

# POLICY UPDATE

## Purpose:

This policy update is intended to provide a brief and general review of the most recent government policies, strategies and initiatives in major policy areas at both federal and state level.

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## IN FOCUS

### State Budgets 2014-15

The ramifications of the Federal Budget 2014-15 are still being felt more than a month after its release. Although the Commonwealth has maintained its focus on fiscal repair, it faces significant political hurdles in the new Senate in order to pass some of its more controversial reforms. The negotiation process will inevitably result in the adjustment or withdrawal of some of these policies. Some significant policy adjustments have already been made, including:

- The decision to keep the renewable energy target (RET), Clean Energy Finance Corporation, and the Climate Change Authority in exchange for senator support of the Carbon Tax Repeal Bills.
- Repeal of the carbon tax which passed through the Senate with significant cross-bench support.

Debate over the appropriate mechanism to replace the carbon tax is ongoing, with the government committed to introducing its Direct Action policy, and the Palmer United Party proposing to legislate for an emissions trading scheme with a zero start price.

The Commonwealth has also made significant alterations to the funding arrangements with the State and Territory Governments. The Commonwealth anticipates that these changes will provide in excess of \$80 billion in savings in the period to 2024-25. These adjustments include:

- Alterations to the indexation of Commonwealth funding for public hospitals and schools. Indexation will now occur based on CPI and population growth.
- The cessation of funding guarantees to the States under the *National Health Reform Agreement*
- The removal of Commonwealth contributions to concession card holder subsidies
- Withdrawal of uncommitted Local Government Reform funds

There is a view that the changes to the Commonwealth-State funding arrangements are also the first step in a process that may see reforms to the GST implemented. By altering the funding arrangements, the Commonwealth may compel State governments to lobby for an increase rate of GST, broader coverage, or both in order to be able to sustain what is seen as core expenditure on health and education.

State governments have also faced falling revenues from other sources, with tax receipts revised downwards in most states relative to the 2013-14 budget projections. The explanation for the fall varies from state to state, but includes weaker commodity prices (primarily affecting Western Australia and Queensland), slowing property and labour markets leading to reduced payroll and transfer duty revenue, as well as decreases in gambling expenditure (South Australia).

In response to declining revenues, most state governments have sought to attempt some form of budget repair. The measures included in the recently completed round of state budgets (excluding Tasmania) include asset recycling programs in Queensland, New South Wales and Victoria, changes to the rates and bases of taxes and other charges, and cuts in expenditure. It is worth noting that the Commonwealth has allocated \$5 million over five years to encourage states to recycle existing assets.

Although there is a clear focus on fiscal consolidation, the release of the state budgets also saw a new round of infrastructure spending, with a particular focus on roads and other transport-related expenditure. More information on each state's budgetary measures is contained within the Update.

For more information ctrl click [here](#) or [here](#)

## ECONOMIC & REGULATORY REFORM

### ACCC

- Initiated Federal Court proceedings against Jetstar Airways and Virgin Australia Airlines, alleging that both have engaged in misleading or deceptive conduct relating to their 'drip pricing' practices.

For more information ctrl click [here](#).

- Chose not to oppose proposed price increases by Airservices Australia for the provision of air traffic control and aviation fire-fighting and rescue services. The changes are consistent with the five year price plan approved by the ACCC in 2011.

For more information ctrl click [here](#).

- Released its Final Decision on pricing bulk water supplied by the State Water Corporation in the NSW Murray-Darling Basin for the 2014-17 period. The Decision allows the NSW Government to increase the charges it recovers from irrigators.

For more information ctrl click [here](#)

- Provided authorisation to member's of the NSW Farmers' Association to engage in collective bargaining with processors.

For more information ctrl click [here](#).

- Made a submission to the Harper Review of competition policy, identifying three key areas for effective competition policy - opening up as many sectors as possible to competition, having sufficiently robust competition laws, and the establishment of effective processes and institutions to foster competition and sustain reform.

The submission is available [here](#).

- Announced that it has decided to vary the existing final access determinations (FADs) for four fixed line telecommunications services. The FADs are being varied for the Unconditional Local Loop Service, the Line Sharing Service, the Local Carriage Service, and the Wholesale Line Rental service.

For more information ctrl click [here](#).

### Productivity Commission

- Released a draft report on reform of the childcare sector. Key recommendations include the introduction of a single means tested subsidy to parents to replace the current multitude of childcare subsidies, nannies being eligible for subsidies, the removal of restrictions on the number of places for occasional care and required opening hours for centres to qualify for Government subsidies.

The draft report can be found [here](#).

- Published a report regarding government assistance to industry. The report seeks to draw attention to areas where government intervention may be hindering economic growth, identifies recent developments in international trade policy and industry assistance, and also discusses industry policy in the context of defence procurement.

The report can be found [here](#).

- Published an interim report of a project, 'Relative Costs of Doing Business in Australia: Retail Trade'. The report investigates sources of cost inflation in the Australian retail sector, including regulation.

The report can be found [here](#).

- Made a submission to the Competition Policy Review, emphasising that there is additional scope to increase competition in the Australian economy through policy reform.

- Released an Inquiry report into Tasmanian Shipping and Freight. It examined the issues impacting the competitiveness of Tasmanian businesses relating to shipping, port, road, and rail infrastructure.

The report can be found [here](#).

## QUEENSLAND

### Budget

- The 2014-15 budget forecasts a \$6.1 billion deficit, while a \$862 million surplus is expected for the 2015-16 financial year.
- Royalties revenues have been revised down by \$626 million in 2014-15 due to lower coal prices.
- Taxation revenue decreased relative to MYFFER by \$179 million, driven by reductions in the rate of growth of payroll tax, with some offset from increased transfer duty revenue.
- GST has been revised up by \$177 million relative to MYFFER.
- The cost of natural disasters, such as Tropical Cyclone Ita, is estimated to be \$5.63 billion over the 2013-14 to 2015-16 period.
- Expenditure growth is estimated to have been 2.2% in 2013-14, and was 0.2% in 2012-13.
- General revenue in 2014-15 is expected to increase by 11.7% to \$50.12bn, largely due to growth Australian Government grants.

For more information ctrl click [here](#).

- Treasurer Tim Nicholls released the Government's 'Draft Plan of action' to reduce Queensland's debt., proposing asset sales in lieu of tax increases or cuts in services.
- Entities are under consideration for private sector investment (Powerlink, Energex, Ergon Energy), long-term leases (Integrated Port of Townsville, Mt Isa Rail Line, Port of Gladstone), or for sale (Ergon Energy retail, Sunwater industrial pipelines, Stanwell Corporation and CS Energy).
- Three quarters of the expected revenue from asset sales will be allocated to debt reduction, with the remainder to go to an investment program. The proposed expenditure program focuses on new transport infrastructure, regional development, health and education.

For more information ctrl click [here](#)

- Health spending is set to increase by 6.4% per cent in the 2014-15 financial year. The increase includes the transfer of \$96 million in reduced administrative costs into frontline health services.

For more information ctrl cluck [here](#).

- The Government has announced it will reinstate full level of pensioner and senior concessions after cuts from the Commonwealth.

### Energy & Water Supply

- WaterQ, a 30 year water sector strategy for Queensland was announced.

For more information ctrl click [here](#).

- New Directors have been appointed to the Gladstone Area Water Board (GAWB). GAWB has also moved from a seven member to a five member board.

For more information ctrl click [here](#).

### State Development Infrastructure & Planning

- *Royalties for Regions* was allocated \$101.5 million in the budget

### Natural Resources & Mines

- The budget provided \$3.9 million in leasehold land rent rebates and water licence fee waivers to support landholders affected by drought.

For more information ctrl click [here](#).

- A discussion paper on Queensland State Land has been released. The paper examines three opportunities for reform, including: allowing leased land to be used by third parties, providing local governments greater flexibility as managers of state land, and simplifying regulation for landholders.

For more information ctrl click [here](#).

### Transport

- Calls for Expressions of Interest (EOI) have been issued for Toowoomba's Second Range Crossing.

### Regulatory

- The QCA announced its final decision on the GSL arrangements to apply to Energex and Ergon for the next regulatory period (commencing 1 July 2015).

For more information ctrl click [here](#).

- Queensland's Rail proposal to extend its 2008 access undertaking's termination date was approved.

- The QCA has released is regulated electricity prices for 2014-15, indicating that on average residential consumers will face an increase of 13.6%. For more information ctrl click [here](#).

- The QCA published a consultation paper on Queensland Rail's western system coal tariff.

Fore more information ctrl click [here](#).

## NEW SOUTH WALES

### Budget

- The NSW Government announced in its 2014-15 budget that it would run a \$283 million deficit for the financial year, with net debt of \$12.364 billion.
- The re-profiling of Commonwealth grants has been cited as a key reason for the deficit, with \$2.2 billion in funding over the five years to 2017-18 cut.
- Total revenue in 2014-15 is estimated to be \$67.1 billion, 2.6% higher than forecast. The increase in revenues has been driven by a stronger property market, leading to higher transfer duties. GST revenues are also expected to be higher.
- Overall growth in state taxation revenue is expected to average 5.3% over the forward estimates
- Total expenditure growth for 2014-15 is forecast to be up 4.6% compared to the 2013-14 period.
- The *Fiscal Strategy and Budget Priorities* emphasizes the acceleration of investment in infrastructure and increasing funding to health and education services.

For more information ctrl click [here](#).

### Infrastructure

- New infrastructure spending, including \$863 million for construction work on the North West Rail Link, \$398 million for WestConnex, \$400 million towards NorthConnex and \$278 million for roads related to Badgerys Creek airport.

For more information ctrl click [here](#).

### Energy

- The sale of Green State Power's renewable energy assets for \$72.2 million and includes hydro generators at Hume, Burrinjuck and Keepit dams, the Balyney wind farm and 80% of the Crookwell wind farm. The sale of Green State Power assets are part of a broader electricity generation sale package.

For more information ctrl click [here](#).

- IPART released its final report on solar feed-in tariffs in 2014-15, setting a benchmark range of 4.9 to 9.3 c/kWh.
- IPART released its final decision on average regulated gas prices for 2014-16, with average increases of 17.8%.

For more information ctrl click [here](#).

- Energy rebates to households costing approximately \$228 million were announced in the budget

## VICTORIA

### Budget

- Forecast a \$1.3 billion surplus for 2014-15. Net debt is expected to decline to \$4.5 billion by 2017-18.
- State taxation revenue is forecast to grow by 7.2% in 2014-15, driven by growth in land tax and transfer duty, with gambling revenues also increasing by 8.3%. Payroll tax is expected to grow by 4.2% in 2014-15, with the rate to be reduced to 4.85% from 1 July 2014. Tax revenue growth of 4.4% is expected over the forward estimates.
- Asset recycling has been highlighted as an important revenue source, with the Port of Melbourne and the Rural Finance Corporation falling under the program. The proceeds are to be reinvested into new infrastructure projects.
- Expenses are forecast to grow by 2.6% p.a. over the forward estimates.

For more information ctrl click [here](#) or [here](#).

### State Development Infrastructure & Planning/ Transport

- Up to \$27 billion allocated to new infrastructure projects, including the Melbourne Rail Link, the western section of the East West Link, and the widening of Citylink.

For more information ctrl click [here](#).

- \$2.5 billion to be invested in the Cranbourne-Pakenham Rail Corridor project to provide capacity for an additional 4,500 passengers in peak periods.

### Regulatory

- The ESC published its determination of maximum taxi fares, maintaining the cap at their existing levels.

For more information ctrl click [here](#).

- The ESC released an issues paper regarding potential variations in standing offer tariffs following the proposed removal of the carbon tax.

For more information ctrl click [here](#).

- The ESC released its draft determination for the feed-in tariff (FiT) minimum to apply from 1 January 2015.

For more information ctrl click [here](#).

## SOUTH AUSTRALIA

### Budget

- Announced a deficit of \$479 million in 2014-15 and net debt at \$4.511 billion
- Changes to Commonwealth funding will decrease revenues by \$898 million across the forward estimates.
- Taxation revenue has been negatively impacted by weak employment conditions, and reduced gambling expenditure, but partially offset by increased GST grant revenue. Total tax revenue has been revised down by \$85 million from the 2013-14 budget.
- Property taxes are anticipated to grow by 14.2% in 2014-15.
- Reductions in Commonwealth funding have reduced revenues by \$898 million over the 2013-14 to 2017-18 period.
- Savings and revenue raising measures announced, including - additional efficiency dividends on agencies, an increase in minerals royalties rates, an average \$150 per property increase in the Emergency Services Levy, a pay freeze for parliamentarians, identifying

reductions in hospital beds, and removing concessions on local rates.

For more information ctrl click [here](#) or [here](#)

- Compulsory Third Party vehicle insurance will be opened to the private sector providers, with revenues allocated to the State Government's Highways Fund.

For more information ctrl click [here](#).

- New spending includes a Jobs Accelerator Fund, increased funding to the 'Skills for All' program, and an annual energy and medical heating and cooling concession.

For more information ctrl click [here](#).

### Energy & Water

- SA Water's balance sheet to be restructured to align its debt level with its interstate peers.

For more information ctrl click [here](#).

### Regulatory

- ESCOSA announced that it has approved the 2014-15 Revenue Control Compliance Statement submitted by SA Water.

## WESTERN AUSTRALIA

### Budget

- The 2014-15 budget predicts a general operating surplus of \$175 million.
- Total revenue is forecast to be \$28.7 billion in 2014-15, an 2.6% increase from 2013-14. This has been driven by a 75% interim dividend on State port authorities, 10% increase in land tax rates and changes to the first home buyer transfer duty concession.
- General government revenue is forecast to grow by 3.6% p.a. on average over the forward estimates, down from 8.1% from the past decade.
- Announced savings measures include: a 5% reduction in Asset Invest Programs of most agencies, 15% reduction in non-essential procurement, a \$1 billion expenditure cap on Royalties for Regions, and the abolition of the \$36 private vehicle registration fee concession.
- Additional spending includes a \$447 million increase for health services, a \$188 million increase in education services, and an extra \$83 million for police.

For more information ctrl click [here](#) or [here](#)

### Water & Energy

- Electricity subsidies of \$616 million were announced in the 2014-15 budget.

### Infrastructure

- Announced a \$23.7 billion infrastructure program over the next four years. Major projects include Forrestfield Airport Link, Perth Stadium, and Fiona Stanley Hospital.

For more information ctrl click [here](#).

### Transport

- Public transport subsidies of \$747 million were announced in the budget.

### Regulatory

- The Economic Regulation Authority (ERA) announced that it had approved the Energy Price Limits proposed by the Independent Market Operator.

For more information ctrl click [here](#).

- ERA released its draft determination on the 2014 Review of Method for Estimating Weighted Average Cost of Capital for railway networks.

For more information ctrl click [here](#).

## TASMANIA

Tasmania's 2014-15 budget will be released on 28 August 2014.

## ABOUT SYNERGIES

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- Microeconomic analysis
- Regulatory and network economics
- Regulatory compliance and strategy
- Modeling
- Economic impact analysis
- Public policy
- Competition policy analysis
- Expert testimony
- Commercial advisory

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