' (indeed they often cost money), they are also a harbinger of privatisation.

The *Save Our Services* Campaign

In 2011 UnionsWA, with the support of public sector unions, launched the *Save Our Services* (SOS) campaign which aims to ensure all West Australians, particularly those most in need, can access decent health care, schools, public transport and other government services. This can only be done by keeping public assets in public hands and fighting the State Liberal-National government's agenda of privatisation, outsourcing and cuts.

Because of the government's mismanagement of the State's economy, Western Australians are feeling the strain of higher housing prices, longer waiting times in hospitals, bigger class sizes, increased TAFE fees and less investment in public transport. The mining boom is well and truly over but the cost of living in WA has not eased. The State government is trying to privatise WA's electricity, ports, hospitals and prisons to address budget shortfalls resulting from their own mismanagement.

By contrast, the SOS campaign wants WA to be a state in which the public sector restores balance to the economy in order to build employment, income and wealth for everybody. For this goal to be achieved, it is vital that the working people of the public sector have the skills, training and employment conditions so as to be flexible, adaptive and innovative in meeting the needs of all Western Australians.

Both the public and private sectors will need to attract and retain skilled staff through secure employment arrangements, safe and healthy workplaces, and by respecting the need for employees to speak up together for fair wages and conditions.

WA is a growing state with a range of groups and industries requiring public sector reinvestment. As our economy diversifies following the end of the most recent mining boom, Western Australians will need new skills for new jobs in emerging industries. What Western Australians need is not cuts, but *reinvestment* in public services and capital works to drive economic growth and employment opportunities. Reinvestment in core services such as health and education, transport, and law enforcement will be necessary to achieve a fair and cohesive society. Unfortunately, recent governments have been delinquent in their responsibilities, as demonstrated by their practice of making inefficient and unaccountable cuts to services, using euphemisms such as ‘efficiency dividends’ or ‘workforce renewal policies’. These are only re-framed funding cuts to make more digestible to the general public. By contrast, Reinvestment is the positive, alternative agenda to privatisation and cuts.

The rest of this submission will provide examples of areas where privatisation has damaged service delivery in WA.

Human Services

Many West Australians want to work in the public sector because they want to make a difference and contribute to their communities. The privatisation approach to service delivery runs counter to the public service ethos of serving the public and serves to devalue and fragment service delivery. This is particularly dangerous in the area of human service provision as already vulnerable West Australians stand to become the biggest losers and lose connection to much needed services.

A recent example of privatisation in human service provisions is that of Disability Accommodation Services. In 2013, the State Government announced its intention to privatise 60% of its supported accommodation services to non-government Disability Service Organisations (DSO’s). The privatisation of Disability Services followed many years of people with disabilities being *only* offered a private sector option when seeking support.

This incremental change over a long period had ensured that DSO’s already provided 89% of Supported Accommodation Services. The privatisation of an additional 60% of remaining Supported Accommodation meant that 56 homes would be forcibly transferred to the private sector. This meant that families and people with disabilities were given *no* choice of their existing provider, the public sector’s Disability Services Commission. The DSC option actually is attractive for people with disabilities and their families as its Social Trainer staff model provides not only care, but also significant life skill development.

The treatment of the clients of Disability Accommodation Services makes a mockery of any claim that privatisation offers ‘user choice’.

Infrastructure sell-offs

The privatisation of infrastructure services is typically fraught with factors outside of the control of the government. Prominent amongst these are the high degree of uncertainty about what the market will pay for the asset, and what financial benefits will actually go to the State Budget.

In the 2016/17 State Budget WA Treasurer Mike Nahan announced that WA's state electricity Western Power would be sold. Independent analysis commissioned by the Electrical Trades Union (ETU) and Australian Services Union (ASU) found that estimates of the *gross* proceeds of the privatisation could be as high as \$15 billion, or as low as \$11 billion.

A key argument for selling off public assets is that the net proceeds can be used to pay down debt. If the State Government was to use the estimated *net* proceeds (\$3.48 billion to \$7.86 billion) for this purpose, the interest savings to the State Government would only be in the range of \$152.1 million to \$343.5 million. By contrast the total benefit to the WA State Government during the 2015 financial year from its ownership of Western Power was estimated at \$514.7 million. Therefore the annual cash flow loss to the State Government of privatising Western Power would be somewhere between \$362.6 million and \$171.2 million.¹

Selling off infrastructure such as Western Power provides at best a 'sugar hit' to the State Budget bottom line, at the cost of ongoing future benefits.

Intellectual property rights and apples

Privatising public services in the form of 'outsourcing' public services creates risks around issues such as intellectual property. The value created by intellectual property is an important element in government funding.

Intellectual property is the umbrella term given to a range of legal and moral rights that come into being with the creation of literary and artistic creations, scientific and industrial works, and discoveries, and covers copyright, patents, industrial designs, trademarks, and plant breeding rights. Intellectual property rights can be dealt with like any other form of property (such as land and goods), that is, they can be bought, sold, and leased (licensed).

Most government departments have policies for the Intellectual property created by their employees while in their service. That arrangement becomes deeply uncertain when it concerns the intellectual property of third parties to whom the Department has outsourced resources.

An example of the intellectual property created in the public sector is the 'Pink Lady apple'. In the 1970s it was developed by the Department of Agriculture in Western Australia (DAFWA). The 'Cripps pink' tree and brand is owned and licensed by DAFWA. The Pink Lady is the jewel in the crown of the Australian Apple Industry and it exists because DAFWA was funded directly for the research, instead of having it outsourced. If the research had been outsourced, there is a very real risk that the Intellectual Property would have been lost to a third party provider, along with any benefit to WA.

¹ ORION Consulting Network, *Western Power Privatisation – Budget Impact Analysis* (May 2016) <http://www.useyourpower.com.au/get-informed/loss-of-dividends>

Intellectual property is rarely properly valued in the process of privatisation; however it can effectively amount to a 'give-away' from taxpayers to the private sector. This makes a mockery of any claim that privatisation provides 'value for money' for taxpayers.

Accountability for public services

The history of privatisation is replete with examples of governments selling off services based on a prior assumption that it will lead to lower costs, greater personalisation of service, flexibility and improved outcomes. Invariably there is no proper assessment of existing service levels and how they can be maintained by newly privatised arrangements. Options that involve the better direct resourcing of existing public services are rarely properly explored.

The difficulties of measuring the success of new arrangements are often compounded by the commercial-in-confidence nature of the contracts. This makes it impossible to gather comparable data from 'before' and 'after' the change in order to determine its success.

When elected representatives and public sector managers lose control over the quality and delivery of services, and have little or no say in the pay and conditions of workers delivering services, it is difficult to make a meaningful and complete assessment of whether or not those services are being delivered properly and effectively.

In the WA Legislative Assembly Estimates, the Director General for Disability Services was asked how many West Australians received disability services. He was unable to give an exact figure because a significant number of those services were delivered by non-government organisations

'Dr R. Chalmers: More than 25 000 people access disability services in this state. The reason we cannot boil it down to a definitive number per local government area or postcode is that the vast majority of those services are provided by non-government organisations, of which we fund 175 or thereabouts, and people move; they might access services in their local area or they might access services from an organisation based in a neighbouring area. Therefore, it is not possible. We do not track the exact number of people and who they are in a particular location at a particular point in time, and we will never do that.'

Estimates Hansard 26 May 2016

This inability to identify how many West Australians are receiving disability services raises important issues about accountability. If services are being paid for by the State, we should be certain of *how* they are delivered, *who* they are delivered to and whether or not they are being delivered *at all*. If we don't know how many people are accessing a service, we cannot possibly make an effective comparison about whether that service would be more efficient if delivered by the public or the private sector.

Of most concern is effective responsibility. When a privatised project goes wrong, who is ultimately responsible? Under the Westminster system, a Minister of the Crown is supposed to ensure that nothing goes wrong. Under the privatised model, a government ducks responsibility for the contractor when the system fails.

‘Transfer of Business’ and the profit motive in service provision

Following the transfer of a public service to the private sector, the terms and conditions of the workers providing the service are usually worse than before. While this might improve the bottom line for the private provider, the service will often lose its most skilled and experienced staff, and the quality of services to the public will decline.

Workers’ terms and conditions are often at their most vulnerable during a ‘Transfer of Business’ from one employer to another (which occurs during a privatisation). The result *is supposed to be* that an award, agreement, or another type of ‘transferable instrument’ follows the transfer and becomes binding on the new employer.

However it is possible for an employer who is picking up business from a privatised public service to avoid these employment obligations by declining to hire staff from the previous publically provided service. In the previously mentioned example of Disability Accommodation Services, the staffs working in homes being privatised are *not* being employed by new service providers. This is to avoid transfer of business obligations in workplace laws.

Were the non-government providers paying their staff the same wage as the public Disability Services Commission, they could employ staff as part of the transfer of business provisions. However in practice they pay significantly less, because to pay an equivalent amount would undermine the contracts already agreed by the Disability Service Organisations. These contracts must promise to provide services at a lower cost, because to promise otherwise would undermine the purpose of the privatisation in the first place!

Efficiency in service provision

Arguments for privatisation often rest on the assumption that the private sector can deliver higher quality services, with fewer resources. This is supposedly because private owners are motivated to increase the value of an asset or service to their business. However privatisation it is not always a cost saving measure and the result is often less accountable, consistent service.

A recent example in WA is the publically owned Water Corporation’s sale of its Construction and Engineering Branch. In August 2015, the Corporation sold the Branch to RCR Tomlinson for \$10.4 million. The sale was underpinned by \$110 million of guaranteed work over the next three years.

Consultant’s fees and redundancies relating to the deal ended up costing the Government \$7.4 million. The result was that, after tax, the Water Corporation made just \$2 million on the deal.

The Water Corporation sale was supposed to save jobs because of a lack of work for Construction and Engineering Branch. However if it were really the case that there was not enough work for the Branch, there would also not have been enough work to ensure that the sale deal came with \$110 million of guaranteed contracts.

By selling the Construction and Engineering branch to RCR Tomlinson the State was now in a vulnerable to open ended arrangement whereby the company was able to delay projects for its own benefit. Far from leading to an efficient outcome, privatisation led to a more expensive outcome with worse service provision

Salami tactics: privatisation by stealth

The State Liberal-National Government knows that privatising public services is not popular with the West Australian public. The Barnett Government's privatisation project is characterised by a creeping privatisation: selling off one small part of each critical service at a time.

An example of this is the family services delivered by the Department of Local Government and Communities.

- Best Start is a State-wide program is for Aboriginal parents and carers with young children from babies to five year-olds.
- Parenting WA is a free information, support and referral service for parents, carers, grandparents and families with children aged from pre-birth to 18 years. Parenting WA coordinators are located throughout Western Australia.

These services were previously delivered by the WA Department of Communities. In 2013, the Departments of Local Government and Communities were merged. Public servants at the time were concerned that programs run by the Department of Communities would be downgraded and de-prioritised over those of the Department of Local Government.

Just after the 2016/17 State Budget, the Department of Local Government and Communities announced that they were axing Parenting WA and Best Start. 51 positions were abolished. The Department of Local Government and Communities' announced that their focus in the parenting sector would change from direct service delivery to a strategic coordination and facilitation role. At the same time, funding totaling \$3.5 million over four years was provided to the non-government sector to deliver parenting services.

This example demonstrates why 'privatisation' cannot be considered in isolation from other government decisions. What at first appeared to be 'machinery of government' change (the merging of two departments) turned out to be a prelude to privatisation.

TAFE fee increases: privatisation by stealth

A significant factor ensuring that Western Australians have the skills needed for emerging industries is for citizens have access to well-funded, high quality training services via public Technical and Further Education (TAFE) colleges.

TAFE is a public system which everyone should have the right to access, regardless of their circumstances. TAFE colleges are the training industry leaders and ensure that students walk away with a high quality education that gives them the best opportunity for meaningful employment.

However since 2014 the State government has dramatically increased student fees, including concessional rates and apprenticeships. Many students, especially those on a lower income, are now struggling to afford a TAFE education and are forced to turn to lower quality *private* training providers offering cheaper and shorter courses. There are an increasing number of cases where private training providers have cut corners and not met training standards, leaving students with qualifications that may not be recognised by future employers.

This is another example of privatisation by stealth, as the TAFE sector becomes increasingly dominated by low quality private providers, while public TAFE is pushed further out of reach.

Examples of TAFE Fee Increases

Course	2013	2014	2015
Cert IV in Beauty Therapy	\$626	\$3908	\$4636
Diploma of Graphic Design	\$2545	\$4070	\$4173
Diploma of Fashion and Textile Design	\$1241	\$4369	\$4479
Cert IV in Business Administration	\$621	\$1685	\$2464
Diploma of Management	\$621	\$1907	\$2381
Certificate IV in Accounting	\$1037	\$2293	\$2836
Diploma of Business - Legal Studies	\$986	\$2156	\$2697
Diploma of Music	\$1241	\$4888	\$4888
Cert IV in Building and Construction	\$1241	\$2979	\$3534
Advanced Diploma of Engineering – Oil and Gas	\$2203	\$9096	\$9298
Certificate IV in Surveying	\$1156	\$2783	\$3162
Diploma of Surveying	\$1751	\$5640	\$5840
Cert IV in Education Support	\$621	\$1999	\$2743
Diploma of Nursing	\$1862	\$8295	\$8505
Certificate IV in Fitness	\$621	\$2508	\$3045
Cert III in Travel	\$621	\$3222	\$3822
Cert III in Events	\$621	\$2097	\$2487
Diploma of Events	\$1241	\$5032	\$5159
Advanced Diploma of Engineering - Electrical	\$2203	\$10728	\$11019

In 2014 the Minister for Training made clear to Parliament the state government’s policy of shifting the cost of a TAFE education to students, saying that, *‘Of the \$45.8 million reduction (to TAFE funding), \$26 million will be replaced through additional student fee increases.’* The state government increased TAFE fees even further in 2015, even though enrolments dropped by over 5,200 students.

In the 2016/17 state budget, fees have again been increased by 4 per cent. For some courses, student fees have now increased by far more. Some students in low paid, female dominated industries such as social and community services are being asked over \$10,000 for a Diploma.

The long term consequences of a ‘privatised by stealth’ training sector will lead to industry training shortages, fewer employment opportunities and the increased potential for students to be left with large debts via private training providers using the federal VET FEE HELP scheme. The later issue is important, not only for individuals, but for the nation as a whole which is estimated to increase its VET FEE HELP debt by billions over the next 5 years.

The Alternative: Reinvesting in quality services

Western Australia is large, growing state with a broad spectrum of individuals and industries requiring public sector support. Our economy is also diversifying following the contraction of the resources sector and WA's workers will need new skills for future jobs in emerging industries. It is critical that the WA public sector is funded to provide quality services and infrastructure to support the growth of the state and its economy. It is also imperative that our public sector provides for equitable access for all individuals, especially those who are disadvantaged, to basic services such as education, health, and transport and law enforcement.

WA's future economic and population growth will only be secured by supporting our public sector workers through providing them the skills and training they need.

By reinvesting in its core service responsibilities, the WA public sector can make long term commitments to service delivery instead of short-term contracts. The sector will be both responsible and accountable for taking action to overcome disadvantage in WA. By contrast a privatised service cannot make a long term commitment to anything other than profit.

Conclusion

For WA to have a future as a fair and cohesive society, it is vital that the privatisation plans of the current state government are defeated. In this submission we have made the following points:

- The experience of the clients of Disability Accommodation Services shows that privatisation does not offer 'user choice'
- Revenue from selling off infrastructure such as Western Power can only provide a 'sugar hit' to the State Budgets at the cost of future revenue streams
- With privatised service delivery, a government can avoid responsibility for system failures by blaming the contractor
- Contractors must promise to provide services at a lower cost than the public sector, and their savings inevitably come from cuts to employment conditions – meaning they lose their most skilled staff, and undermine service quality.
- The Water Corporation examples show that the costs of the privatisation process itself can actually lead to more expensive outcomes with worse service provision
- Because privatisation is unpopular, governments will often try to smuggle privatisation in through other, more innocuous looking decisions
- Even a decision to make the public sector more 'user pays', as in the case of public TAFE, can amount to an effective privatisation as low cost, low quality private providers try to fill a gap
- The alternative to privatisation is for the public sector to *reinvest* in its service responsibilities, and make long term commitments to service delivery

UnionsWA thanks the PSI for the opportunity to make a submission to the *People's Inquiry into Privatisation*. We hope that its findings will encourage future governments to deliver real improvements to our public services, and recognise the vital role of our public sector workers in achieving these goals.