



Parker & Partners  
**Trends 2010**

## Contents

The Federal Government	4
The Opposition	6
The cross benches	8
Climate change: an election battleground?	9
Around the country	10
The economy	12
Tax & financial services	13
Health	14
Education & childcare	15
Infrastructure & transport	16
Information & communications technology	17
Energy & resources	18
Manufacturing & innovation	19
Defence	20
The region	21
Media	22
About Parker & Partners	23



## Welcome to Trends 2010

While many of you have still been enjoying your holidays, our team of public affairs specialists have spent their time analysing the way Australia's key political issues are likely to play out this year, and what the implications are likely to be for business and community.

Our focus has been on the public policy issues of most importance to Australia in the medium-term. Around Australia there is a growing sense that we are at a cross-roads if we are to achieve real reform in the areas of health, transport, environment and government expenditure. Each of these issues is also impacted – and potentially triggered – by the opportunities that could emerge from widespread taxation reform and meaningful improvements to Commonwealth-State relations.

However the medium-term is often derailed by the short-term, particularly when elections intervene. 2010 will see three state governments go the polls and a fourth prepare for an early 2011 vote.

As always, most of the political attention in 2010 will be on Canberra, with the Rudd Government seeking its second term of office. We believe the most likely timing for the Federal election will be in the spring, although the potential for an earlier CPRS double dissolution election remains.

However, the Government is unlikely to want to fight an election on environmental issues alone. Already the re-framing and re-positioning has commenced, with the Prime Minister placing firm focus on improving Australia's economic productivity. For the Abbott-led Opposition, success in 2010 will be more or less holding their base, perhaps winning a seat or two and definitely losing no more than a couple.

This year we've also introduced a fresh component of Trends – the inclusion of key findings from Ogilvy Illumination's open research *What's Keeping Australians Up At Night?*. Undertaken in late 2009, for the first time we offer the unprompted insights from the community as to what really concerns them, with many fascinating implications for the Australian public affairs agenda and its political players.

As we enter the new decade emerging from the worst of the economic downturn, there is a collective sense of 'what now?' We trust *Trends 2010* offers some insight into this question. As always, comments and feedback – including differing points of view – are very welcome.

The P&P team looks forward to working with you over the next 12 months as we navigate the always interesting Australian political landscape.

Sarah Cruickshank & Greg Sam  
Joint Managing Directors

# The Federal Government

Australia's relatively short federal terms mean the transition from shiny new Government to battle-scarred incumbent happens extremely quickly. Last year's *Trends* talked of the Rudd Government as still the new kid on the block, earning its stripes on the economy and the environment, and continuing to enjoy its honeymoon with voters. But the unrelenting nature of the 24-hour media cycle, the impact of economic uncertainty on voters, and the concentrating effect of the looming election mean the Government can no longer count on the latitude given new governments.

In 2010 everything will be focused on the election. The polls still look healthy for Labor, the Government has been unaffected by scandal (the loss of Joel Fitzgibbon notwithstanding), and its handling of the economic crisis has been masterful. History is also on Kevin Rudd's side: no first term national government has lost an election since James Scullin's Labor administration was split in three in 1931. Even Gough Whitlam won two elections.

Despite recent polls showing the Coalition's numbers improving under new leader Tony Abbott, a change of government in 2010 is highly unlikely. But that doesn't mean there aren't dangers ahead. In a range of areas – most notably health and climate change – the Rudd Government has yet to implement the changes voters believe were promised, creating electoral vulnerability for the Government and opening up opportunities for the Opposition.

While the policy deliberations around healthcare are complex and take time to navigate, voters who heard the PM's pledge to take over health if the states didn't improve services, and who are tired of sitting in emergency departments for hours or having grandma's hip operation put off again, will hold him to his word.

The Government has so far done a poor job of selling its Carbon Pollution Reduction Scheme. Its strategy of trying to wedge the Coalition was so successful it wedged the Liberals from their leader,

the only person who could give the Government what it wanted. Voters still want effective action on climate change, but in 2010 the Government must find a simple message that resonates if it is to win this debate.

The CPRS has given the Government a trigger for a double dissolution, whether it chooses to pull that trigger is another matter. A double dissolution election in the first half of the year would backdate Senate terms to July 2009, effectively limiting the Government's second term to two years unless it was prepared to put the lower and upper houses out of sync. But a double dissolution election can only be called up to September, leaving a few short winter months for a double dissolution poll if that is what Labor strategists decide to pursue.

While a double dissolution election would, like all elections, focus on a range of issues, the fact it would have been triggered by the CPRS legislation would make climate change a key electoral battleground. Whether the Government will want to fight on this turf will depend on how successful it is in prosecuting its climate change policy in the lead up to the election. The money is still on a September/October normal House of Reps/half-Senate poll.

The Rudd Government's strategic approach – which has taken the notion of the permanent campaign to new levels – will also impact its stocks, for good and for ill. The approach to date has been to win the daily news cycle (or, more

accurately, the morning and evening news cycles) by using pre-packaged 'retail' media stories that block the Opposition's ability to get airtime.

This strategy will be ramped up in 2010 – witness the PM returning to his star-making role on *Sunrise*. But there's an inherent risk voters will grow weary of hearing the Government proffer opinions on the kind of kitchen table topics normally the province of state governments or the pop culture issue *du jour*, subjects on which all they can do *is* give an opinion. Do voters want their Government to be media commentators or political leaders?

Rudd and his inner ministerial circle of Gillard, Tanner and Swan present a confident, able and unpretentious team. But the real breakout star is the Deputy PM, who has shown a deft touch in her media dealings, a steely resolve with stakeholders, and an engaging personality with the electorate. Definitely the one to watch in 2010.

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## DO THE 'RIGHT' THING

When the Rudd Government was elected just over two years ago much was made of the fact both the PM and the Treasurer came from Queensland. This historically unique fact was supposed to represent a shift away from the Victorian-NSW centre of political gravity that had existed since Federation. In reality, a bloc of ambitious, right-wing NSW MPs and senators is key to Rudd's power base, providing crucial political advice and muscle. Agriculture Minister Tony Burke honed his political skills in the 'Shoppies', the conservative Shop Distributive and Allied Employees Association. After a short stint in the NSW Upper House he won the seat of Watson in 2004, where he has grown in influence. It's unlikely he'll still be confined to Agriculture after the election. Financial Services Minister Chris Bowen is a true son of the NSW Labor right, joining the ALP at 15, at 25 becoming mayor of Fairfield and later chief of staff to NSW state minister Carl Scully. At 36 he was made a member of the second Rudd Cabinet, and has since taken the running on most of the non-macroeconomic media issues. Since being made a Minister Senator Mark Arbib has impressed stakeholders in his portfolio of Employment Participation. The former Secretary of the NSW branch of the ALP was central to Rudd's defeat of Kim Beazley back in 2006, and is one of the PM's most trusted political advisers. And former adviser to Bob Carr, Blaxland MP Jason Clare was made Parliamentary Secretary for Employment in June last year, where he's serving an apprenticeship that's certain to lead to a ministry sooner rather than later. NSW remains the centre of influence.

## OGILVY ILLUMINATION: WHAT AUSTRALIANS WANT FROM GOVERNMENT

A perennial (and ill-deserved) complaint from Australian voters is that their political representatives are dilettantes who at best do a barely adequate job of running the country and at worst are actively nepotistic. A recent study conducted by Ogilvy Public Relations, *What's keeping Australians up at night?*, asked Australians to nominate their greatest concerns. Fifty-five per cent indicated they are very concerned by the number of broken promises made by Australian politicians. Concern was particularly high among older voters, with 67 per cent of those aged over 50 saying they are highly concerned compared with only 38 per cent of those under forty. While it is not clear if this is a display of the much talked about political apathy of Generations X and Y, the pattern is repeated when it comes to concerns about political corruption too: 47 per cent of Australians aged over 50 are highly concerned about corruption in state and local government whereas only 24 per cent of those aged under 40 are similarly concerned. Concern over government probity and efficacy also splits along party political lines: 70 per cent of Coalition voters are highly concerned by the number of broken promises made by Australian politicians and 43 percent by corruption in state and local government, whereas only 40 per cent of Labor voters are highly concerned about politicians breaking promises and 32 per cent by state and local government corruption. Out politicians have a task in 2010 to win over these sceptics.

# The Opposition

Liberal MPs and grassroots supporters have been looking for a leader with the appetite to oppose the Rudd Government on substantive policy issues.

2009 was one of the most fractious years in the history of conservative politics since the Howard-Peacock years of the late '80s, and new Opposition Leader Tony Abbott has a lot on his plate. The Liberal Party is built for government and it struggles with opposition.

Two years on from losing power the Opposition is still learning how to become an effective alternative government. Last year's Trends noted the trouble Malcolm Turnbull was having steering his Party through the problems of ill-discipline, reduced resources and power realignments. These problems largely remain a priority for Abbott to manage.

Liberal MPs and grassroots supporters have increasingly been looking for a leader with the appetite to oppose the Rudd Government on substantive policy issues, but instead got a more bipartisan approach from both Malcolm Turnbull and Brendan Nelson. This is partly because they both sit philosophically in the moderate camp of conservative politics, but also because neither had ever been in opposition before, lacking the skills needed for a more aggressive, anti-Government style. Tony Abbott ultimately won the leadership because he offered himself to his colleagues as "an alternative, not an echo... a choice, not a copy".

Abbott faces three hefty challenges in 2010. First, the Coalition is desperately looking for a sense of stability and an air of confidence – and quickly. Voters loathe squabbling political parties and the

Liberal Party's poor polling since the last election can in large part be attributed to the constant tension surrounding the leadership.

Second, Abbott needs to both build a credible platform of policies to take to the election and allay voter perceptions that his front bench, who are charged with selling them, are too conservative and overly representative of the former Howard Government.

Third, Abbott needs to regain the confidence of donors in order to boost the Coalition's financial reserves. The next fourteen months will see the federal election and four state elections – South Australia, Tasmania, Victoria and New South Wales – and they will be expensive campaigns to run. Only when people feel confident about Abbott's leadership will they provide him with the resources required to fight elections.

On top of the poor state of his Party, Abbott knows that as a first term Opposition his Party faces an uphill battle. Every new government since the Depression has been re-elected. His strategy for the election will be to save the furniture – steady his troops' nerves, retain marginal seats and, if he's

feeling ambitious, look to make gains in a couple of regional, conservative-by-nature seats which fell to Labor in 2007.

To do this, he will look to broaden his image beyond that of 'Captain Catholic'. Abbott is comfortable with prosecuting retail issues and the anti-Government campaigning that is the bread and butter of politics. He will avoid the policy detail and keep the focus on the Government's shortcomings and, where he can, find punchy issues to differentiate himself from Kevin Rudd without alienating his own people. His strategy of finding holes in the Government's policy rather than adopting a strong policy position of his own has been well illustrated in his initial handling of the emissions trading debate. Australians should expect to see more of this approach.

Importantly, he will also need to appeal to more women and can be expected to look for media opportunities to boost his stocks with this half of the Australian electorate. The first February Newspoll already has Abbott closing the gap on Labor, which has put a spring in the step of Opposition MPs.



## SEATS TO WATCH

Given the electoral boundary redistribution and poor polling, holding on to the Coalition's existing seats and even picking up one or two ALP marginals at this year's election would be seen as a successful outcome that would give the Party a shot at Government in 2013. However, even this will be a tough ask, with Labor's two party polling hovering consistently in the mid-fifties. With popular local member Fran Bailey retiring and the seat held by only 27 votes, the Liberals are likely to lose McEwen in Victoria. Shadow Health Minister Peter Dutton's seat of Dickson has also become notionally a Labor marginal after the redistribution and he will struggle to hold onto it, particularly after his failed attempt to leap to a safer seat – never a good look with voters. Other key seats the Coalition will be fighting hard to retain include Bowman, Ryan and Herbert in Queensland and Gilmore in NSW, which have all been badly affected by the redistribution. Stirling and Swan in WA and La Trobe in Victoria are also in play, and frontbencher Chris Pyne could struggle to hold Sturt. With Pat Farmer (Macarthur) and Danna Vale (Hughes) not contesting the next election those seats will also be a challenge, particularly given the margins were slashed under the redistribution. On the flipside, the Liberal Party could win the new seat of Wright in Queensland, win back Robertson in NSW from Belinda Neal, pick up Solomon in the NT, and has a shot at regaining previously safe Liberal seats like Corangamite in Victoria and Bennelong in NSW. The Coalition would also be hopeful it could reverse the massive Queensland swings of 7-15 per cent in seats like Flynn, Forde, Leichhardt, Dawson and Petrie. Most of the key battleground seats are in outer metropolitan or regional areas, something for business to keep in mind in its dealings with Government and the Opposition in the lead up to the election.

## TONY AND BARNABY

Tony Abbott and the Opposition have the ability to throw the Government off guard in the run up to the election in the same way Mark Latham spooked the Howard Government in 2004. Abbott is a straight shooter and will say exactly what he thinks; a trait also employed by other members of his frontbench, particularly Queenslanders Barnaby Joyce. While this will occasionally get them in trouble, some voters find it refreshing when compared to the controlled image and messaging of the Rudd Government. But while talk may rattle the Government, it is policies the Coalition needs to hold seats at the next election. While economic management will not be the strength it once was for the Coalition, we will see Abbott treading on the Government's turf, developing opposing points of view in areas such as the water, climate change and health reform.

# The cross benches

The next 12 months for the Greens and independents will be one of wait and see. With Kevin Rudd's finger hovering over the double dissolution trigger the future of all the minor parties is to a significant degree in the hands of the Government.

As the Greens, Senator Nick Xenophon and especially Senator Steve Fielding sweat the timing of an election, the Government is weighing up its options. For all the noise and commentary, the Prime Minister's decision will ultimately be based on whatever course of action will give the Government the best chance of being returned with the biggest majority possible.

According to the ABC's election analyst Antony Green, if the vote is similar to the 2007 election both a double dissolution election and a normal House/half-Senate election would result in the Greens holding the balance of power, stealing spots from the Coalition.

Senators Fielding and Xenophon are looking at markedly different futures. If a double dissolution election is called Senator Xenophon could find himself taking a seat from the Coalition to double his presence in the chamber. In fact his name recognition in South Australia may see him get

up an aligned independent at a normal half-Senate election, at which he would not be on the ballot paper.

Conversely, the Family First Senator is likely to fall short of a quota whether a double dissolution election is called or not. It is a quirk of recent political history that Fielding was elected on ALP preferences – something they are unlikely to repeat again.

The Government does not want to have to make deals with the Greens to get its legislation passed, as it believes many of the minor Party's policies are anathema to most voters. But if the Greens' numbers strengthen after the election the influence of Senator Xenophon could decrease, unless the Government wins enough Senate spots to require just one or two Xenophon votes to pass its legislation. Then things could get very interesting indeed.

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# Climate change: an election battleground?

The close of 2009 saw some spectacular setbacks for the Federal Government's climate change agenda, and particularly the core plank of the policy, the Carbon Pollution Reduction Scheme (CPRS). The demise of Malcolm Turnbull at the hands of the anti-climate change conservative wing of the Liberal Party and the subsequent surprise victory by Tony Abbott saw the nominally bipartisan approach to the CPRS evaporate in the space of one Party Room meeting.

Following the less than inspiring outcomes from the international players at December's Copenhagen conference the Government now has to take stock and work out its next move. Most importantly, will the Senate's rejection of the CPRS bills twice be used as the trigger for a double dissolution election?

Demonstrating his 'retail' media skills over the holiday break, Abbott's simplification of the CPRS as nothing but "a great big tax" has undoubtedly gained traction with some sections of the community; his message that climate change should be treated as only one part of a holistic environmental policy may also start to resonate. The Rudd Government now has to prioritise explaining the detail of the CPRS in a simple and tangible manner and in a way that supports the Government's broader framing around delivering

productivity and opportunity for Australia.

Expect the Federal Government to campaign strongly on the central importance of the CPRS to effectively addressing climate change, while highlighting the compensation that will be available to Australian households to negate any hip-pocket impact within key marginal seats.

However this issue may not be the credibility cure-all the Opposition is hoping for. Although popular sentiment in favour of a CPRS has come down from the historically high levels at the time of the 2007 Federal Election there is still strong majority support within the Australian community for action on climate change. It is unlikely to be an issue that will deliver new votes to the Coalition, although it will shore up their base.

## OGILVY ILLUMINATION: VOTE LIGHT GREEN?

Successfully prosecuting environmental policy in Australia is all about framing. At our core the values that Australians hold about the environment are broadly shared. It's *where we place those values in relation to other values* that we diverge. Framing environmental protection and economic development in binary opposition to each other convinces the majority of Australians that moderation is required in pro-environmental regulation. Framing environmental protection as the necessary solution for a society and an economy that has for too long been wasteful and unsustainable in its use of finite resources draws the majority of Australians in favour of pro-environmental regulation. Politically this framing is crucial as well. A poll conducted in early January shows that when voters were asked if they approved or disapproved of the Government's emissions trading scheme 66 per cent of Labor voters said they approved of the scheme and 62 per cent of Coalition voters said they disapproved of the scheme. Meanwhile, on a two party-preferred basis the same poll had Labor leading the Coalition 57-43. Although there has been movement in the polls since, the same underlying political problem still faces the Liberal Party: by opposing the Government's action on climate change Tony Abbot has appealed to the Liberal base. By supporting the Government's action on climate change Malcolm Turnbull was appealing to the voters the Liberal Party actually needs to win back if it is to make inroads on the Government.

## OGILVY ILLUMINATION: CLIMATE CHANGE AND THE NEIGHBOURHOOD

Australians have a high level of concern over environmental issues, most particularly climate change and drought. Just on 30 per cent of Australians ranked themselves as highly concerned we will run out of water because of drought. Nearly 35 per cent of Australians said they were highly concerned climate change will have a huge negative impact on the future of Australia, although Labor voters are notably more concerned than Liberal, demonstrating that the political partisanship of this debate extends well into the community. Open questioning of research participants revealed a tendency for Australians to focus on their immediate community (we coined it *the one kilometre phenomenon*) and to more easily grasp those environmental issues which have tangible visibility, such as water shortages and air pollution. The success of the Government in effectively selling its suite of climate change policies including the CPRS will be determined by its ability to frame these policies in a similarly visible and local sense.



# Around the country

2010 is a psephologist's dream come true, with not only the Federal election but polls in South Australia and Tasmania (both 20 March), Victoria (27 November), and a looming poll in NSW (26 March 2011).

## South Australia

With the exception of WA the election of state Labor governments has followed a curiously consistent pattern since the mid-1990s. Scrape in with a wafer thin majority or a minority that relies on the support of independents, win a thumping victory at the next election, and suffer only a slight decrease at the third and fourth victorious polls. While the NSW Government is unlikely to win election number five and the Victorian Government looks towards its fourth victory, as the last state or territory to elect a Labor Government South Australia is only up to the third poll in this cycle. The events ('scandal' would be overstating it) of last year around Premier Mike Rann's private life may have some impact on the poll. More interesting is the fact the Liberals seem to have lucked onto a leader people actually like. Isobel Redmond, the no-swearing solicitor who took over as Opposition Leader when Martin Hamilton-Smith was felled by the dodgy documents affair in July, looks like making it a real competition. Her personal approval ratings are good and she has reduced the Government's lead in the polls. If Labor is returned it will be interesting to see how long Rann hangs around. Treasurer Kevin Foley has in the past expressed a desire for the top job. Our tip: Labor to hang on but with a reduced majority.

## Tasmania

Tasmania will go to the polls on the same day as the South Australian election, which is of little interest to most of us although so greatly concerned ABC election analyst Antony Green he ran a campaign to try and have the date changed! The ALP has had a majority Government in Tasmania since 1998, no mean feat under the Hare-Clark multi-member electorate voting system. Premier David Bartlett has had two years to bed down his leadership since the surprise resignation of Paul Lennon in 2008. Received wisdom is that after 12 years of Labor Tasmanians might be ready for a change. The absence of rigorous opinion polling in Tasmania makes predicting the result difficult, however the ALP has already conceded it may not have done enough to win a majority. The Liberal Opposition is led by Will Hodgman, scion of a Tasmanian political dynasty, and the Greens by Nick McKim. Both are expecting to pick up seats at the poll, but whether the wins will be enough to tip Labor out remains to be seen. Our tip: minority Liberal Government.

## Victoria

Opinion polls have John Brumby's Labor Government consistently in front by a significant margin, with the last Newspoll favouring the Government 57 to 43 two-party-preferred. Sniping continues about Ted Baillieu's leadership of the Liberals. The Budget remains in surplus and the Victorian economy seems to have shrugged off the global economic downturn. And yet, this is the State where in 1999 Jeff Kennett appeared unassailable but was brought undone by the neglected regions. Brumby is clearly respected, but doesn't have the empathetic relationship with voters of predecessor Steve Bracks. The Premier's biggest policy and political weakness is public transport, a portfolio recently given to up-and-coming right winger Martin Pakula. Overheated and overcrowded trains and trams, cancelled services and a bumpy introduction of the Myki integrated ticketing system have kept this issue on the front pages. But the almost obsessive media coverage (by *The Age* in particular) belies the fact that only 12 percent of Victorians regularly use public transport, meaning it might not be a significant vote changer. Inter- and intra-factional sorties continue in the ALP, but as long as these don't reach the level of those in NSW this will have little impact. Our Tip: Labor to win comfortably.

### New South Wales

We don't like to boast, but in last year's *Trends* we wrote that 2009 in Macquarie St was likely to be even more eventful than 2008, and said "predicting what the NSW Government will look like at the end of 2009 would be a mug's game". The Rees experiment failed dismally, with the body rejecting the transplant after an agonising year for both NSW Labor and fed up NSW voters. 2010 will be calmer, with the dominant faction having installed a candidate who appears to be liked by the electorate. The fact Kristina Keneally is popular will not be enough to keep Labor from Opposition in 2011, but the election will be closer than polls now suggest. The controversial Metro project will be significantly reconfigured, but the signals the PM was giving about big infrastructure spending for NSW in the May Budget may now come to nought – he's not happy about backing Rees only to find his horse scratched from the race. Concerns continue to be voiced about Opposition Leader Barry O'Farrell's 'ticker', but a win in March 2011 will put those to rest. There's nothing like being able to dole out the spoils of war to settle down restless troops. Our tip: Liberal Party to win, but not by a landslide.



# The economy

While the world continues to shudder under the impact of the most widespread financial downturn in a generation the outlook for the Australian economy is relatively rosy. A resilient economy, made more adaptable and flexible by two and a half decades of reform, provided a solid basis for the Rudd Government's intervention allowing it to boast of managing the only advanced economy to avoid recession.

Despite continuing criticism from the Opposition, the Government's policy of 'go early, go hard' has proved both economically and politically correct. The multi-billion dollar stimulus packages had almost no lag in lifting consumer spending, resulting in a quicker recovery that was rewarded with solid numbers in the polls.

Growth will continue to rise, however the Government will begin to see more public focus on the size of the stimulus. As interest rates climb and more evidence of a two speed economy emerges questions around the magnitude of stimulus package will begin to gain more traction. It's yet to be seen whether the return to more normal levels in official interest rates will act as a handbrake on recovery, and the Government will keep an extra close eye on the reactions of small business.

As the environment has become more difficult for the Government to campaign on the PM is turning to the economy for Labor's 'narrative'. He has a good story to tell here, with most voters rating highly the Government's response to the global financial crisis and the resulting economic downturn. Rudd has made a number of recent comments and speeches about productivity, the lifting of which will figure prominently in the Government's forward economic vision.

## OGILVY ILLUMINATION: UNCERTAIN TIMES

According to *What's keeping Australians up at night?* in October last year 39 per cent of Australians felt they were worse off than 12 months earlier. However in a sign of how mixed the impact of the economic contraction was in Australia, 18 per cent actually felt they were *better off* than 12 months earlier. More importantly for economic activity in Australia our expectations for the next 12 months are, on balance, optimistic: around 29 per cent expected to be better off in 12 months time while only 19 per cent expect to find themselves worse off than they are currently. Optimism is closely tied to consumers' personal finances. Those who are coping better in the current environment tend to be more optimistic than those who are not, and the average annual household income of those who believe their financial situation will improve is significantly higher (\$79,000) than those who think they will be worse off by the end of 2010 (just under \$55,000). This combination of optimism and relative affluence bodes well for the Australian economy.



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# Tax & financial services

The Government has enough headline issues to campaign on without having to open up tax reform.

With an election in 2010 the Government will handle the recommendations of the Henry Review of Australia's tax system very carefully. Speculation has focused on moving away from narrowly based taxes like stamp duty on the sale of the family home, lifting the GST (ruled out by the Government), and swapping payroll tax for a state-based income tax. But one recent leak suggested the report would be more aspirational than prescriptive.

With the Henry Review and the Cooper Review of Superannuation at their disposal, the Government has no shortage of policy input for tax and financial services in 2010. A 'root and branch' review modelled on the 1975 Asprey Review, the Henry Review had the objective of equipping Australia to deal with our economic, environmental, social and demographic challenges.

While the Review will recommend plenty of reforms, in an election year there's a clear incompatibility between driving tax reform for the long-term and the short-term necessities of election politics. The Government has enough headline issues to campaign on without having to open up tax reform. With Labor's risk averse approach the Government is likely to kick many of the Review's reforms into the long grass – few voters get excited about microeconomic reform but many will be susceptible to a scare campaign on tax.

Dr Henry has already said we need to get used to higher taxes to pay for baby boomers as they age, retire, and become greater users of the health system. That would seem to rule out personal

income tax cuts. But Australia's taxation system doesn't exist in a vacuum and company tax rates will have to remain competitive with other nations' if we're to remain an attractive investment destination.

Federal-state relations will also be tested as the Government considers whether to buy a fight by looking to overhaul state taxes. State governments, particularly the larger states, would love to get rid of stamp duty as long as it is replaced with a predictable revenue stream that's not as politically troublesome. Payroll tax is the bane of business groups, but economists like it and would impose it more widely if they could.

The Government's environmental credentials will also be tested with the Review likely to recommend a watering down of the current Fringe Benefits Tax regime that encourages those with novated car leases to drive more.

The outcomes of the Asprey Review offer a cautionary lesson for anyone hoping for fast results. Asprey's recommended capital gains tax took ten years to implement and the GST 25 years.

## OGILVY ILLUMINATION: UNDER PRESSURE

Ogilvy's *What's keeping Australia up at night?* study found over 6 million Australians are under significant financial pressure. While financial pressure and household income are linked, severe financial stress is still experienced by those on higher incomes: 28 per cent of stressed households earned over \$70,000 annually, and 7 per cent earned more than \$110,000 a year. Women suffer financial pressure more severely than men (41 per cent of women compared to 32 per cent of men report being under significant financial pressure), and families with children in the household experience greater financial pressure than empty-nesters (42 per cent of households with children at home are under significant financial pressure compared to 28 per cent of households where children have left home). The financial expectations of the pre-Boomer generation appear notably lower than their Boomer children and Generation X and Y grandchildren: those who are over 60 are much less likely to say they are under financial pressure than those under 60 (39 per cent compared to 29 per cent). There is a conundrum here for the Opposition – the only demographic that is inclined to vote for them in substantial numbers is not under significant financial pressure while those voters who are under financial pressure are giving their vote to the Rudd Government in substantial numbers.

# Health

Amidst the large pile of reviews and reports and expectations raised from the national 'Buck Stops Here' hospitals tour, health will be a major second term agenda item for a re-elected Rudd Government. The question isn't so much whether health reform will happen, but is more about evolution versus revolution.



There will be several fronts on which the Federal Government will assert its reform credentials using the golden rule of moving to amend those elements of the health system over which it has the greatest degree of expenditure control.

The Government will reiterate that states have already signed up to reform under the new Australian Health Care Agreements, arguing this negates the need for a takeover of public hospitals. It will lay out a stepped reform which mirrors Agree-

## Greater certainty on the role of the private sector will be required for completing a health reform blueprint.

ment priorities – greater accountability, efficiency indices, primary health care and prevention.

E-health will take small steps in 2010. Additional funding for the National E-Health Transition Authority and the introduction of unique healthcare identifiers in mid 2010 is a step forward but real reform will be limited to using the rollout of the National Broadband Network to address need in regional and remote areas.

While proposals for an integrated funding model for public health services is where most attention is directed, progressing election commitments associated with dental health, Indigenous health, preventative health, healthy ageing and the health workforce will be first priority – and Senate hold ups will in fact work in the Government's favour by keeping these items on the agenda in the election campaign.

While few doubt that efficiencies can be gained through fund holding and co-ordinated purchasing for hospital, aged care and other secondary and tertiary services, the re-engineering and micro-reform needed at health care provider and service level will require at least another electoral term.

The ability to underwrite the costs of reform, and therefore its scope, will be influenced by the Government's response to the Henry Review and any recommendations around the Medicare Levy or Bill Shorten's mooted disabilities levy. The groundwork on the need for the community to contribute more for a sustainable public health

sector is being led by the PM and will be punctuated heavily by the Treasurer in selling the economic implications arising from the third Inter-Generational Report.

To date the role the private sector has played in a reform agenda which is seeking system-wide efficiency and innovation has been minimal. The policy levers associated with private health insurance still largely act as an indirect means tested tax and will really only start to play a role in influencing health care choice and rationalising health services if the Medicare levy is raised sufficiently to cause a larger percentage of the population to consider private health insurance as a comparable option for accessing health care.

Health Minister Roxon may be 'agnostic' on the private health sector, but greater certainty on its role will be required for completing a health reform blueprint.

The preventative health agenda has stalled a little, although the passing of legislation to establish the National Preventative Health Agency should see more campaigns and community-based initiatives begin this year.

The Pharmaceutical Benefits Scheme continues to be a cash cow for delivering short term savings. The Government has signalled further savings measures in the 2010 Budget and cost recovery for PBAC submissions is scheduled to commence in March.

# Education & childcare

Expect additional resources to be targeted at schools that service disadvantaged communities.

Education is a field where the Government set its agenda early in its term, with a focus on early childhood, transparency and reform of higher education, helped along by a series of reviews including the 2008 release of the Bradley Review into Higher Education. Now comes the messy and expensive part as Education Minister Julia Gillard liaises with the states and territories to implement the recommendations.

Gillard has made bold moves in the education sphere and will continue to do so with or without the support of key stakeholders within the field. She took on schools and unions alike with her push for transparency in the education sector, and this year we have already seen a new era with the introduction of school league tables that will allow parents and education departments alike to compare the performance of like schools.

The push for transparency is underpinned by the Government's desire for equity in education, particularly for people from lower socio economic backgrounds. This was a strong theme running through the Bradley Review and will be a core focus for the Government this year. Expect additional resources to be targeted at schools that service disadvantaged communities and a range of initiatives to see more disadvantaged students enter and be able to stay in higher education.

Childcare will be one key area leading into the election campaign, as families are still struggling to place their children in childcare and then keep up with the costs when they do it. July 2010 will see the staged introduction of the COAG-approved National Quality Framework that will put a quality standard in place to ensure high quality and consistent care in centres across Australia. While this does something about the equality, it does little about the cost or availability factor.

## **OGILVY ILLUMINATION: '...IS OUR CHILDREN LEARNING?'**

Australian parents are concerned about the quality of the education their children receive, particularly the quality of education delivered through the public education system. Over 2 million parents say they are highly concerned that the state of public education is disadvantaging young Australians – concern among parents with children in secondary school is particularly high. Meanwhile almost half (47 per cent) of those aged 18-24 say they are highly concerned by the pressure to perform at school, university, TAFE or college. There are three or four regular cast members in Australian election theatre – education is crowd favourite. There is a sense in the community that the Rudd Government has not delivered a lot in education in its first term. The Digital Education Revolution was a key plank of the Kevin07 election platform and is now closely tied to the Deputy Prime Minister. If in 2010 this is not rolled out in a highly competent and visible manner voter greater disenchantment with the state of public education is all but guaranteed.

# Infrastructure & transport

Election years are never austere times and 2010 will be no different. With many of the 'shovel ready' infrastructure and Building the Education Revolution projects coming online this year, in 2010 both Kevin Rudd and Julia Gillard will be permanently dressed in a hard hat and high-viz jackets.

These media opportunities provide the Government with a strong narrative of being focused on meeting the infrastructure challenge, and will be used as a defence against the inevitable political attacks on the size of the economic stimulus package and deficit.

It's arguable whether the 'shovel ready' and school projects will ever pay the same productivity dividends as the big nation building products that Infrastructure Australia got us excited about, but there's no denying their political effectiveness.

Looking past the photo opportunities, infrastructure could cause the Rudd Government a bit of pain if voters confuse the track record of the NSW and Queensland Governments – who deliver these projects – with the paymaster. The on-again, off-again Sydney Metro and the failure of the financial model used by BrisConnections will boost voter cynicism when it comes to presenting a bold vision for infrastructure and using PPPs as the primary funding model.

That said, PPPs remain the best tool of financing these major projects and with the Treasurer foreshadowing strict expenditure controls private sector participation will play a critical role in delivering the infrastructure we need for tomorrow while freeing up the recurrent spending for today.

Infrastructure Australia's National Ports Strategy and Freight Network Plan will provide a strong platform for the much needed productivity growth and reduce bottlenecks that were so debilitating at the height of the resources boom.

## OGILVY ILLUMINATION: ROAD TO NOWHERE FAST

The level of public dissatisfaction with transport infrastructure in Australia is hard to overemphasise. None of the three large Eastern seaboard states are spared the voter's wrath, and concerns are typically higher in capital cities than in regional areas. *What's keeping Australia up at night?* found over a third of the Australian population said they were highly concerned about a range of transport problems facing them including:

- The lack of public transport (40 per cent highly concerned)
- The unreliability of public transport (35 per cent highly concerned)
- The run-down condition of public transport (38 per cent highly concerned)
- The impact of traffic on commuting time (39 per cent highly concerned)
- Safety on the roads (36 per cent highly concerned)

The level of public dissatisfaction with transport infrastructure in Australia is hard to overemphasise.



# Information & communications technology

2010 looms as a massive year for the ICT sector. On the telecommunications front, the most significant project and reform in the sector's history, the National Broadband Network, will start to be realised.

By the middle of the year the first homes in Tasmania should be connected, a number of the significant commercial decisions for the rollout will have been taken by the NBN Co and a deal with Telstra for migrating customers onto the fibre network is likely to be on the table. The Government will be aiming to pass its regulatory reform legislation through the Senate in the February-March sitting periods and its success in getting it through will depend greatly on whether the NBN Co, the Government and Telstra can come to a commercial arrangement.

If Telstra does agree to a timetable and plan for migrating its customers and switching off the copper network then this will meet a lot of the Government's requirements for structural separation, enabling the company to hold onto its Foxtel shareholding and participate in future wireless spectrum auctions.

The year also looks like being a year of

procurement opportunities and adjustment for the ICT sector selling to Government.

The restructure of the Human Services portfolio – to bring Centrelink and Medicare into DHS and eventually create a single set of corporate services, ICT and service delivery infrastructure – will provide both opportunities and challenges for the sector. It is also likely to be the first cab off the rank of broader Government functional and service delivery reform precipitated by the Moran Advisory Group and Henry Tax Review processes.

New coordinated procurement arrangements for data centres, telecommunications services, PCs/laptops and other hardware like printers and copiers will be introduced by the Australian Government Information Management Office from the middle of the year – including a number of Whole-of-Government panels. Responding to tenders could be a full time job for many in the ICT industry this year.

# Energy & resources

Did the GFC ever impact the energy and resources sector? Oil got cheaper, gold hit record highs and Australia signed massive LNG contracts that will transform the West for generations to come.

2009 wasn't quite business as usual with the de-leveraging and reorganisation of some of the largest miners and the deferment of some marginal projects. But the major displacement of workers which was the hallmark of previous recessions never eventuated.

WA Premier Colin Barnett was confidence personified, telling business audiences that the economic downturn hit WA resources sector one morning and was over by that afternoon. It may have been a flippant remark, but looking at the year ahead the sun is certainly shining in the West.

China's unquenchable thirst for Aussie resources will underpin economic growth returning to trend faster than expected. The West already has Australia's lowest unemployment rate and the handbrakes on growth that emerged in 2007 and 2008 – infrastructure and manual and skilled labour – have re-emerged.

News that Fortescue Metals Group increased shipments by 44 per cent in the backend of 2009

will put a spring in the market's step. 2010 iron ore contracts are expected to be back to pre-downturn levels, and Oz Minerals scouring the market for acquisitions all point to a positive year.

At Perth Airport the fly-in fly-out workers to the Pilbara dominate the terminal, and it's set to get busier when construction on the \$43 billion Gorgon gas project kicks off later this year.

While the CPRS was blocked by the Senate and Copenhagen failed to achieve a global deal on lowering emissions, global investment in renewable energy will accelerate in 2010, particularly with oil prices continuing to trend up.

Leading into the election jobs in legacy power stations and the coal industry will be major battleground for both parties. The electorate is becoming increasingly sophisticated about the nuances of the climate change debate and business investment flooding into renewables has clearly signalled the direction forward.



News that Fortescue Metals Group increased shipments by 44 per cent in the backend of 2009 will put a spring in the market's step.

# Manufacturing & innovation

In 2009, innovation was the Government's buzz word with the release of the *Powering Ideas: An Innovation Agenda for the 21st Century* report in May, and the raft of policy announcements that set the Government's reform agenda for innovation policy for years to come. However, the year was a tough one for the manufacturing sector with the economic downturn hitting the local market hard as they faced increasing competition from overseas markets that could make things cheaper.

The advice from the Government was clear: manufacturing will become the engine of innovation and play a central role in modernising the Australian economy. While this rhetoric was positive and visible in some Government announcements, such as the \$6.2 billion car industry package, it was tough to swallow for the Australian manufacturing workers who were losing their jobs.

2010 will see the Government continue to utilise innovation as the key to building a modern economy based on advanced skills and technologies. Rudd and Minister Carr want value-added, knowledge-based manufacturing and service industries that compete in global markets

and will look for industries to take some of this on themselves rather than looking for Government assistance. There will be a push from Government for further collaboration on projects between public sector researchers and private industry.

The new R&D Tax Credit will come into effect on 1 July to all firms conducting research in Australia regardless of where the intellectual property is owned, and a series of working groups are due to report back to Government early in the year on how to boost Australia's profile.

But the well is beginning to dry up – the 2009 Budget alone saw the Government spend 25 per cent more on innovation – and any new initiatives are likely to come at the expense of old ones.

2010 will see the Government continue to utilise innovation as the key to building a modern economy.

# Defence

2009 was the strategy, 2010 is the reality. The release of the Government's Strategic Defence White Paper in 2009 set out the long term strategic agenda for the Australian Defence Force and a program of capability development and procurement valued at around \$60 billion out to 2030. This shopping list includes 100 F-35 Joint Strike Fighters, a new submarine fleet, new helicopters for both the Navy and Army and 20 new offshore combatant vehicles (AKA ships).

While the brass gets its toys, it comes at a cost, most of which has to be borne by the civilian side of the Department of Defence. Offsetting the purchases is a Strategic Reform Program aimed at eking out \$20 billion worth of efficiencies over the next decade.

Most of these savings will be driven from process reform – reducing duplication by rationalising or centralising functions like ICT, HR and finance, offloading some superfluous real estate, removing inefficiencies and modernising infrastructure – that will reduce the longer terms costs of support and maintenance.

To get Defence moving in the right direction, the Government has kicked off a \$940 million program to upgrade its ICT infrastructure over the next four years aimed at delivering long term efficiencies. Projects starting in 2009-10 include repairing the much-maligned HR and pay systems, introducing improved identity management, rationalising the number of suppliers, upgrading capability of its telecommunications networks both secure, specialised and non-secure, consolidating data centres and standardising its platforms and information environment.

This is an ambitious and challenging agenda and there are rumours circulating that the Department is already slipping behind in its delivery of a number of key elements of the Strategic Reform Program. If the focused and forensic troika of Ministers Faulkner and Combet and Secretary Dr Ian Watt can't deliver this program, very few could.



# The region

Over the past decade the dynamics of world politics and economics have been steadily shifting eastwards to China, and to a lesser extent India. China is projected to become the second largest economy in the world by the end of 2010, overtaking Japan.

Despite some gloomy predictions, China, with the help of a massive stimulus package, has come through the economic downturn in a strong position and its biggest concern at the moment is inflation and the rising cost of living. With demand for just about everything increasing in China, demand for Australian products, whether it's energy, resources or agriculture, will continue to rise in 2010.

As China continues to flex its economic muscle the debate over foreign investments, particularly by state-owned enterprises, will continue. In this argument it's often difficult to separate issues of national interest and xenophobia. There are issues around state-owned enterprises from any country having a controlling interest in strategic national assets, but much of the opposition to Chinese capital in particular has not been that different to the reactions of the gold prospectors of the 1850s to Chinese immigrants.

As Treasurer Wayne Swan pointed out late last year, it is possible to have a rational debate about these matters without fanning the flames of Sinophobia.

The issues that have arisen around the cyber attacks on Google and other international corporations still have some way to go. US Secretary of State Hillary Clinton's call for greater transparency on the internet in countries such as China has annoyed Party cadres, but after this initial criticism she's sure to play this one carefully. The US-China relationship is too important to risk

over what appears to be garden variety espionage in which all countries engage. Closer to home, Australia will continue to raise concerns about the detainment of Rio Tinto executive Stern Hu, albeit walking the tightrope of diplomacy with our most important trading partner.

2009 was a year of political transformations for Japan. Struggling with the economic downturn and a decline in exports, a frustrated public last September threw out the Liberal Democratic Party, which had run the country for 55 years, and elected the Democratic Party of Japan headed by Yukio Hatoyama.

The new Japanese Prime Minister faces crippling national debt and a depressed economy, and the people want the Government to act. It will be interesting to see if he can develop effective policies that deliver much needed economic benefits for Japan.

The ongoing fight over whaling has shown that the new Government is not prepared to buckle to international pressure. While whaling is an emotional issue for Australians, the relationship with Japan is relatively strong and that is unlikely change this year. Japan is a crucial trading partner for Australia and both countries know there is a lot at stake. Kevin Rudd learned in 2008 the consequences of snubbing Japan in favour of China and he will continue to pay due regard to Japanese sensitivities.

Like most nations that rely heavily on exports South Korea was severely affected by last year's

As China continues to flex its economic muscle, the debate over foreign investments, particularly by state-owned enterprises, will continue.

economic downturn. However, their economy is looking positive this year, and has been recovering faster than any other OECD nation except Australia. The IMF expects 4.5 per cent growth in 2010.

Relations between Australia and India were dented last year, with attacks on Indian students attracting widespread negative media attention at home. The tensions on this issue are unlikely to ease and it has the potential to seriously damage our reputation in the international education sector. In the long term, however, Australia's relations with India are likely to remain solid. India is industrialising rapidly and requires Australia's natural resources to continue this process. It also has a more prosperous middle class than China, and ties between the two countries in the ICT and financial services sectors are strong.

Some in the media used the recent difficulties of Dubai World as a metaphor for the GFC, but the obituaries were a work of fiction. Dubai's core business as a global transport, trading and services hub continues. The pain in the property sector will be felt for some time, as the market re-adjusts and marginal projects are deferred, setting the stage for smoother growth into the future.

Driven by the resurgence in production in the West and Far East, demand for oil and gas will return to trend fuelling economic and social transformation in the region. The Middle East will continue to provide growth opportunities for Australia's services sector.

# Media

The media will be looking to 2010 for a turnaround in its fortunes and early signs are that the sector will at least start to claw back some of the advertising losses which have come about as a result of the economic downturn. With generally improving economic conditions throughout the world the global giant News Corporation signalled its confidence in the future by announcing a 2010 earnings upgrade following an improved first quarter result. Predictions are similarly buoyant for the advertising market in Australia, with TV and newspapers expected to benefit.

That's the good news, and if the media had only been affected by the economy then that would be that. But the threat to the so-called old media of newspapers and network television from the digital world is not passing but structural. The change to people's viewing and reading habits is inevitable and inexorable, and so the old players still have an enormous number of problems to contend with.

And it's not simply a matter of advertising dollars moving from old media to new – no one has yet found a model for online advertising that replaces the rivers of gold that came from newspaper classified advertising.

That's why there's so much interest in whether News Corp boss Rupert Murdoch will successfully carry out his promise to make his newspapers' websites walled. Most pundits doubt his ability to make such a move viable, but such is Murdoch's legend that few are prepared to bet that he can't.

What is clear is that any such move would have enormous global ramifications, as would the rumoured discussions between News and Microsoft's search engine Bing. Most of those rumours have Murdoch pulling all News's content from Google – with whom Murdoch has been having a very public stoush – and putting it exclusively on Bing.

One bright light in the old media firmament has been the circulation resilience of the Australian broadsheets – *The Sydney Morning Herald*, *The Age* and *The Australian* – all of which have

held sales in the face of both the downturn and international trends.

Another is the rise and rise of the ABC, which appears to be the only major player with wherewithal to back its aspirations. The ABC has embraced the digital age, setting up two new free to air channels and gaining extra funding for its children's programming. Excitingly for news junkies, a fourth free-to-air digital channel delivering round-the-clock news and current affairs will launch in 2010.

The commercial networks have also established one extra digital channel each but have dug into their own pockets to do so – mainly in an attempt to stave off the challenge from pay-TV.

In the Canberra press gallery the media have yet another new Opposition team to come to terms with. The Government's micro-managing of the news agenda has left it with few real friends in the gallery but the Opposition's tumultuous 2009 has meant the hurried cultivating of new contacts or, given the familiarity of some of the 'new' shadow cabinet, the recultivation of old ones.

The federal election means life for journalists will be anything but dull. The rise in importance of on-line media to the political debate will continue, with all media outlets boosting their on-line presence and the public increasingly utilising on-line sites for news breaks. Just how that will sit with Murdoch's push for walled websites is anyone's guess.



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