



PC update

No 49 | May 2011 | www.pc.gov.au



Features



- ▶ **Caring for older Australians**
Draft report on Australia's aged care system
- ▶ **Disability care and support**
Draft recommendations for national disability and injury insurance schemes
- ▶ **Population and migration**
Understanding the numbers
- ▶ **Reforming the urban water sector**
Draft recommendations
- ▶ **Productivity growth**
Key aspects of Australia's recent performance
- ▶ **Measuring the performance of governments**
Report on Government Services



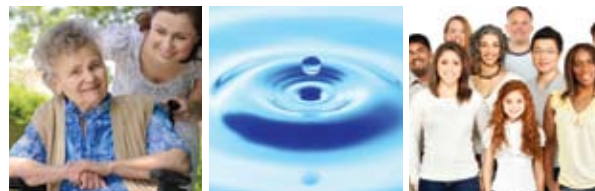
Australian Government Productivity Commission

Chairman	Gary Banks
Deputy Chairman	Mike Woods
Commissioners	Wendy Craik Robert Fitzgerald Angela MacRae Alison McClelland Siobhan McKenna (on leave) Warren Mundy Patricia Scott Louise Sylvan Philip Weickhardt
Head of Office	Michael Kirby
First Assistant Commissioners	Lisa Gropp (Melbourne) Terry O'Brien (Canberra)
Principal Advisers Research	Lisa Gropp (Melbourne) (A/g) Jenny Gordon (Canberra)
Media and Publications	Clair Angel (Media Director) Ph: 02 6240 3239 maps@pc.gov.au
Melbourne Office	Locked Bag 2 Collins Street East Melbourne VIC 8003 Level 12, 530 Collins Street Melbourne VIC 3000 Ph: 03 9653 2100 Fax: 03 9653 2199
Canberra Office	PO Box 1428 Canberra City ACT 2601 Level 2, 15 Moore Street Canberra City ACT 2600 Ph: 02 6240 3200 Fax: 02 6240 3399
Website	www.pc.gov.au
Email	webmaster@pc.gov.au

Requests to be placed on the mailing list for PC Update are welcome. Contact the Media and Publications Unit (03 9653 2244 or email maps@pc.gov.au). Copies are also available on the Commission's website.

The Productivity Commission is the Australian Government's independent research and advisory body on a range of economic, social and environmental issues affecting the welfare of Australians.

Contents



Caring for older Australians	3-6
Disability care and support	7-9
Population and migration: understanding the numbers	10-12
Reforming the urban water sector	13-14
Australia's recent productivity performance	16-18
Australia's regulatory reform experience	19
Report on Government Services 2011	20-21
Expenditure on services for Indigenous Australians	22-23
Childhood obesity – an economic perspective	24-25
Labour force participation of older women	26-27
Benchmarking planning, zoning and development assessment	28
Commission news	29-30
Recent releases	31
Current commissioned projects	32

Caring for older Australians

A recent Commission draft report recommends a major overhaul of Australia's aged care system to improve the wellbeing of older Australians and meet the challenges of an ageing population.

Over the next 40 years, Australia faces a significant increase in demand for aged care services and spending on aged care. By 2050, the number of Australians receiving formal aged care services is expected to increase by around 150 per cent — to over 2.5 million people — and Government expenditure on aged care is projected to rise from 0.8 per cent to 1.8 per cent of GDP. The present aged care system achieves many good outcomes, but is heavily regulated and is often criticised for resultant complexity and unresponsiveness to client demands.

In April 2010, the Australian Government asked the Productivity Commission to undertake a broad-ranging inquiry into Australia's aged care system with the aim of developing detailed options for redesigning the system to ensure it can meet future challenges. The Commission was asked to:

- examine the social, clinical and institutional aspects of aged care in Australia
- develop regulatory and funding options for residential and community aged care
- examine the future workforce requirements of the aged care sector
- recommend a path for transitioning from the current funding and regulatory arrangements to a new system
- assess the medium and long-term fiscal implications of any change in aged care roles and responsibilities.

After extensive public consultation, in January 2011 the Commission released a draft report 'Caring for Older Australians'. The report proposes a wide-ranging package of reforms to address these challenges. After further consultation, the Commission's final report will be presented to Government in June 2011.

On releasing the Commission's draft report, Deputy Chairman Mike Woods said:

'The Commission's proposals are aimed at developing a system that is more equitable, effective, efficient and sustainable. The focus is on enhancing the wellbeing of older Australians by promoting independence, connectedness and choice.'



Findings of the Commission's draft report include that:

- the present funding regime is not delivering a sufficiently sustainable aged care system, and fails to adequately take into account consumers' capacity to pay
- current arrangements for aged care subsidies and user contributions are *ad hoc* and inconsistent, and are not well aligned across care settings
- the supply of aged care services is not matched to the level of demand or the geographic incidence of that demand
- accommodation charges for supported residents are generally below the costs of new construction, while accommodation bonds charged residents often exceed the cost of supply
- government-set prices and subsidies do not fully reflect the cost of delivering services — as a consequence the quantity, and to some degree the quality, of aged care services have suffered
- community care is provided in discrete care 'silos', and moving between programs can be problematic for consumers. ►

Australia's aged care system

- Over one million older Australians receive some form of formal aged care and support each year. Services are delivered in the community and in residential facilities, and include assistance with everyday living, personal care and health care.
- Most older Australians who receive formal aged care services live at home, with the Australian Government and state and territory governments providing a number of subsidised formal aged care programs.
- Around 80 per cent of those older Australians who receive aged care and support in a community setting also receive assistance from informal carers (partners, family, friends or neighbours).
- Community and residential care services are provided by religious, charitable, community-based and commercial organisations, as well as state, territory and local governments.
- Formal aged care services in Australia are predominantly financed by taxpayers with some user co-contributions. In 2008-09, Australian, state and territory government expenditure on aged care was \$10.1 billion, with two thirds of that expenditure directed at residential aged care.
- Australian Government regulation of residential care facilities and community care packages is both extensive in scope and intensive in its level of detailed prescription. It limits the number of available residential care bed licences and community care packages, and sets the level

of payments to providers and co-contributions from care recipients. Australian Government regulation also includes quality assurance and consumer protection measures.

- Care and support is provided by informal carers, the paid workforce and volunteers. Services are also supported by, and are dependent on, the medical workforce and allied health professionals.

Number of clients serviced by aged care program, 2009-10

Program	Clients
Residential care	214 418
Home and Community Care (HACC)	616 000
Community care packages	
Community Aged Care Package (CACP)	57 742
Extended Aged Care at Home (EACH)	7 995
Extended Aged Care at Home – Dementia (EACH-D)	3 847
Veterans' Home Care	69 600
Dept of Veterans' Affairs Community Nursing	31 400
Transition Care	14 976
Residential Respite	44 160

Data sources and caveats: Productivity Commission 2011, *Caring for Older Australians*, Draft Inquiry Report.

The current system has strengths and weaknesses

Australia's aged care system has significant strengths — including an increase over the past decade or so in the range and quality of available care and support, improved quality and safety standards, and a skilled and dedicated workforce. But there are also many weaknesses. Concerns about the current system include:

- a complex and confusing array of entry points into the aged care system
- delays in care assessments and limits on the number of bed licences and care packages
- discontinuous care across the packages of community-based services
- constrained pricing — concerns include the low level of

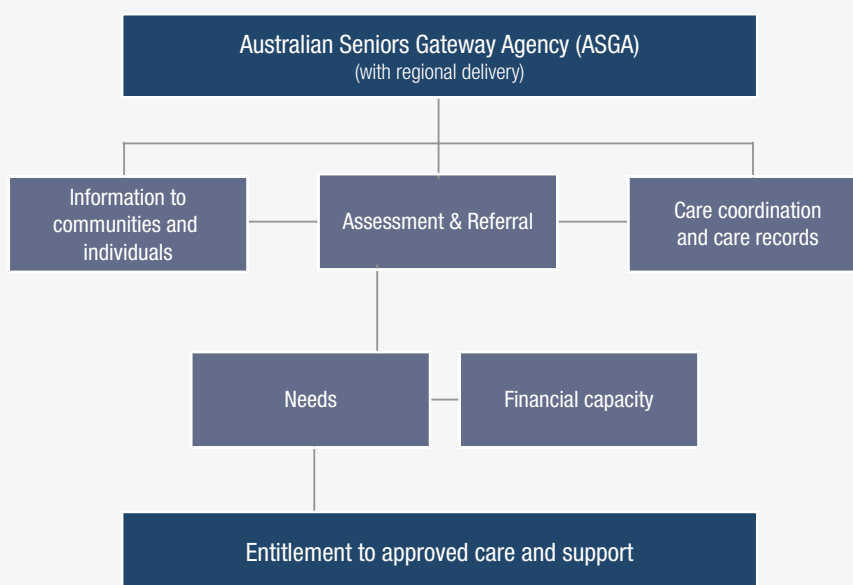
charges for high care accommodation, declining hours of service within the care package funding levels, and the rate of indexation for subsidies

- financial inequities — the levels of user co-contributions are inconsistent and inequitable within and between community and residential care
- variable care quality across the system
- workforce shortages — due in part to low wages and high administrative loads
- complex, overlapping and costly regulations
- incomplete and overlapping interfaces — within and between jurisdictions, and between aged care and health, disability, mental health, housing and income support.

An aged care gateway: information, assessment and care coordination

Many older Australians and their families find the current aged care system confusing and difficult to navigate. The Commission's draft report proposes the establishment of a single agency – the Australian Seniors Gateway Agency – with responsibility for maintaining the national aged care information base, and for delivering assessment and care coordination services. Older Australians assessed as needing care would receive an entitlement to services through the Gateway Agency.

An electronic record of assessments, entitlements, co-contributions and use of approved services would overcome the need for older people to repeatedly tell their story to different agencies and providers. It would reduce errors and inconsistencies in care records and enhance care coordination across the various providers of care, support, health and accommodation.



Proposed reforms

The Commission's proposed reforms aim to provide a flexible range of care and support services that meet the individual needs of older Australians, with an emphasis on restorative care and rehabilitation. Under the reforms, individuals assessed as in need would receive an entitlement to approved services. They will be able to choose to receive services at home (where feasible and appropriate) or in a residential facility, and to choose their approved provider. Limits on care packages and residential bed numbers, and distinctions between low, high and extra service residential care, would be removed, while quality standards would remain. The reforms also seek to encourage more efficient and effective ways of enforcing outcome standards and reducing the current regulatory burden.

Under the proposed reforms, older people would:

- contribute to the cost of their care according to their

financial capacity to do so, and be protected by a lifetime limit on care co contributions

- have access to a government-sponsored home equity release scheme allowing them to retain their home while accessing this source of wealth to pay for their care and accommodation charges
- choose between paying a daily charge or an equivalent bond for the accommodation costs of residential care
- retain their age pension when selling their home (and if paying a lower capital sum or a daily charge for their new accommodation) by purchasing an Australian Pensioners Bond
- choose whether to purchase additional services or a higher quality of accommodation if that is what they want and can afford. ►

Aged care: the Commission's key draft recommendations

Simplified access to the aged care system

Establish an Australian Seniors Gateway Agency to provide or arrange easily understood information, assessments of care needs, assessments of financial capacity to make co-contributions, entitlements to approved services and care co-ordination (these services would be available at a regional level).

Opening up supply to enhance choice

Progressively relax and eventually remove limits on bed licences, community care packages and other services, while maintaining quality accreditation.

Remove distinctions between low and high care, and between ordinary and extra-service status

Funding aged care

Introduce a 'comprehensive aged care means test' for the assessment of financial capacity to pay care co-contributions. The test would apply the age pension income test, and the age pension non-home owner asset test for all people.

Introduce a Government backed aged care equity release scheme against which older Australians — whose financial capacity is mainly in the form of a home, accommodation bond or other non-liquid assets — could draw on to meet their co-contributions.

Establish an upper limit on the value of care co-contributions for approved aged care services that any one person pays over their lifetime (including the overall level of funds that can be drawn down under the equity release scheme), as a safeguard against very high costs of care.

Establish an Australian Pensioners Bond, for those on an age pension who wish to deposit all or some of the proceeds of the sale of their home. The real value of the bond would be maintained by consumer price indexation, and be excluded from the age pension asset test. The bond could be drawn down to meet aged care co-contributions, pay for accommodation or meet other living expenses.

Residential care providers to offer a periodic accommodation charge, or an accommodation bond of equal value, and both to be published.

The Australian Government to set a regional quota for supported residents, to be met by residential care providers. The obligation would be transferable between providers in the same region to lessen inflexibilities in the delivery of services.

Care delivery by the formal workforce

Scheduled care prices will take into account the need to pay competitive wages to nursing and other care staff. The new aged care system will also facilitate the development of more attractive career paths, opportunities for professional development and improved managerial expertise by providers.

Reforming the regulatory framework

Establish the Australian Aged Care Regulation Commission (AACRC), to act as an independent regulator and national clearing house for aged care data.

The Aged Care Standards and Accreditation Agency to operate as a statutory office within AACRC and undertake the quality assessment and accreditation of community and residential care providers.

Implementing the reforms

Establish an Aged Care Implementation Taskforce to drive the reform agenda over the first five-year period, under a three-stage implementation plan.

Caring for Older Australians

> Productivity Commission Draft Report released January 2011

> Contact: Stewart Plain 02 6240 3219 Email: agedcare@pc.gov.au

Disability care and support

Implementation of a new National Disability Insurance Scheme and a National Injury Insurance Scheme, to provide insurance cover for all Australians in the event of significant disability, is recommended in a recent Productivity Commission draft report.

There is widespread agreement that the existing system of support services for people with high-level disabilities does not function well. Recognising these concerns, the Australian Government asked the Productivity Commission to inquire into the feasibility of establishing a national, long-term disability care and support scheme. The Commission was asked to consider how such a scheme could be designed, administered, financed and implemented. After extensive public consultation, the Commission released its draft inquiry report in February 2011. After further consultation, the Commission's final report will be presented to Government in July 2011.

The draft report found that the current disability support system is inequitable, underfunded, fragmented, and inefficient. The current system gives people with a disability little choice, and provides no certainty of access to appropriate supports. While some governments have performed much better than others, overall no disability system in any Australian jurisdiction is working well in all areas. The draft report argues that it is feasible to design a new system for long-term disability care and support, bringing together the current fragmented and underfunded arrangements.

On releasing the report, presiding Commissioner Patricia Scott said: 'The current support system is not sustainable without significant additional resources. An entirely new model for providing supports and services for people with a disability is needed.' ►



The current system is failing – some comments from Inquiry participants

- 'We have from our personal point of view been spending over a year to just try and get a high-low bed because my son is 113 centimetres tall at four; he weighs 25 kilos and he does not walk. He also has hypotonia, so has low tone, so he is very floppy.' (Sydney Hearings, Transcript, p. 716)
- 'I am a mum of a young child ... with multiple impairments – physical, sensory, intellectual – she is expected to be non-verbal for life ... There is a myriad of paperwork to be completed, you must re-prove your child's disability to every agency that you encounter ... there are wait lists for services, lack of physiotherapists, lack of funding.' (Submission 9, p. 1)
- '... it took over 2 years from when it became pretty clear I needed a motorized wheelchair to when I finally got one, and then yet longer to get transport training.' (Submission 581, p. 1)
- '... you not only have to deal with disability, but the uncertainties of disjointed, complex and inadequate array of disability supports.' (Submission 103, p. 2)
- 'This particular agency has extremely set rules about what they can give, it's a maximum of three showers a week.' (Adelaide Hearings, Transcript, p. 302)

The Commission is proposing two schemes. The largest scheme, the National Disability Insurance Scheme (NDIS), would be like Medicare, in that all Australians would know that they or their families would get long-term care and support if they acquired a significant disability. A second much smaller scheme, the National Injury Insurance Scheme (NIIS), would cover people's lifetime care and support needs if they acquired a catastrophic injury from any accident.

The NDIS: a new approach to disability

Under the Commission's draft recommendations, the NDIS would fund long-term high quality care and support for people with a disability. Around 360,00 people would receive funding under the scheme. The Commission proposes that there should be no income or assets test for NDIS funded services. Income replacement, including the Disability Support Pension, would remain outside the NDIS.

The needs of people with a disability and their carers would be assessed rigorously by NDIS-appointed local assessors, with careful management to avoid assessment 'softness' or 'hardness'. Assessment would lead to individualised support packages. Strong governance would be necessary to contain costs and ensure efficiency.

The NDIS would be overseen by a new federal agency – the National Disability Insurance Agency – which would report to all Australian governments. It would have strong governance arrangements, with an independent board, an advisory council of key stakeholders, clear guidelines to ensure a sustainable scheme and with legislation that protected the scheme from political influences. Support packages would be portable across state and territory borders, as would assessments of need.

The NDIS would provide much greater consumer choice for people with a disability or their guardians. Based on their needs assessment and individualised support package, they would be able to choose their own service providers; ask a disability support organisation to assemble the best package on their behalf; and cash out their funding allocation and direct the funding to areas of need they think are most important.

Funding the NDIS

In 2009-10, the Australian Government provided funding to the disability sector of around \$1.7 billion, while state and territory governments provided funding of around \$4.5 billion – making a total of \$6.2 billion.

The Commission's preliminary estimates suggest that the amount needed to provide people with the necessary supports would be an *additional* \$6.3 billion, roughly equal to current funding. Accordingly, the real cost of the NDIS would be around \$6.3 billion per annum. This could be funded through a combination of cuts in existing lower-priority expenditure and tax increases.

Current funding for disability comes from two levels of governments, with variations in annual budgets – making it hard to give people with disabilities any certainty that they will get reasonable care and support over the long-run. Supports might be good one year, but insufficient the next. The Commission proposed that the Australian Government take responsibility for funding the *entire* needs of the NDIS. This is because the Australian Government can raise taxes more sustainably and with fewer efficiency losses than state and territory governments.

State and territory governments should offset the Australia-wide tax implications of the NDIS by either reducing state and territory taxes by the amount of own-state revenue they currently provide to disability services; or by transferring that revenue to the Australian Government. The Commission's draft report recommends the first approach because it leads to a more efficient way of financing the NDIS, with greater certainty of long-run funding, and the level of Australia-wide taxes is similar to other options. Compared with most of the alternatives, it would also have a lower risk that jurisdictions would not meet their ongoing commitments.

To finance the NDIS, the draft report recommends that the Australian Government should direct payments from consolidated revenue into a National Disability Insurance Premium Fund, using an agreed formula entrenched in legislation. A tax levy would be a second-best option.

Accident insurance arrangements – the NIIS

The draft report recommends the introduction of a separate scheme for people requiring lifetime care and support for catastrophic injuries – such as major brain or spinal cord injuries. Currently, many Australians get poor care and support when they experience such injuries because they cannot find an at-fault party to sue. A no-fault national injury insurance scheme (NIIS), comprising a federation of individual state and territory schemes, would provide fully-funded care and support for all cases of catastrophic injury. It would draw on the best schemes currently operating around Australia. State and territory governments would be the major driver of this national reform.

Key features of the Commission's proposed reforms

	National Disability Insurance Scheme (NDIS)	National Injury Insurance Scheme (NIIS)
What kind of scheme is proposed?	A national scheme to provide insurance cover for all Australians in the event of significant disability. Its main function would be to fund long-term high quality care and support. Other important roles include providing referrals, quality assurance & diffusion of best practice.	A federated model of separate, state-based no-fault schemes providing lifetime care and support to all people newly affected by catastrophic injury. It would comprise a system of premium-funded, nationally consistent minimum care and support arrangements for people suffering catastrophic injuries.
Who would be covered?	All Australians would be insured. Funded support packages would be targeted at all people with significant disability, whose assistance needs could not be met without taxpayer funding. Anyone with, or affected by, a disability could approach the scheme for information & referrals.	All causes of catastrophic injuries, including those related to motor vehicle accidents, medical accidents, criminal injury and general accidents occurring within the community or at home. Coverage would be irrespective of how the injury was acquired, and would only cover new catastrophic cases.
What would it provide?	The NDIS would provide reasonable and necessary supports across the full range of long-term disability supports currently provided by specialist providers. Services such as health, public housing, public transport and mainstream education and employment services, would remain outside the NDIS, with the NDIS providing referrals to them.	The NIIS would provide lifetime care and support services broadly equivalent to those provided under the Victorian TAC and NSW Lifetime Care and Support scheme. This includes reasonable and necessary attendant care services; medical/hospital treatment and rehabilitation services; home and vehicle modifications; aids and appliances; educational support, and vocational and social rehabilitation; & domestic assistance.
What would be the cost?	The scheme would cost approximately \$6.3 billion above current spending (around \$280 per Australian). Total expenditure would be around \$12.5 billion per annum.	Net annual costs of a comprehensive no-fault scheme covering all catastrophic injuries could be around \$685 million (around \$30 per Australian).
How would it be funded?	The Australian Government should direct payments from consolidated revenue into a 'National Disability Insurance Premium Fund', using an agreed formula entrenched in legislation. A tax levy would be a second-best option.	The additional funding required for the NIIS would come from existing insurance premium income sources and through small increases in municipal rates.
How many people would receive funded packages?	Around 360 000 people would receive direct scheme funding. It would cover existing and new cases.	The NIIS would cover new incidence of catastrophic injury (around 800 people each year), but over the long run, 20 000 people would be in the scheme.
When would the scheme commence?	The NDIS would begin a full-scale rollout in one region of Australia in 2014. It would extend to all Australia in 2015 covering those most in need, and then progressively expand coverage to all significant disabilities by 2018.	As a starting point, jurisdictions should implement no-fault catastrophic injury schemes for motor vehicle and medical accidents by the end of 2013. The NIIS would cover all catastrophic injury by the end of 2015.

Disability Care and Support

- > Productivity Commission Draft Report (2 vols) released February 2011
- > Contact: Ineke Redmond 02 6240 3310
- > Email: disability-support@pc.gov.au

Population and migration: understanding the numbers

A recent Commission Research Paper aims to demystify population-related statistics to promote a clearer understanding of demographic trends in Australia.

Recent public debate about Australia's population and migration policies has revealed widespread misconceptions about current and future population and immigration growth rates; the characteristics and drivers of population growth; and implications for economic growth, environmental sustainability, and quality of life.

The population debate has arguably not been as well informed by the facts as the topic deserves. Many numbers were cited, drawing on various demographic concepts, but these often appeared contradictory or based on only part of the story. Consequently, the public is likely to have been left confused, bemused or misled on what is a key policy issue.

To enhance public understanding, the Commission has released a Research Paper, *'Population and Migration: Understanding the Numbers'*, which describes Australia's main demographic trends and what lies behind them. The paper consolidates and interprets statistical evidence from various sources; explains key population-related concepts,

Australia's population: some key features

- Australia's estimated official population totalled 22.3 million people at the end of March 2010.
- The annual population growth rate has averaged 1.6 per cent since 1960.
- Although the total fertility rate has risen recently, it is still only half what it was in the early 1960s.
- Over the past century, life expectancy has increased significantly. This has mitigated the decline in natural increase.
- Australia's population is highly urbanised. In recent years, population growth in capital cities has exceeded growth in most other parts of the country.
- Future population levels are sensitive to even minor variations in the components of population change and cannot be predicted with accuracy.
- The economic effects of immigration and population growth are diverse, depending on source, composition and context. Moreover, the impacts of population growth and immigration are unlikely to be evenly distributed across Australia – there are likely to be both winners and losers.

including fertility and mortality, overseas migration, and population projections (such as those published in Treasury Intergenerational Reports); and concludes with a brief discussion of the implications of migration and population growth for economic growth and community wellbeing.

Migration has always played an important role in shaping Australia's population. In 2009, about a quarter of Australia's population were born overseas. In recent years, net overseas migration has overtaken natural increase as the major contributor to Australia's population growth. Australia's net overseas migration is large compared to that of other developed countries.

Economic opportunity, political or social instability in the home country, and family reunion are the key influences on people's decisions to migrate. Government policies also influence migration flows, though only the permanent migrant intake is controlled *directly*. Temporary migration is influenced indirectly through the setting of conditions



Migration now outweighs natural population growth

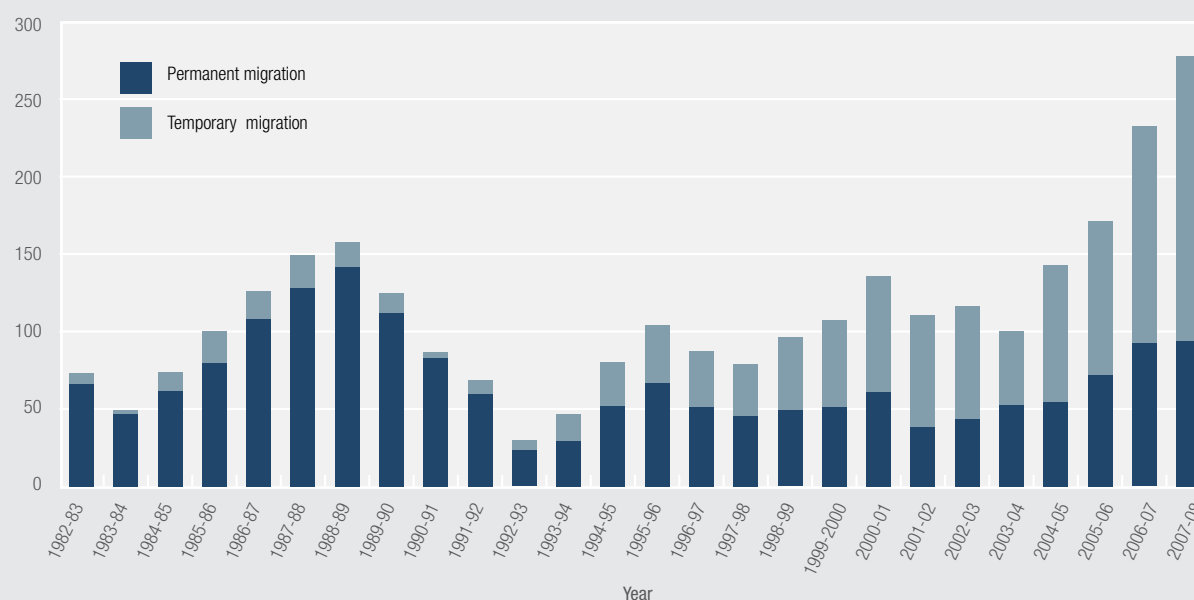
	1973	1982	1991	2000	2009
	'000	'000	'000	'000	'000
Births	255.8	237.1	261.2	249.3	297.1
Deaths	111.3	111.0	119.6	128.4	143.7
Natural increase	144.5	126.1	141.6	120.9	153.4
Net Overseas Migration (NOM) arrivals	192.4	210.7	236.4	305.1	532.8
NOM departures	135.9	87.7	141.6	197.8	219.3
Migration adjustment	–	5.2	-8.3	–	–
NOM	56.6	128.1	86.4	107.3	313.5

Net overseas migration data before and after 2006 are not directly comparable, due to a change in ABS methodology for estimating NOM.

Data sources: Productivity Commission 2010 *Population and Migration: Understanding the Numbers* Commission Research Paper.

'Temporary' migration has grown most

Persons ('000)



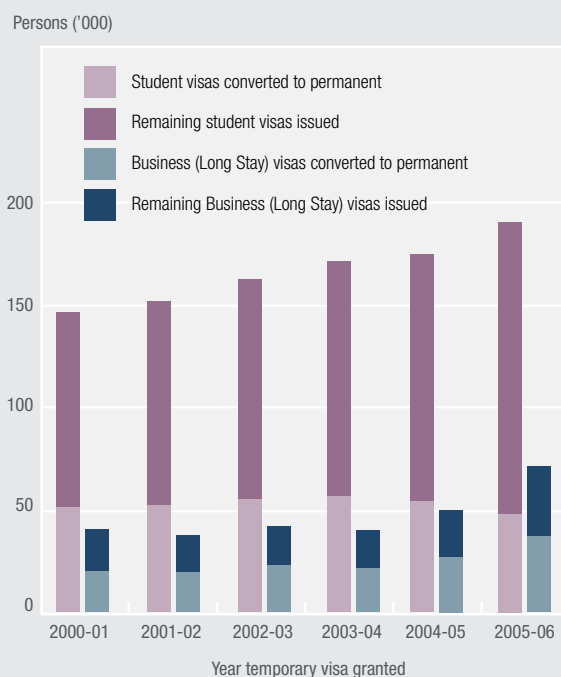
under which migrants can enter and stay. Since the second half of the 1990s, the focus of Australia's immigration policy has increasingly been on skilled migration.

Net overseas migration has grown strongly during the past ten years, with most of the growth being in the 'temporary' categories (driven mainly by increases in overseas students, working holiday makers and skilled workers). Temporary migration contributes to Australia's population growth in the long term as well as short term.

In the last five years, many overseas students and skilled temporary migrant workers obtained permanent residency onshore. Over the past 40 years, there has been a decline in the share of immigrants from the United Kingdom and significant growth from new source countries, notably India and China. The Humanitarian Program is a small component of the total migrant intake. Refugee visas granted to unauthorised arrivals do not increase the size of the Program. ►

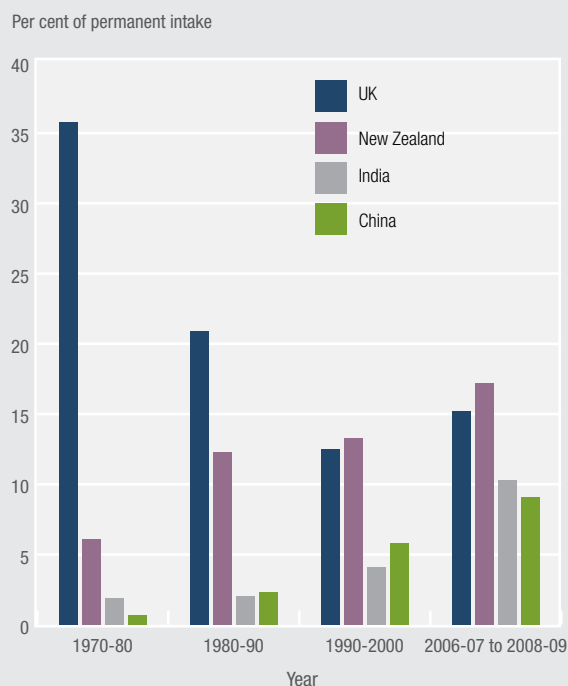
Many temporary visa holders become permanent settlers

Temporary visa holders who obtained permanent residency by September 2010



There has been a marked change in source countries of permanent settlers

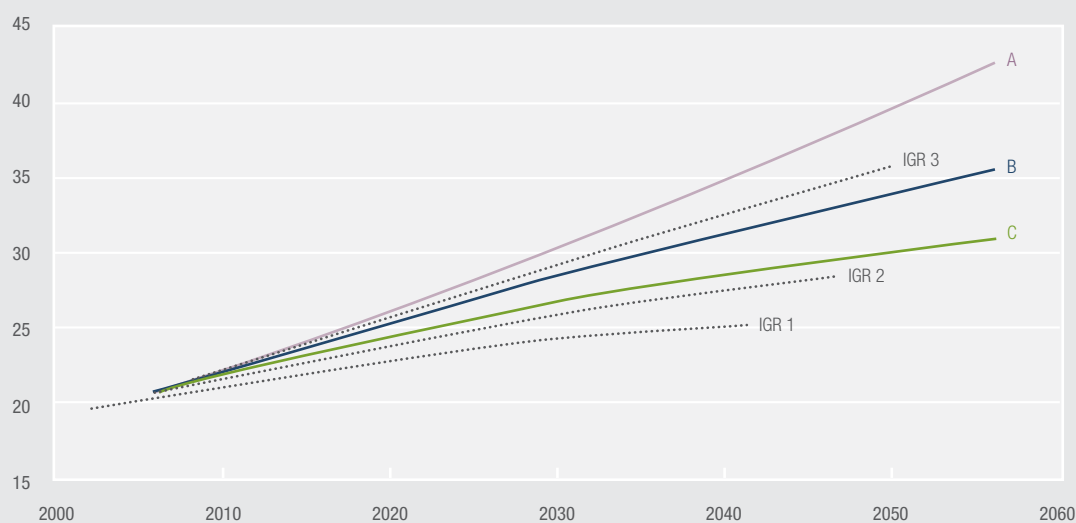
Countries of birth for settler arrivals



Future population levels are sensitive to plausible changes in net migration, fertility and mortality

Population projections by Treasury (IGR 1, 2, 3) and the ABS (A, B, C) under different assumptions

Projected population (million)



Data sources for all charts: Productivity Commission 2010, *Population and Migration: Understanding the Numbers*, Commission Research Paper.

Population and Migration: Understanding the Numbers

> Productivity Commission Research Paper > Released December 2010

Reforming the urban water sector

A recent Productivity Commission draft report finds a strong case for microeconomic reform in the urban water sector.



The Australian Government asked the Productivity Commission to examine the case for microeconomic reform in the urban water sector and to identify pathways for achieving improved resource allocation and efficiency. The Commission's draft report was released in April. Following public consultation on this draft report, the Commission's final report will be sent to Government at the end of August 2011.

Past reforms in the urban water sector

The urban water sector is diverse. The structural, institutional, governance and regulatory arrangements vary between jurisdictions as well as between metropolitan and regional areas. In 2008-09, there were 32 major urban, 51 non-major urban and 194 minor urban providers of water and wastewater services. Collectively, they had total revenue of about \$10 billion.

There has been much reform to institutional and structural arrangements in the sector over the past two decades. In metropolitan areas, there has been a move towards vertical separation of the supply chain, as well as corporatisation of utilities. In regional areas, most utilities are still vertically integrated, but in some jurisdictions there has been aggregation of small utilities, and some corporatisation.

The draft report notes that despite considerable reform over the past two decades the urban water sector has been under stress in recent times. Pressures from growth in demand, together with reduced capacity to supply, has led to:

- prolonged use of severe water restrictions and consumption targets
- use of mandated measures and/or subsidies to reduce the consumption of potable water from bulk sources of supply
- large investments in rainfall-independent supply capacity, often after political intervention and/or consideration of a limited set of options
- deficient operational, maintenance and investment practices in some regional areas, leading to inadequate water quality.

Current policies are inefficient and costly

Although generally well tolerated by consumers, restricting water consumption is costly and the distributional consequences are not well understood. Numerous studies indicate that the costs of water restrictions can be large. Nationally, water restrictions are likely to have cost in excess of a billion dollars per year from the lost value of consumption alone.

Much of the recent supply augmentation through large scale investment in desalination could have been ►

Investment in desalination plants

	Initial capacity	Maximum expandable capacity	Initial (and expandable) capacity as a percentage of annual consumption in 2007-08	Initial Investment	Completion
Units	GL/year	GL/year	%	(\$m)	
Sydney (Kurnell)	90	180	15 (30)	1 890	completed
Melbourne (Wonthaggi)	150	200	41 (54)	3 500	2011
SE Queensland (Tugun)	49		24	1 200	completed
Adelaide (Port Stanvac)	100		71	1 830	2012
Perth (Kwinana)	45		19	387	completed
Perth (Binninyup)	50	100	21 (42)	955	2011
Total	484	674	27 (38)	9 762	

Data sources: Productivity Commission 2011, Australia's Urban Water Sector, Draft Inquiry Report

achieved at lower cost, while maintaining security of supply. Desalination offers a highly reliable source of supply and in some circumstances is the best available augmentation option. However, in most cases, costs could have been reduced by building smaller plants, deferring investment decisions or choosing a lower-cost augmentation option, including rural–urban trade.

Commissioner Wendy Craik said, 'There is a compelling case for reform, with conflicting objectives and unclear roles and responsibilities of institutions contributing to inefficient allocation of water resources, inefficient investment and undue reliance on water restrictions.'

Improving institutional performance

The Commission's draft report argues that gains are likely to come initially from improving the performance of institutions with respect to governance, regulation, and procurement of supply and pricing. The draft report proposes a reform program comprising two streams:

- universally applicable reforms that should be adopted across all jurisdictions as a high priority
- other structural reforms applied on a case-by-case basis.

Key elements of a charter between a government and its water utility

- obligation to serve (security of supply and obligation to procure)
- processes and procedures for choosing supply augmentation (transparent, tenders for supply, public consultation, and public reporting of the decision)
- principles for pricing and service offerings (including asset valuation and return on assets)
- processes and procedures for setting prices that are transparent, and involve public consultation and public reporting of decisions
- borrowings and dividends policies
- customer service standard/hardship policies
- risk allocation (consumers, government shareholder, private suppliers)
- clearly specified and fully funded Community Service Obligations

One of the Commission's key draft recommendations is to assign the responsibility for service delivery (including procurement of new supplies) to retail–distribution utilities. These utilities might be owned by state and territory governments or one or more local governments. They would be responsible for providing services in an economically efficient manner and meeting security-of-supply standards set by the government. It would not be the role of the

Urban water: the Commission's key proposed reforms

High priority, universally applicable reforms

Setting an overarching objective for all utilities of providing water, wastewater and stormwater services that maximise net benefits to the community.

Ensure that procurement, pricing and regulatory frameworks are aligned with the overarching objective and assigned to the appropriate organisation.

- Consider the costs and benefits of all supply augmentation options using a real options (or adaptive management) approach
- Make information on costs, risks and benefits to consumers of all augmentation options publicly available
- Remove bans on particular augmentation options
- Move away from regulatory price setting to a price monitoring regime
- Provide more consumer choice in urban water tariff offerings
- Limit the use of water restrictions to times of emergency.

Use generally available assistance measures, such as social security for low income families and income tax assistance for families, to achieve affordability objectives.

- If water specific assistance is provided, it should be through a rebate (concession) on the fixed service charge.

Put in place best practice arrangements for policy making and regulatory agencies, and water utilities.

Assign the responsibility for meeting security of supply standards and procuring water supply and services to retail–distribution entities.

Monitor the performance of utilities, and the progress of reform.

Selective structural reforms

In addition, the Commission has set out:

- four structural options for large metropolitan urban water systems
- three structural options for small stand-alone regional urban systems.

In metropolitan areas the structural reforms are aimed at strengthening the pressures for efficient water resource allocation and productivity by introducing greater contestability into elements of the integrated water cycle.

In urban areas within regions, there is less scope for contestability and so structural reforms are, in general, about achieving gains through more efficiently-scaled utilities.

utility to make judgments about health or environmental aspects. Rather, utilities should operate within these policy and regulatory settings.

Governance arrangements should hold utilities and local government service providers accountable for performing their functions. Aspects of best-practice governance arrangements should include:

- full corporatisation of Government Trading Enterprises
- an independent board (appointed on merit)
- a charter with the shareholder government (see box)
- public reporting of utility performance against the charter
- independent periodic review of the performance of the utility against the charter.

These governance arrangements together with government ownership of utilities would minimise the risk of misuse of market power or excessive production costs. Consequently, the Commission does not see a role for price-setting by economic regulators. ■

Australia's Urban Water Sector

> Productivity Commission Draft

> Report released April 2011

> Contact: Rick Baker 03 9653 2146

> urbanwater@pc.gov.au

Australia's recent productivity performance

What is productivity and how is it measured? What lies behind the slowdown in Australia's productivity growth?

Productivity is a measure of how efficiently an economy (or any other defined economic entity) is operating, and growth in productivity is a key determinant of long-term economic growth and hence also income growth. As such, Australia's prospective productivity performance will affect its future prosperity and its capacity to fund initiatives designed to address various longer-term challenges including population ageing and climate change.

Two measures of productivity

There are two main measures of productivity. The most commonly referred to is labour productivity, which is a measure of output per hour worked. However, despite its title it is not always a good indicator of labour efficiency. A finding of growing labour productivity is typically due in part to an increase in output resulting directly from additional capital as well as improvements in the way labour is used.

In contrast, multifactor productivity (MFP) is a measure of the amount of output (real value added) obtained from a combined unit of labour and capital. It reflects the part of economic growth over and above that resulting from growth in hours worked and growth in capital employed. MFP growth is the primary measure employed by the Productivity Commission as, being the more comprehensive measure, it contributes better policy relevant insights into the various determinants of economic growth.

Australia's productivity growth

Public debate on the size, causes and potential remediation of the slowdown in Australia's productivity growth over the past decade has been ongoing for some years. In June 2009 the Government announced a House of Representatives Economics Committee *Inquiry into Raising the Productivity Growth Rate in the Australian Economy*, with the Committee releasing its report in April 2010. The Productivity Commission made a substantial submission to that inquiry, and the key material in that submission was updated in an appendix to the Commission's 2009-10 Annual Report.

The Commission's 2009-10 Annual Report notes that through much of the 1990s Australia's productivity surged, with average annual MFP growth for the 12 industry market sector at 2.1 per cent through the 1993-94 to 1998-99 productivity cycle. (Market sector productivity cycles

as determined and published by the ABS are designed to provide periods over which it is reasonable to compare average annual productivity growth estimates). There was considerable debate on the reasons for this productivity surge and its link to the economic reform program that preceded and coincided with it, but after careful review and analysis of the available evidence the Commission and others concluded that economic reforms had played a major driving and enabling role.

An eventual return to more typical rates of productivity growth was to be expected as the easily accessible gains from reform were realised. Indeed, annual average MFP growth eased back to 1.1 per cent in the subsequent 1998-99 to 2003-04 productivity cycle (slightly higher than its long-term average). However, unexpectedly, the decline in productivity growth continued, resulting in a contraction in productivity (negative productivity growth) through the 2003-04 to 2007-08 cycle. So, while the first period of easing following the 1990s surge was largely to be expected, the on-going deterioration into a sustained period of negative MFP growth was a development of deep concern. Figure 1 (taken from the Commission's 2009-10 Annual Report) illustrates the development of market sector MFP since 1973-74 with ABS declared productivity cycles identified by vertical lines, together with the corresponding average annual MFP growth rates across cycles.

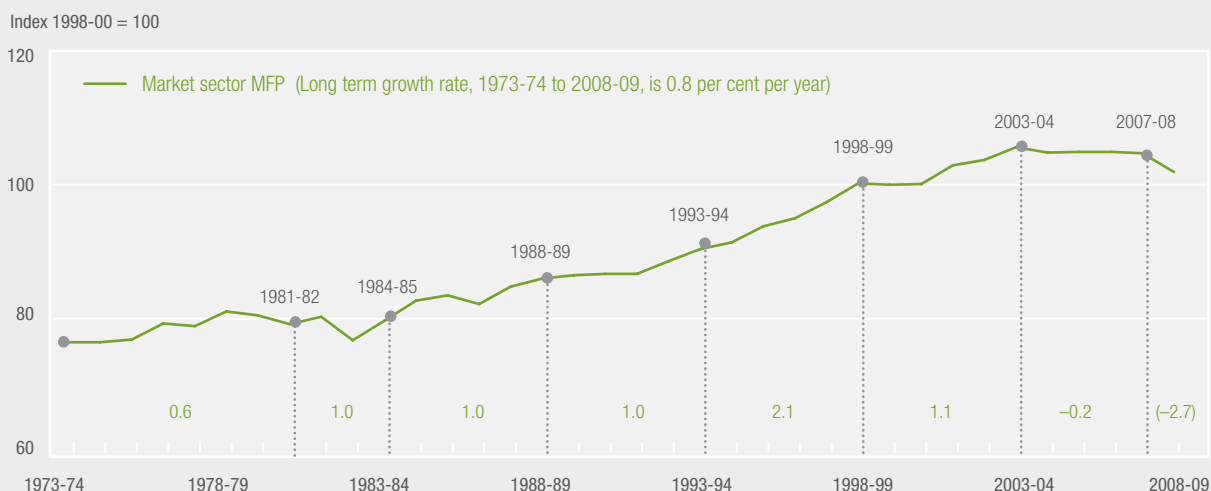
There is considerable variation across industries

Figure 1 shows average annual MFP growth for the 12 industry market sector to be minus 0.2 per cent over the 2003-04 to 2007-08 cycle, compared with a long-term average annual growth rate of 0.8 per cent. Underlying the negative 0.2 per cent market sector productivity growth is considerable variation in productivity growth across industries, with three industries: agriculture, forestry and fishing; mining; and the utilities (electricity, gas, water and waste services) exhibiting particularly poor average annual productivity growth rates of minus 1.2 per cent, minus 4.2 per cent and minus 4.4 per cent respectively.

These three industries experienced particularly poor productivity growth due to special circumstances largely beyond their control including drought, natural resource depletion combined with massive increases in demand for various minerals, and developments in energy markets including rapid growth in peak load electricity demand and the impact of climate change policy. Once the influence

Figure 1 Market sector^a MFP, ABS growth cycles

Index and per cent, per year: 1973-74 to 2008-09



^a The market sector consists of 12 selected industries, (ANZSIC06 Divisions A to K and R).

Figure 2 The impact of poorer performing sectors on market sector MFP, ABS growth cycles

Index and per cent, per year: 1973-74 to 2008-09



Sources for both charts: Productivity Commission, *Annual Report 2009-10*.

of these three industries was removed, the average annual growth rate over the most recent productivity cycle rose from minus 0.2 per cent back to the long-term average of 0.8 per cent. Figure 2 adds to figure 1 an index of market sector productivity with the influence of these three industries removed, and includes the corresponding average annual MFP growth rates across cycles in parentheses.

That these three poorly performing industries accounted for such a large proportion of the second productivity slow-down referred to above does not diminish the economic realities associated with that poor performance. However,

the identification of such performance 'outliers' (including the quantification of their joint impact on aggregate productivity) and the identification of likely proximate causes for their atypically poor performance is helpful in better understanding aggregate productivity outcomes and in informing policy development.

MFP growth for the 12 industry market sector was exceptionally poor in 2008-09, though much of this very poor outcome is almost certainly attributable to the impact of the global financial crisis, notwithstanding Australia's relatively strong economic performance compared with ►

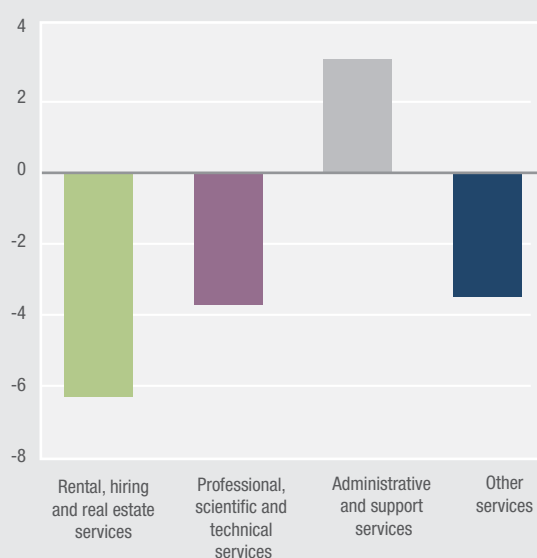
other countries. The most recent ABS productivity data release shows that in 2009-10 MFP growth was a much improved though still historically weak 0.4 per cent – an improvement of around 3 percentage points over the 2008-09 growth rate. However, these two years do not constitute a complete productivity cycle and as such it may not be appropriate to compare their MFP growth rates with average annual productivity growth rates computed over earlier complete cycles.

Data and timing matter

In February this year the Grattan Institute released its report: *Australia's Productivity Challenge*. That report, authored by Saul Eslake and Marcus Walsh, focuses largely on developments in labour productivity, rather than MFP. It also considers a newly expanded market sector (released by the ABS in early 2011) consisting of 16 industry sectors – in addition to some classification changes to the original 12 industries making up the market sector, four new industries not previously included in the market sector aggregate have been added: rental, hiring and real estate services; professional, scientific and technical services; administrative and support services; and other services. The Grattan report also focuses on recent labour productivity performance relative to the peak performance of the 1990s rather than using ABS productivity cycles and long term average productivity growth as a benchmark.

Figure 3
MFP growth rates of new market sector industries

Average annual MFP growth rates (%) across 2003-04 to 2007-08 cycle



Source: Productivity Commission estimates and ABS Cat No. 5260.0.55.002, December 2010

Average annual MFP growth in the 12 industry market sector fell from 2.1 per cent in the 1990s surge, to 1.1 per cent over the 1998-99 to 2003-04 productivity cycle, and then to minus 0.2 per cent over the 2003-04 to 2007-08 cycle – a fall of 1.0 percentage point followed by a further fall of 1.3 percentage points. The first decline was largely expected, but not the second. However, Commission analysis has indicated that almost 80 per cent of the 1.3 percentage point fall was accounted for by three industries: agriculture, forestry and fishing; mining; and the utilities (electricity, gas, water and waste services).

It is notable that over the 2003-04 to 2007-08 productivity cycle, three of the four industries newly included within the market sector exhibited average annual MFP growth below minus 3 per cent (see figure 3) – one as low as minus 6 per cent – as well as significantly negative average annual labour productivity growth. However, in releasing the new market sector industry productivity estimates the ABS cautions: 'As such, the estimates for the four new industries in this data cube should be interpreted with care, particularly with regard to short term movements in the series. ... In particular, some of the new services industries introduced into the expanded definition of the market sector are characterised by very rapid growth in capital services that imply significant declines in measured productivity throughout the measurement period.'

The very poor measured performance of three of these new market sector industries over the most recent complete cycle, together with a comparison based on the peak performance of the 1990s, results in a rather gloomier picture than that of the Commission's MFP analysis over ABS productivity cycles. Whatever the differences in statistical focus, there is agreement on the importance of lifting Australia's future productivity performance, as well as finding common ground in relation to a number of key avenues through which such future improvement might be realised. ■

Australia's regulatory reform experience

Productivity Commission Chairman Gary Banks recently addressed the plenary session of a major OECD conference 'Regulatory Reform at the Crossroads: Towards a New Policy Agenda'. Edited highlights of his comments follow.

Australians are (rightly) hard on their governments when it comes to regulation. Despite a string of reform efforts over the years, the perception remains that there is still too much of it and too much that is ineffective or overly costly. But we are not on our own! Indeed, the OECD characterised Australia as a 'front runner' in regulatory reform, at its recent international conference.

If Australia has positioned itself as a 'front runner' on regulation, this can be attributed above all to the systematic efforts to understand the costs of poor regulation and to communicate that to the community as well as to policymakers. The economic costs are not confined to the administrative and compliance burdens related to 'red tape'. Larger costs arise from the misallocation of effort, investment and production that poor regulations can induce, and from reduced incentives for people to be innovative and industrious.

A second important thing we have learned – or, perhaps we are still learning – is that poor regulatory outcomes are not aberrations. On the contrary, poor regulation is better thought of as the natural order of things, being much easier to achieve than good regulation. It requires less effort and, even when ill-conceived, is often rewarded with public acclaim, at least from the perceived beneficiaries. The uneven political pressures have often manifested themselves in a 'regulate first, ask questions later' approach – the antithesis of good regulatory process. Once bad regulation comes into being, however, it can be very difficult to remove or reform.

Good regulation can only be secured through systems within government that make it harder to regulate poorly than to regulate well. Ultimately what is needed is cultural change.

The culture within a government influences decisions at both the political and bureaucratic levels, about whether, what and how to regulate, as well as how to administer regulation in place: in short, it exerts influence throughout the whole regulatory cycle. While cultures are not immutable, they are not easily changed and do so only slowly.

Over the past couple of decades, Australia's greatest

successes, in my opinion, have been in reforming existing policies, rather than in preventing poor policies and costly new regulation. We have done better in rectifying the stock than disciplining the *flow*.

A clear lesson is the crucial importance of consultation. It is essential at all phases of the regulatory cycle: at the beginning, when a 'problem' arises; in the middle, when options are being considered; and, just as importantly, at the end, to rid the devil from the detail. Beyond that, it should be checked that regulation is not having unintended effects (which are less likely the more effective the preceding consultation process).

Consultation, when done well, allows government to learn a great deal about problems and solutions and to test ideas – and to do so without being unduly influenced by particular sectional perspectives. Consultation needs to be distinguished, however, from 'negotiation'. *Realpolitik* necessitates a degree of political negotiation to get policies implemented. But if policy proposals have not been well-informed by effective consultation and research in the first place, negotiation is liable to produce undesirable policy outcomes.

Mechanisms to entrench good process are the Holy Grail of regulatory policy. They require both incentives and disciplines. Political leadership is the key. Without strong support at the top, exceptions soon become the rule and cultural change can never be achieved at the bottom. But is this asking too much of our political leaders, especially in this era of a 24 hour electronic media cycle that demands daily 'announceables'?

I don't think so. And this brings me to the final lesson from Australia's experience thus far. As a former Australian political leader and reformer has expressed it, good policy is good politics. And good process is the key to good policy. Without it, governments can certainly act more quickly and 'decisively', but poor outcomes will often result, and will ultimately take their toll. Ironically, the media plays a key role at both ends of the story. Media clamour often forces governments to make hasty regulatory interventions; but, when things go wrong, it is the media that again leads the charge in bringing governments to account.

This highlights the political, as well as policy importance, of establishing processes, procedures and initiatives, that – to quote another speaker at the OECD's conference – 'create space and time to get the right answers': arrangements that permit governments, in other words, to ask questions first, regulate later. ■

Report on Government Services 2011

The 2011 Report on Government Services compares the performance of government health, education, justice and community services across Australia.

The 2011 issue is the sixteenth edition of the Report on Government Services. The report is produced by a Steering Committee of senior officials from Australian, State and Territory governments for the Council of Australian Governments (COAG), supported by a Secretariat drawn from the Productivity Commission.

On releasing the 2011 report, Gary Banks, who chairs the inter-governmental Steering Committee, observed 'The information in the Report is important to us all. Everyone relies on government services at different stages of their lives and they are particularly important for the more disadvantaged members of society. Improving government services is therefore important socially, but it is also important economically. Governments spent over \$150.5 billion on the services covered in this year's Report, equivalent to around 12.3 per cent of Australia's national income'.

This year's Report contains a number of advances, including alignment of health, community services, and housing and homelessness performance indicators with those in related National Agreements. (The Steering Committee also collates National Agreement performance information for the COAG Reform Council.) Other improvements include the development of data quality information and extended time series for many indicators, and the inclusion of brief case studies for selected service areas. New information was also reported on: falls resulting in patient harm, and self-harm, in hospitals; general practitioner waiting times; selected adverse events in residential aged care; new juvenile justice indicators; and

Services covered in the 2011 Report on Government Services

Early childhood, education and training

- Children's services
- School education
- Vocational education and training

Justice

- Police services
- Court administration
- Corrective services

Health

- Public hospitals
- Primary and community health
- Health management issues

Community services

- Aged care services
- Services for people with a disability
- Protection and support services

Housing and homelessness

- Housing
- Homelessness services

Emergency management

- Fire and ambulance services

new material on housing and homelessness. Reporting on services to Indigenous Australians remains a Steering Committee priority and has been improved further in this Report.

The Report on Government Services 2011 is available in hard copy, CD-ROM and on the Review's website <http://www.pc.gov.au/gsp>. Fact sheets, providing a summary of results from each of the service areas, are also available from the website.

Report on Government Services 2011

> Released January 2011

> Contact: Lawrence McDonald 03 9653 2178 lmcdonald@pc.gov.au

Report on Government Services 2011 – selected indicators

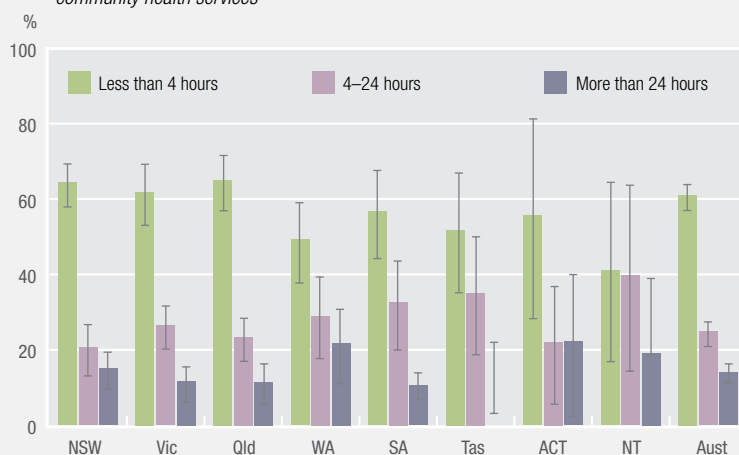
Primary and community health

- Australian Government expenditure on general practitioners in Australia was around \$6.1 billion, or \$275 per person, in 2009-10.
- Total expenditure by all governments on community and public health was \$7.5 billion in 2008-09.
- Expenditure on the Pharmaceutical Benefits Scheme and Repatriation Pharmaceutical Benefits Scheme was around \$7.5 billion, or \$339 per person, in 2009-10.

GP waiting times

Hours waited for urgent treatment by GP, 2009

An indicator of governments' objective to provide effective access to primary and community health services

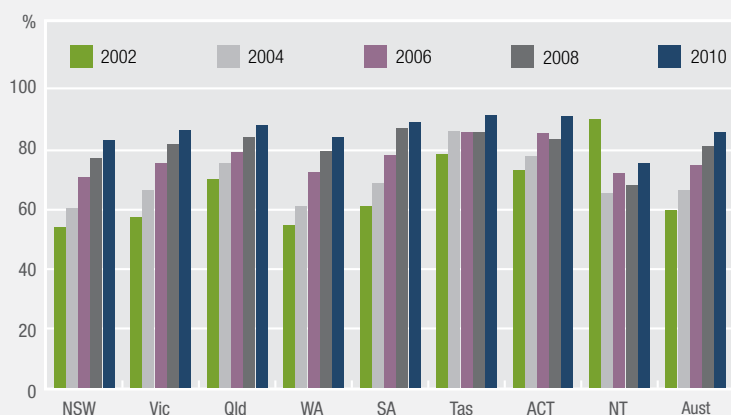


Aged care services

- Total government expenditure on aged care services in 2009-10 was \$11.0 billion. This included residential care services (\$7.3 billion) and community care services (\$3.2 billion).
- At June 2010, there were 179 749 operational places (excluding flexible care) in residential care facilities (78 075 in predominately high care services, 4377 in predominately low care services and 97 297 in services with a mixture of high and low care).

Proportion of residents who changed from low care to high care and remained in the same aged care service, June

An indicator of governments' objective to facilitate 'ageing in place'

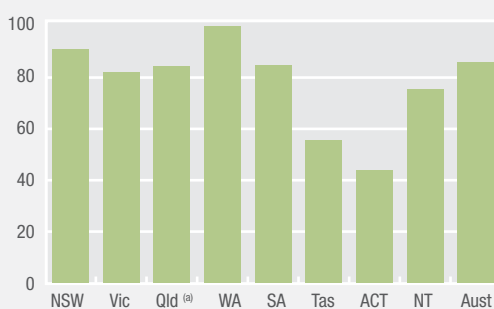


Juvenile justice

- Excluding WA and the NT, a total of 12 197 young people were under juvenile justice supervision at some time during 2008-09.
- Indigenous young people were significantly over-represented in juvenile detention. Nationally, the daily average detention rate for Indigenous young people aged 10-17 years was 370.9 per 100 000 Indigenous people aged 10-17 years, compared to 16.1 per 100 000 for their non-Indigenous counterparts.

Centre utilisation rate^a, 2009-10

An indicator of governments' objective to provide juvenile justice in an efficient manner



^a The number of detainees in all detention centres as a proportion of the number of permanently funded beds.

Data sources and caveats for these charts are available from the website for the Review of Government Services Provision www.pc.gov.au/gsp/reports/rogs/2011

Expenditure on services for Indigenous Australians

Comprehensive information on government expenditure on Indigenous services is available for the first time in the new Indigenous Expenditure Report.



Until the release of the 2010 *Indigenous Expenditure Report*, limited information was available on the level and patterns of government expenditure relating to Indigenous Australians. The new report contains comprehensive and comparable estimates of government expenditure on government services to Indigenous Australians in 2008-09. While the report makes no assessment of the adequacy of government expenditure, estimates in the report, when combined with other information (such as levels of Indigenous disadvantage) can contribute to a better understanding of the adequacy, effectiveness and efficiency of government expenditure on services to Indigenous Australians.

The 2010 *Indigenous Expenditure Report* is a first step in estimating government expenditure on Indigenous services. This is a complex task that was new to most jurisdictions, and will be subject to a process of continual improvement in subsequent reports.

The Report estimates government expenditure on services to Indigenous Australians to be \$21.9 billion in 2008-09, or about 5.3 per cent of all government expenditure. This is higher than the Indigenous representation in the population (2.5 per cent), reflecting the greater level of disadvantage of Indigenous Australians and their greater use of government services.

How does the Report estimate Indigenous expenditure?

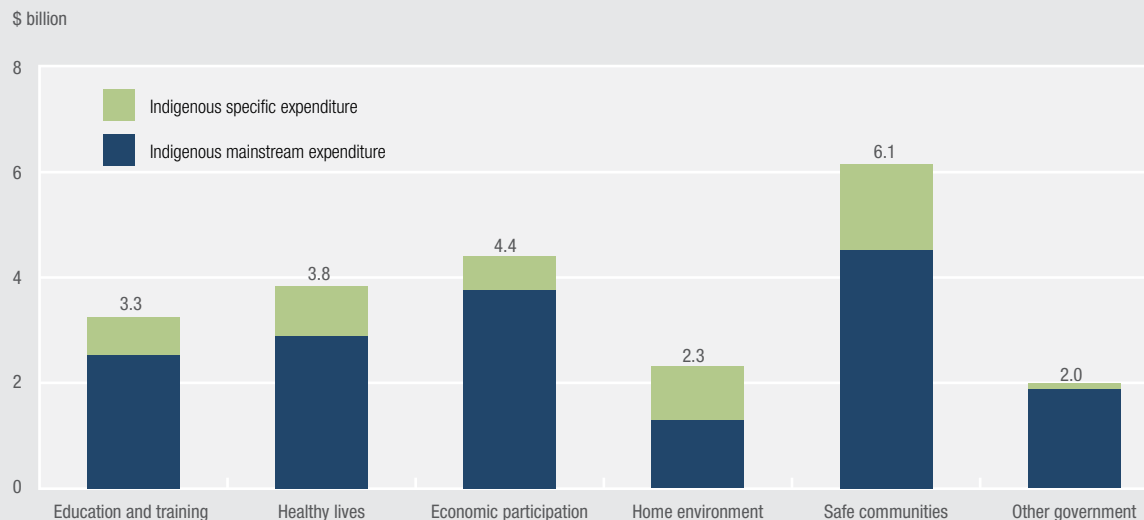
The Report includes estimates of government expenditure on both Indigenous specific (targeted) and mainstream (available to all Australians) services. While expenditure on Indigenous specific services can generally be assumed to relate exclusively to Indigenous Australians, the proportion of expenditure on mainstream services that relates to Indigenous Australians for this Report. The estimation involves two stages:

Indigenous expenditure reporting

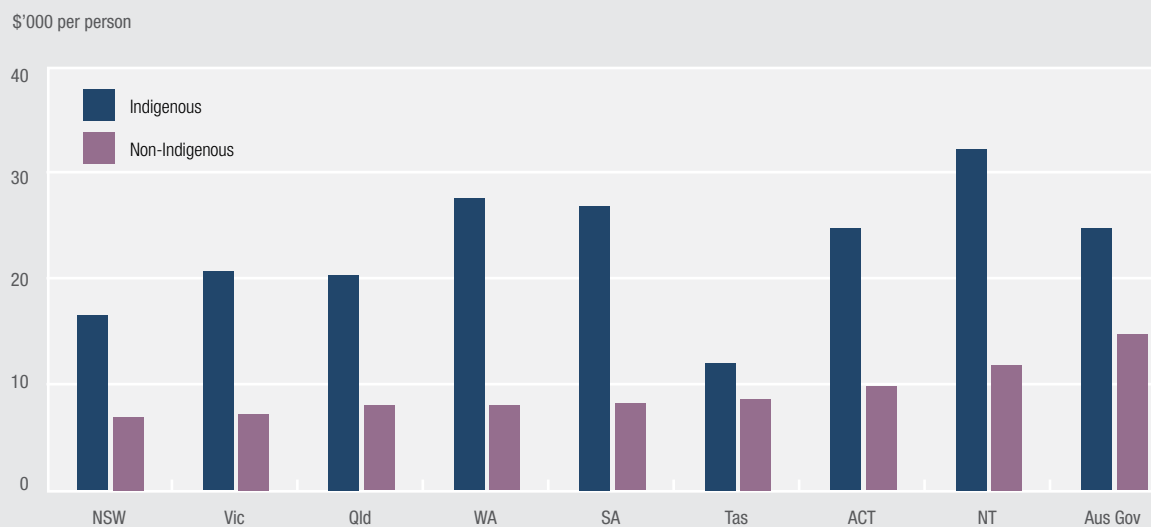
The 2010 *Indigenous Expenditure Report* was prepared for the Council of Australian Governments (COAG) under the auspices of the Ministerial Council for Federal Financial Relations. It was overseen by the Indigenous Expenditure Report Steering Committee, and supported by a Secretariat drawn from the Productivity Commission. COAG has transferred responsibility for future editions of the Report to the Steering Committee for the Review of Government Service Provision, which is also supported by a secretariat drawn from the Productivity Commission.

The *Indigenous Expenditure Report* complements other Review of Government Service Provision publications, such as the *Overcoming Indigenous Disadvantage* report and the *Report on Government Services Indigenous Compendium*. These reports, together with COAG reporting on the National Indigenous Reform Agreement and associated National Partnerships, will help governments at all levels better assess the effectiveness of their expenditure on Indigenous Australians.

Components of estimated expenditure related to Indigenous Australians, 2008-09



Total estimated expenditure per person



Note: Australian Government expenditure includes expenditure to and through the states and territories.

Data sources and methodology for charts: See www.pc.gov.au/ier

- identification of total expenditure by service area and, where applicable, expenditure on Indigenous specific programs and services
- proration (or allocation) of mainstream (that is, non-Indigenous specific) expenditure between Indigenous and non-Indigenous Australians. Expenditure on mainstream services is allocated according to measures of service use that are closely related to service cost drivers (for example, expenditure on secondary school education is allocated according to the number of students enrolled in secondary schools).

Further information on methodology and data sources is provided in supporting manuals available from the project website: www.pc.gov.au/ier. ■

2010 Indigenous Expenditure Report

> Released February 2011

> Contact: Lawrence McDonald 03 9653 2178
lmcdonald@pc.gov.au

Childhood obesity – an economic perspective

While there has been increasing concern about the rising prevalence of childhood obesity, policies designed to address it should be rigorously assessed to ensure they generate net community benefit.



The prevalence of childhood obesity in Australia has been increasing since the 1970s, particularly in the decade from the mid 1980s to the mid 1990s. In 2007-08, around 8 per cent of children (5 to 17 year olds) were estimated to be obese, and 17 per cent overweight. Childhood obesity is associated with a range of health problems emerging in childhood and later adult life. A recent Productivity Commission Staff Working Paper examines the issue of childhood obesity from an economic perspective – it assesses the factors causing overweight and obesity, the economic costs of obesity, and when and how governments should intervene.

A complex web of factors affect weight outcomes in children. While the costs of obesity appear to be substantial, they are borne mostly by the obese themselves and their families, primarily due to loss of wellbeing, but also because they bear some of the financial costs.

When should governments intervene?

The Staff Working Paper argues that if eating decisions by individuals take into account appropriate information about the benefits and costs to themselves and the community, and were rationally made, then resulting weight outcomes could be viewed as ‘optimal’, providing little justification for policy intervention. But decisions may be distorted because:

- They are based on incomplete or incorrect prices and information – for example, if information such as the nutritional or energy content of foods is not easily available. However the abundance of obesity-related information on nutrition and exercise already available suggests that information gaps alone may not be the problem.
- Behavioural limitations prevent people from maximising their own wellbeing. Even where information is available, individuals may not fully account for the future health, financial and lifestyle consequences of their actions, nor consistently value the associated costs and benefits.

Improving the effectiveness of interventions

The Staff Working Paper finds only limited evidence that interventions designed to prevent childhood obesity actually achieve their goals, although they may have had greater success improving lifestyle behaviours. This is encouraging, and despite not improving children's weight, may improve their health and wellbeing.

The failure to find a way to effectively intervene to reduce obesity may be because, despite some understanding of the factors driving obesity, an effective response to such a complex problem is inherently challenging. It could also reflect poor policy design or deficiencies in evaluation.

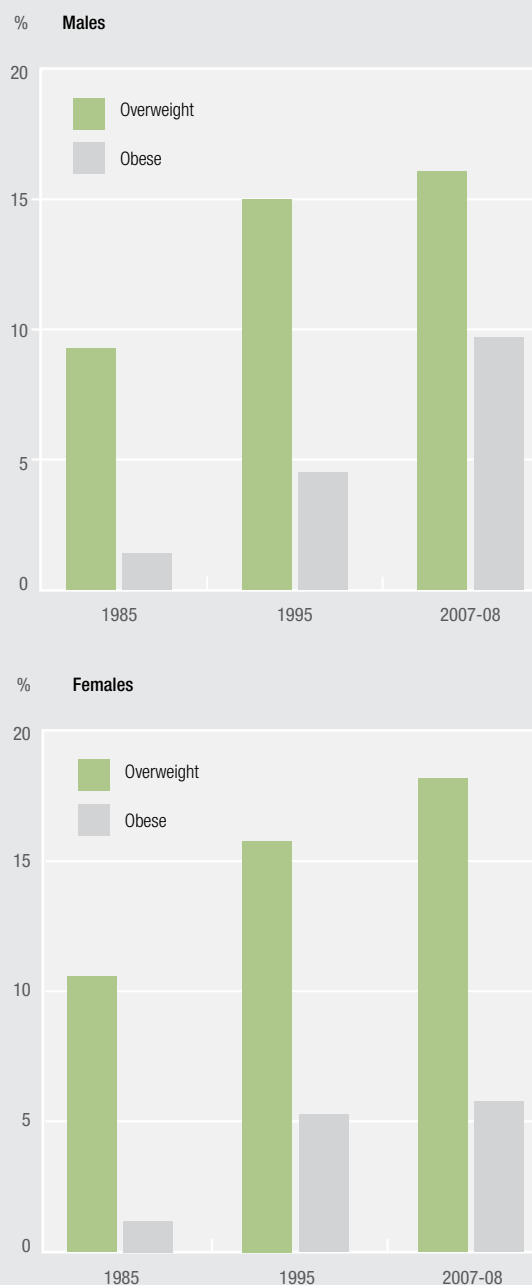
Measures that constrain behaviour indiscriminately are rarely effective, equitable, or improve community wellbeing. Bans or taxes on particular energy-dense nutrient-poor foods, for example, pose design difficulties, affect all consumers regardless of their weight, and can have perverse budgetary and health effects particularly for the neediest groups.

The complex nature of the problem and the lack of firm evidence that childhood obesity prevention measures have been effective suggest that policies need to be carefully designed to maximise cost-effectiveness, and trialled, with a focus on evidence gathering, evaluation and consequent policy modification.

There is only limited evidence of interventions designed to address childhood obesity achieving their goals. This could reflect the inherent complexities and the multiple causes of obesity. But it might also reflect poor policy design and evaluation deficiencies.

Another potential reason for governments to reduce obesity in children is to decrease the health care costs borne by the rest of the community. Although most of the costs associated with obesity are borne by the obese themselves, universal access to healthcare and community rating mean the health care costs of obese people are subsidised by other taxpayers and private health insurance members. ■

The proportion of children classified as overweight or obese has increased significantly



Source: Crowle J. and Turner, E. 2010, *Childhood Obesity: An Economic Perspective*, Productivity Commission Staff Working Paper

Childhood Obesity: An Economic Perspective

> Jacqueline Crowle and Erin Turner

> Productivity Commission Staff Working Paper

> Released September 2010

Labour force participation of older women

The sharp rise in the workforce participation of mature aged women over recent years is examined in a new Productivity Commission Staff Working Paper.

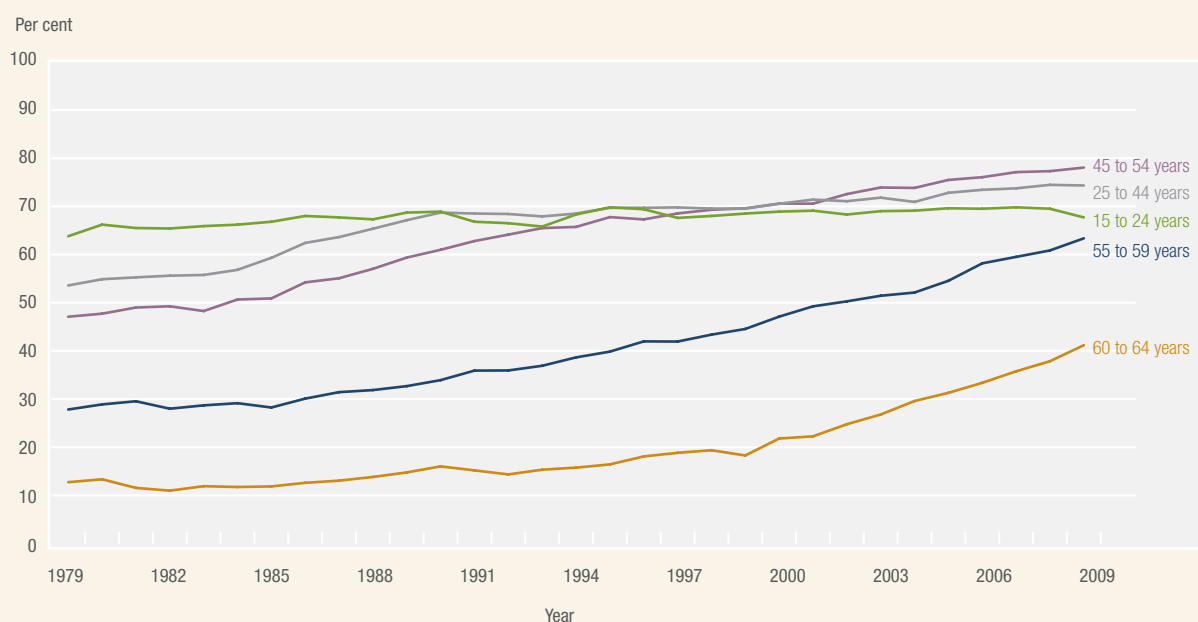


The contribution of women aged 45 and over to total hours worked in the Australian economy has more than doubled over the past two decades, rising from 6 per cent in 1989 to 15 per cent in 2009. The 45 to 54 year age group now has the highest rate of participation of all age groups of women (at 78 per cent in 2009).

Higher female workforce participation can assist in reducing the impact of population ageing on living standards, and can also serve social inclusion and equity goals. The Staff Working Paper examines factors affecting the labour force engagement of mature aged women, and assesses the scope for increasing their workforce participation.

Analysis in the Staff Working Paper indicates that a further 7 per cent of mature aged women could potentially be induced to enter the labour force. However, the barriers or obstacles to participation of many in this group are significant and difficult to address.

The 45 to 54 year age group has the highest participation rate of all women



Source: Gilfillan, G. and Andrews, L. 2010, *Labour Force Participation of Women Over 45*, Productivity Commission Staff Working Paper

Employment experience largely explains the gender wage gap

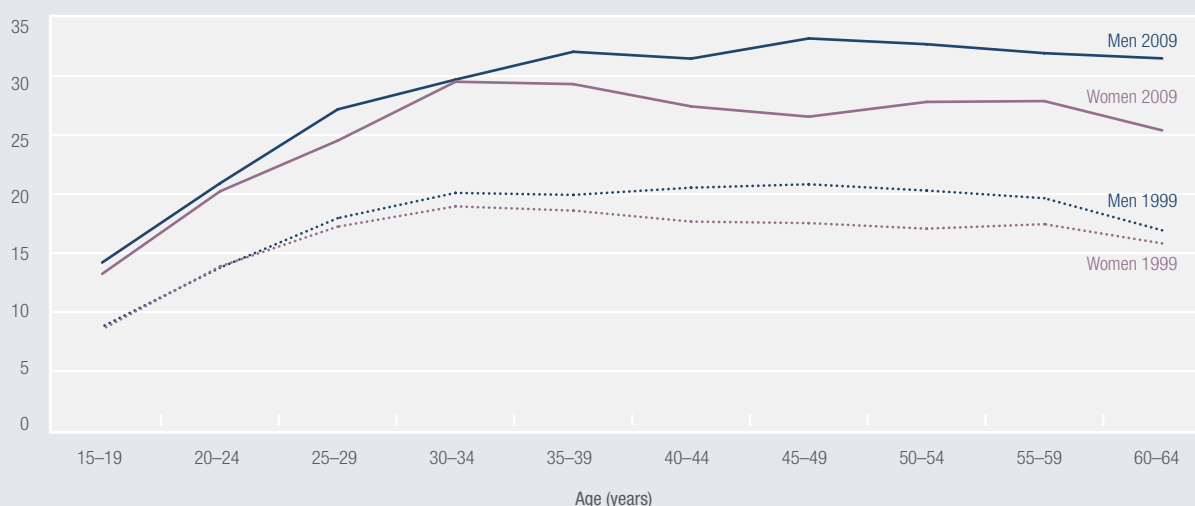
On average, women's wages initially increase as women grow older and then gradually flatten out and fall from the age of 35 years. This reflects the impact on earnings of reduced attachment to the workforce due to child rearing. The hourly rate of earnings for women with children never recovers in successive years. The pattern for men differs, with almost continued growth in earnings until 45 to 49

years. Women without children appear to suffer no pay gap with men of similar work experience.

Differences in employment patterns, length of work experience and hours worked explain much of the gender wage gap. Other factors – such as lifestyle choices, the extent of career orientation, and employer attitudes towards mature aged women with children – may also play a role.

The gender wage gap grows with age

Hourly wage rate (\$)



Other key findings of the paper:

- The share of employment accounted for by mature aged women has increased across nearly all industries, including those where they have traditionally not been employed in large numbers.
- Younger women today have both higher levels of education and labour force participation than mature aged women had when they were younger. It is likely, therefore, that participation rates for mature aged women will continue to rise as these younger women enter older age groups. However, the potential for additional growth in participation and average hours worked for the current cohort of mature aged women appears limited.
- A woman's health status and caring responsibilities also influence the likelihood of participating in the labour force in later life. A mature aged woman is more likely to be in the labour force the longer her previous period of labour force engagement.
- Currently, proportionately fewer mature aged women participate in the labour force than either mature aged men in Australia or mature aged women in similar

OECD countries. However, the gaps in participation have narrowed considerably over the past three decades.

- Most mature aged women who are not in the labour force appear to prefer not to work. ■

Labour Force Participation of Women Over 45

> Geoff Gilfillan and Les Andrews

> Productivity Commission Staff Working Paper.
Released January 2011

> This paper complements previous Commission work including:

- Potential Benefits of the National Reform Agenda (2006)
- Workforce Participation Rates: How Does Australia Compare? (2006)
- Men Not at Work: An Analysis of Men Outside the Labour Force (2007)
- Part Time Employment: The Australian Experience (2008)

Benchmarking: planning, zoning and development assessment

A recent Productivity Commission report identifies opportunities for all jurisdictions to improve planning, zoning and development assessment.

This report is the latest in a series, initiated by COAG, directed at benchmarking different areas of state and territory regulation, in terms of the relative burdens on business. The Commission was also asked to examine the impact of the planning and zoning systems on competition and on the functioning of cities.

All three levels of government are involved in planning, zoning and development assessment. Planning varies greatly across the states and territories — but all suffer from growing ‘objectives overload’.

Commissioner Louise Sylvan said, ‘The regulations and agencies involved in planning, zoning and development assessments are among the most complex regulatory regimes in Australia, creating uncertainty, problems of transparency and significant compliance burdens.’

The Commission’s report identified significant differences in state and territory planning systems, which impact on:

- business costs, such as the time taken to determine development applications (medians range from 27 to 73 days) and the charges to developers for infrastructure per greenfield lot (averages range from \$3700 to \$37 000)
- the amount of land released for urban uses
- competition, including the degree to which zones, overlays, codes and other land use controls are prescriptive and exclusionary, the degree to which the impacts on other businesses and the viability of centres are considered when assessing applications from new businesses, and the ease with which competitors can ‘game’ the planning system through use of objections and appeals
- accountability, transparency and governance.

According to the Commissioner overseeing the study, Louise Sylvan: ‘The task of planning and zoning land to enable uses that will optimise the welfare of communities and the nation is, by its very nature, complicated. However, this complexity can be managed better’. The report identifies leading practices to improve planning, zoning and assessment including:

- providing clear guidance and targets in strategic plans while allowing flexibility to adjust to changing

circumstances and innovations (combined with good engagement, transparency and probity provisions)

- commitment to engaging the community fully in planning city outcomes
- broad and simple land use controls to reduce red tape, enhance competition, free land for a range of uses and give a greater role to the market in determining uses
- rational and transparent rules for charging infrastructure costs to businesses
- risk-based and electronic development assessment
- timeframes for referrals, structure planning and rezoning
- better transparency and accountability for alternative rezoning and development assessment mechanisms
- controlling the abuse of objections and appeals for anti-competitive purposes
- collecting and publishing data on land supply, development assessment, rezoning and appeals annually. ■

Benchmarking the performance of business regulation

In February 2006, COAG agreed to develop a framework for benchmarking, measuring and reporting on the regulatory burdens on business. The aim of the benchmarking program is to identify unnecessary compliance costs, enhance regulatory consistency across jurisdictions, and reduce regulatory duplication and overlap. As well as the planning report, the Commission has released a series of benchmarking studies:

- an assessment of performance indicators and reporting framework options (2007)
- comparisons of the quantity and quality of business regulation (2008); and the cost of business registrations (2008)
- studies of food safety regulations (2009); and occupational health and safety (2010).

Performance Benchmarking of Australian Business Regulation: Planning, Zoning and Development Assessments

> Productivity Commission Report (2 vols)

> Released 16 May 2011

Commission News

New Commissioners appointed

The Australian Government appointed two new Commissioners to the Productivity Commission.



Warren Mundy, previously an Associate Commissioner, was appointed as a part-time Commissioner in December 2010. Dr Mundy has wide experience in policy development and regulation of the infrastructure and transport sectors. His expertise includes infrastructure management, planning and development; economic and environ-

mental regulation; and commercial negotiation of access agreements. For a number of years he was the principal regulatory and economic adviser to the Australian Council for Infrastructure Development. Dr Mundy has held senior executive roles in the airports industry in Australia and Europe. He has recently been reappointed as the Deputy Chair of Airservices Australia and is a member of the Joint NSW Commonwealth Government Steering Group overseeing the development of the Aviation Strategic Plan for Sydney. He has been a Director of Vicforests, and the Airport Operators Association of the United Kingdom. In 2010, he was invited to become a Fellow of the Royal Aeronautical Society of London.

Dr Mundy is currently working on the Commission's inquiry into Australia's urban water sector, and the study on emission reduction policies and carbon prices in key economies.

Alison McClelland was also appointed as a part-time Commissioner in December 2010. Alison has extensive experience working at the intersection of economic and social policy, with research and policy expertise in the areas of taxation, income security, unemployment, health, welfare and economic reform.



Immediately prior to her appointment, Alison was Executive Director, Strategic Policy, Research and Forecasting at the Victorian Department for Planning and Community Development. Her previous positions include Associate Professor and Head of School, Social Work and Social Policy at La Trobe University (where she is now an Adjunct Professor) and Director of the Brotherhood of St Laurence, responsible for Social Action and Research. Alison has participated in numerous government advisory committees including the Board of Taxation, the Social Security Review Advisory Council, the National Board of Employment, Education and Training, and the Advisory Committee of the Economic Planning Advisory Council. She has held several positions with the Australian Council of Social Service over the past 20 years including as Deputy President. Alison was awarded the Centenary Medal for her contribution to social policy and social research in Australia. She is currently working on the Commission's schools workforce study. ■

Deputy Chairman reappointed



Mike Woods was reappointed as a full-time Commissioner and Deputy Chairman of the Productivity Commission in April 2011. Mike has been a Commissioner since 1998 and Deputy Chairman since 2008. He is also the Australian Government Commissioner for Competitive Neutrality. Mike has presided on many Commission inquiries and studies including drought support, parallel importation of books, telecommunications regulation, and a series of reviews of the performance of government trading enterprises.

Mike was formerly the Secretary of the Treasury for the Australian Capital Territory. He has been a member of the Australian Statistical Advisory Council, Chair of the Government Sector Finance Task Force for the Securities Institute of Australia and a board member of various government authorities and business enterprises. He is currently leading the Commission's inquiry into caring for older Australians, and the schools workforce study. ■

Commission news

Richard Snape Lecture, 2010



The Productivity Commission's 2010 Richard Snape Lecture was presented by Dr Mari Pangestu, Minister of Trade for Indonesia (pictured after the Lecture with Commission Chairman Gary Banks).

Dr Pangestu introduced her lecture on a personal note, recalling her long-standing associations with Australian academics and Prof Richard Snape in particular. Her presentation, described by members of the audience as a 'tour de force', outlined the current global and regional challenges facing international trade policy, with special emphasis on Indonesia and developments in the Asian region. A published version of her speech can be downloaded from the Commission's website: www.pc.gov.au. ■

New inquiries and commissioned studies

Economic regulation of airport services

In this public inquiry the Commission is examining the effectiveness of the current regulation of:

- aeronautical services and facilities provided by airport operators
- passenger-related aeronautical services and facilities provided by major airline tenants
- land transport facilities providing access to the airports.

Economic structure and performance of the Australian retail industry

This public inquiry will report on:

- the current structure and efficiency of the retail sector
- drivers of structural change in the retail industry
- broader issues contributing to the increase in online purchasing by Australian consumers
- the sustainability and appropriateness of current indirect tax arrangements.

Education and Training Workforce

Early childhood development

The second phase of the Education and Training Workforce Study. The Commission has been asked to advise on:

- current and future demand for ECD workers, and the mix of knowledge and skills required within the workforce to meet quality objectives
- the current and future supply of the ECD workforce, and the impact of quality objectives on that supply
- the structure of the ECD workforce, and its efficiency and effectiveness

- ECD workforce planning and development in the short, medium and long-term
- institutional arrangements impacting on the ECD workforce.

Schools

The third phase of the Education and Training Workforce Study has also now commenced. The Commission has been asked to examine:

- factors affecting the supply of, and demand for, school workers
- whether the knowledge and skills base of the workforce, and its deployment within and across schools and regions, are appropriate
- whether policy, governance and regulatory arrangements are conducive to maximising the efficiency and effectiveness of the schools workforce and, if not, what changes may be required.

Emission reduction policies and carbon prices in key economies

The Australian Government asked the Productivity Commission at the end of last year to undertake a study on policies in key economies directed at reducing carbon emissions and the implied effective carbon prices involved. A methodology working paper was released in March and the final report is to be sent to Government on 31 May 2011. ■

> More details including contact information for all current Commission projects appear on page 32 and are available at www.pc.gov.au

Recent releases

May 2011

Performance Benchmarking of Australian Business Regulation: Planning, Zoning and Development Assessments
Research Report

Submission to the Taskforce on the Sustainable Population Strategy for Australia
Productivity Commission Submission

Partial Equilibrium Models of the Urban Water Sectors in Melbourne and Perth
Supplement to the Productivity Commission Draft Report – Australia's Urban Water Sector

Insights Into Residential Water Consumption and Expenditure Using Combined Census and Utility Billing Data
Supplement 2 to the Draft Report

Vocational Education and Training Workforce
Research Report

April 2011

Report on Government Services 2011: Indigenous Compendium
Steering Committee for the Review of Government Service Provision

Australia's Urban Water Sector
Draft Report

Evidence and Social Policy: The Case of Gambling
Chairman's speech

March 2011

Economic Structure and Performance of the Australian Retail Industry
Issues Paper

Comparing Carbon Policies Internationally: The 'Challenges'
Chairman's Speech

Emission Reduction Policies and Carbon Prices in Key Economies
Methodology Working Paper

National Partnership Agreement on the Elective Surgery Waiting List Reduction Plan
Steering Committee for the Review of Government Service Provision

February 2011

Productivity Commission Submission to the Rural Research and Development Council

Disability Care and Support
Draft Inquiry Report

Performance Benchmarking of Australian Business Regulation: Planning, Zoning and Development Assessments
Draft Research Report

Report on Government Services 2011
Steering Committee for the Review of Government Service Provision

January 2011

Economic Regulation of Airport Services
Issues Paper

Caring For Older Australians
Draft Inquiry Report

Impacts and Benefits of COAG Reforms: Reporting Framework
Research Report

Catalogue of COAG Reforms and Initiatives
Annex to the Research Report

Labour Force Participation of Women Over 45
Staff Working Paper

December 2010

Bilateral and Regional Trade Agreements
Research Report

Population and Migration: Understanding the Numbers
Commission Research Paper

Successful Reform: Past Lessons, Future Challenges
Chairman's Speech

Vocational Education and Training Workforce
Draft Research Report

The Challenge for Trade Policy in a Dynamic World and Regional Setting: An Indonesian Perspective
*Dr Mari Pangestu
Richard Snape Lecture 2010*

November 2010

Early Childhood Development Workforce
Issues Paper

October 2010

Wheat Export Marketing Arrangements
Inquiry Report

Annual Report 2009-10
Annual Report Series

Childhood Obesity: An Economic Perspective
Staff Working Paper

Links Between Literacy and Numeracy Skills and Labour Market Outcomes
Staff Working Paper

Investments in Intangible Assets and Australia's Productivity Growth: Sectoral Estimates
Staff Working Paper

Annual Review of Regulatory Burdens on Business: Business and Consumer Services
Research Report

Quality of Care in Australian Public and Private Hospitals
Conference Paper

All publications can be downloaded from the Commission's website www.pc.gov.au

Current commissioned projects

30 May 2011

Full details of all current projects available at www.pc.gov.au

Education and Training Workforce: Schools – Commissioned Study

Issues paper due May 2011.
Draft report due November 2011.
Final report to Government 22 April 2012.

Contact: Nick Ford (03) 9653 2285
Email: schools@pc.gov.au
www.pc.gov.au/projects/study/education-workforce/schools

Education and Training Workforce: Early Childhood Development – Commissioned Study

Issues paper released November 2010.
Draft report due June 2011.
Final report to Government 21 October 2011.

Contact: Ben McLean (03) 9653 2187
Email: ecdworkforce@pc.gov.au
www.pc.gov.au/projects/study/education-workforce/early-childhood

Emission Reduction Policies and Carbon Prices in Key Economies – Commissioned Study

Background paper released November 2011.
Methodology working paper released March 2011.
Final report to Government 31 May 2011.

Contact: Paul Belin (03) 9653 2177
Email: carbon-prices@pc.gov.au
www.pc.gov.au/projects/study/carbon-prices

Economic Structure and Performance of the Australian Retail Industry – Public Inquiry

Issues paper released March 2011.
Draft report due August 2011.
Final report to Government November 2011.

Contact: Frank Nugent (02) 6240 3362
Email: retail@pc.gov.au
www.pc.gov.au/projects/inquiry/retail-industry

Economic Regulation of Airport Services – Public Inquiry

Issues paper released January 2011.
Draft report due August 2011.
Final report to Government December 2011.

Contact: Adam Sheppard (02) 6240 3294
Email: airport-regulation@pc.gov.au
www.pc.gov.au/projects/inquiry/airport-regulation

Australia's Urban Water Sector – Public Inquiry

Issues paper released September 2010.
Draft report released April 2011.
Final report to Government August 2011.

Contact: Rick Baker (03) 9653 2146
Email: urbanwater@pc.gov.au
www.pc.gov.au/projects/inquiry/urban-water

Caring for Older Australians – Public Inquiry

Issues paper released May 2010.
Draft report released January 2011.
Final report to Government June 2011.

Contact: Stewart Plain (02) 6240 3219
Email: agedcare@pc.gov.au
www.pc.gov.au/projects/inquiry/aged-care

Disability Care and Support – Public Inquiry

Issues paper released May 2010.
Draft report released February 2011.
Final report to Government 31 July 2011.

Contact: Ineke Redmond (02) 6240 3310
Email: disability-support@pc.gov.au
www.pc.gov.au/projects/inquiry/disability-support

Impacts and Benefits of COAG Reforms – Commissioned Study

The Productivity Commission is to report to COAG on the impacts and benefits of COAG's reform agenda every two to three years. Framework report released January 2011. The first full report to COAG by 31 December 2011.

Contact: Owen Gabbitas (02) 6240 3273
Email: coagreporting@pc.gov.au
www.pc.gov.au/projects/study/coag-reporting

Annual Review of Regulatory Burdens on Business – Commissioned Study

The fifth and final annual review of the burdens on business from the stock of Commonwealth regulation. The Commission has been asked to identify areas for regulation reform and methods for evaluating reform outcomes. Final report due November 2011.

Contact: Jenny Gordon (02) 6240 3296
Email: regulation-reforms@pc.gov.au
www.pc.gov.au/projects/study/regulation-reforms