

Treasurer Tim Pallas brought down [the Victorian budget](#) yesterday, with a surprising list of new spending announcements. The increased spend is possible because of a big increase in the level of privatisation activity, in the form of either Public Private Partnerships (PPPs) or asset recycling initiatives.

The latter has become quite popular these days, following the NSW government's lead at the 2015 election, with assets sold to generate the funds that are then re-invested. Next year, around 40% of the government's infrastructure spend [will be undertaken through PPPs](#).

But this trend also brings with it risks. There's little concrete evidence of the effectiveness of using this system to finance and operate infrastructure and other projects.

The Victorian government's spending announcements in this budget will exceed A\$1.8 billion (A\$2.8 billion if we exclude savings made and spare cash set aside from previous budgets), up almost 20% on the record breaking spend of last year. The big ticket items are in family violence (A\$440 million next year, and A\$1.9 billion over the next four), justice and particularly the hiring of 2,700 more police (A\$191 million and A\$1.6 billion over four years).

On top of these initiatives, the treasurer has managed to crank up infrastructure spending. This will almost double its level of two years ago, to hit A\$10 billion. It's a jaw-dropping sum that will help generate a lot of jobs, but also a lot of inconvenience as things are built and fixed on a scale Victorians haven't seen before.

Growing trend of privatisation

This increased spend in Victoria will be possible at least partly because the treasurer is intending to return to the debt markets in a long-anticipated move to boost capital spending when interest rates are so low and the state's credit rating is so high.

But the scale of the PPP commitment built up over the last decade is now a story in itself, although not one easily discovered. Fully one third of Victorian government debt is now accounted for by borrowings entered into with private parties to build, own and operate public

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Written by The Conversation

assets. Even more remarkably, almost half of the government's interest bill is [accounted for by private lease payments](#)

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It sounds a bit like a magic pudding, except there are none in public finance. Asset recycling has so far involved the sale of income producing businesses like the Port of Melbourne, which are sold to pay for new roads, which don't directly produce any return.

The family silver is being sold to buy some family bronze. It might be good politics, but it certainly isn't good for the budget bottom line.

Public private partnerships are rather costly, thanks [to the high interest rates attached to private debt](#), compared to that issued by the Treasury Corporation of Victoria (around 3-4 percentage points). Ironically, were the government to rely on its Treasury to raise debt (in the way it once always did), it might well end up with even more revenue to play with. It's a pretty efficient business delivering [A\\$104 million as dividends next year](#)

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The budget anticipates even more privatisations are on the way, not that there's much left to sell. Money has been set aside to scope the sale of the land titles registry, which will probably happen early in 2018.

Treasurer Pallas says he is hoping to emulate the A\$2.6 billion raised by NSW from the sale of its land registry office finalised just a few weeks ago. A key player in that deal was none other than Hastings Fund Management, which is a wholly owned subsidiary of Westpac bank.

Like the other three big banks, Westpac likes to dabble in Public Private Partnerships. There are eye-popping comparisons that can be made between the salaries paid to their executives compared to those at the Treasury Corporation. According [to its annual report](#), Westpac's top execs pocketed A\$24 million between them last year, compared to barely A\$2.6 million [for the equivalent at the Treasury Corporation](#)

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These privatisations wouldn't be so bad of course were it beyond dispute that they delivered value for money to end users and not just a nice return. Trouble is the [Auditor-General keeps pointing to evidence](#) that goes in the opposite direction.

From trains, trams, and buses to prisons and even electricity and gas, the one thing that is common is the lack of transparency in performance measures . Also consistent is how well the private operators manage to game the measures, whether it by skipping stations or stops or using pricing systems that are so obscure, no one knows what they are buying, on what terms or for how long.

CityLink still does not show signs to motorists as to how much they will pay as they drive on to their increasingly lengthy toll roads. Electricity companies have pricing regimes that are so complex the Essential Services Commissioner has found it necessary to give [them a lengthy and increasingly testy serve](#) .

It is quite striking that in the case of Victoria – Australia's most ardent privatiser over the last three decades – there is no evidence of user charges falling, or government spending abating. This is what you'd expect were the privatisers to deliver the promised efficiency gains. In the case of public transport we know that the state is now spending more today than was the case under inefficient public ownership.

The one difference is that these days the private owners of Victoria's infrastructure tend to be overseas owned, and in the case of energy, increasingly from China. The metropolitan trains are run by a company from Hong Kong, the trams, one fifth of the metropolitan buses and the massive desalination plant [by firms from France](#) , and about 40% of prisons [by an American corrections company](#) . Profits from taxpayer payments are repatriated overseas in a nice little twist that sees privatisation down under contributing to globalisation on top.

Victoria is not the only state to see privatisation as a convenient solution, and it is but the first of the states and territories to tell us its budget plans for coming years. We can expect the others to look to Victoria as a model, raising important policy questions about whether our governments are leaving an expensive legacy that someone else might one day have to fix.

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