



PC UPDATE

PRODUCTIVITY COMMISSION NEWSLETTER

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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

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Latest releases



Productivity in Government

Chairman's speech

National Access Regime

Inquiry Report

Methodological Annex: Estimation Framework, Coverage and Re-benchmarking of Estimates

Annex to Trade and Assistance Review 2011-12

Australia's Automotive Manufacturing Industry

Position Paper

Report on Government Services 2014

Steering Committee for the Review of Government Service Provision

Tasmanian Shipping and Freight

Draft Report

Environmental Policy Analysis: A Guide to Non-Market Valuation

Staff Working Paper

Australia's Automotive Manufacturing Industry

Preliminary Findings Report

Safeguards Inquiry into the Import of Processed Fruit Products

Inquiry Report

Safeguards Inquiry into the Import of Processed Tomato Products

Inquiry Report

Major Project Development Assessment Processes

Research Report

Productivity in Manufacturing: Measurement and Interpretation

Staff Working Paper

Childcare and Early Childhood Learning

Issues Paper

Geographic Labour Mobility

Draft Research Report

Public Infrastructure

Issues Paper

An Ageing Australia: Preparing for the Future

Research Paper

Productivity Commission News



NEW PUBLIC INQUIRIES

Public infrastructure

A 6-month public inquiry into ways to encourage private financing and funding for nationally significant infrastructure projects including issues relating to the high cost and long lead times associated with these projects. A draft report will be released in mid-March 2014, and a final report will be presented to Government in May.

Automotive manufacturing

The Commission has been asked to undertake an inquiry into public support for Australia's automotive manufacturing industry. A preliminary findings report was released in December 2013, and a position paper was issued in January 2014 (see pages 9-11). The Commission's final report will be sent to Government by 31 March.

Child care and early childhood learning

The inquiry will make recommendations on the current and future need for childcare in Australia; alternative models of care; and options (within existing funding parameters) for improving the accessibility, flexibility and affordability of childcare for families with diverse circumstances. A draft report will be released in July 2014, and the Commission's final report will be sent to Government by 31 October 2014.

Tasmanian shipping and freight

A public inquiry into the current arrangements for supporting freight and passenger services between the mainland and Tasmania. The inquiry will cover shipping costs, competition and shipping industry competitive structures across Bass Strait. A draft report was released in January 2014, and the Commission will provide a final report to Government by 7 March 2014.

Richard Snape Lecture

The Productivity Commission's 2013 Richard Snape Lecture was presented in Melbourne on 6 November 2013 by Arvind Panagariya, Professor of Economics and Jagdish Bhagwati Professor of Indian Political Economy at Columbia University. Professor Panagariya has a distinguished academic career and has also served as Chief Economist at the Asian Development Bank as well as holding other positions at the World Bank, the International Monetary Fund, the World Trade Organisation and the United Nations Conference on Trade and Development.

In his presentation, Professor Panagariya provided a critical assessment of policy approaches to economic growth and development in post-independence India – the world's largest democracy. As he pointed out, the policy lessons from India's experience – such as the importance of outward oriented, pro-market reforms – can apply to all developing countries seeking prosperity within a democratic framework. A published version of the Lecture can be downloaded from the Commission's website: www.pc.gov.au.



Arvind Panagariya (left) with Productivity Commission Chairman Peter Harris, after the Lecture

> Details of all current commissioned projects appear on page 32 and are available at www.pc.gov.au

Preparing for an ageing Australia

Innovative policy approaches for reducing the effects of population ageing on future government budgets are examined in a recent Commission Research Paper.



Australia's population is predicted to grow strongly and age significantly. Commission projections presented in a new research paper indicate that by 2060 it is expected that:

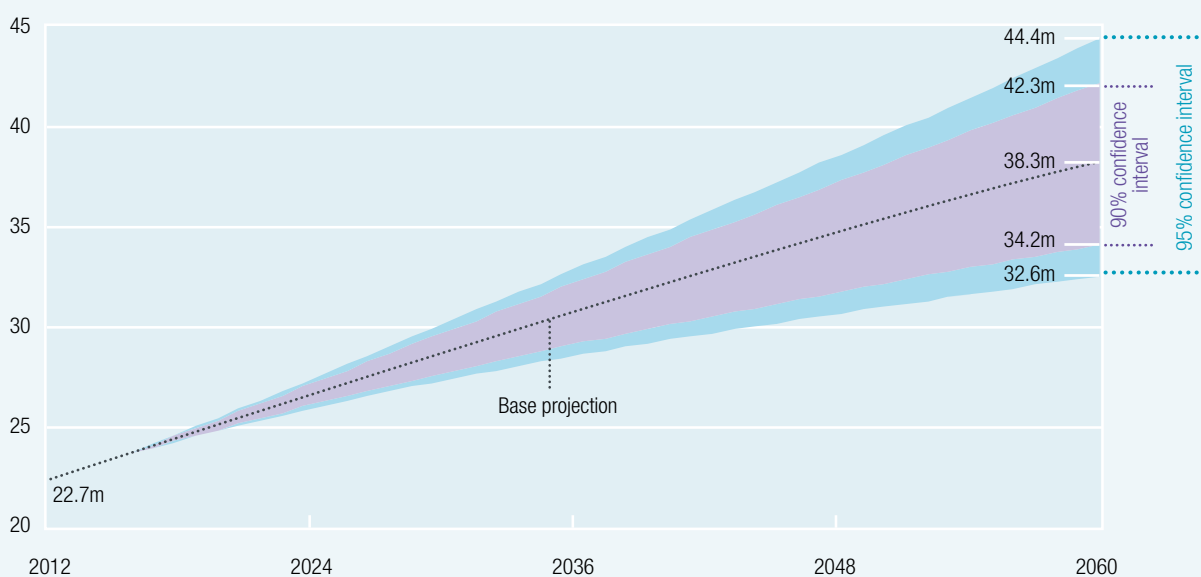
- Australia's population will have grown to around 38 million – an increase of 15 million over the population in 2012
- Australia's capital cities will have grown by around 11 million people, with Sydney and Melbourne growing by around 3 million each
- the population aged 75 years or more will have risen by 4 million, to 14.4 per cent of the population, from about 6.4 per cent in 2012
- there will be around 25 people aged 100 years or more for every 100 babies – compared with one centenarian per 100 babies in 2012.

As the Commission Research Paper notes, population ageing is a desirable consequence of success. All highly-developed countries have longer life expectancy and lower fertility rates than poor countries. A female born in Australia in 2012 will on average live for an estimated 94.4 years, and males born in 2012 can be expected to live to 91.6 years.

Australia's population is likely to grow by around 15 million over the next 50 years

End June 2011-12 to 2059-60

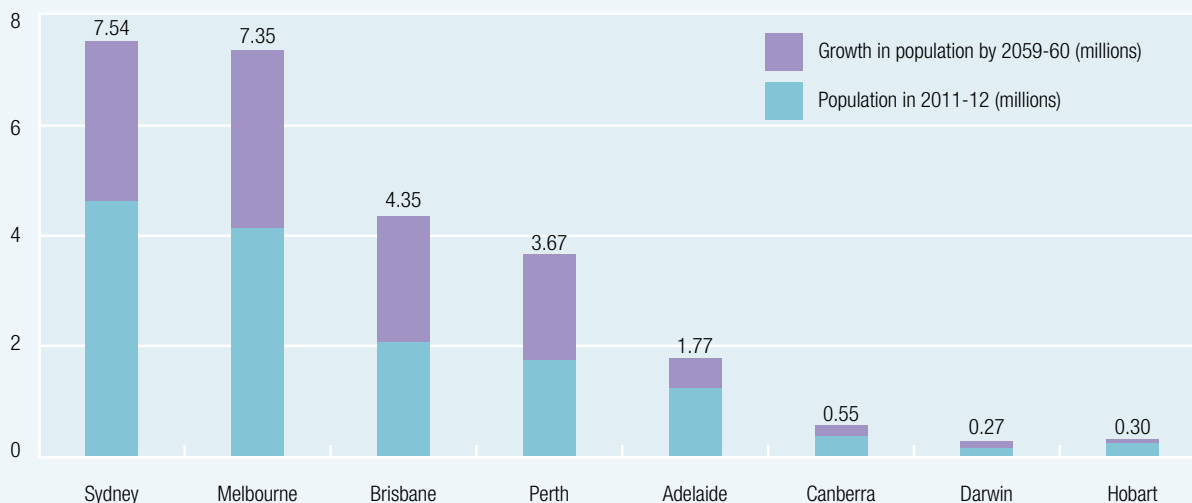
million



Our two biggest cities may exceed 7 million

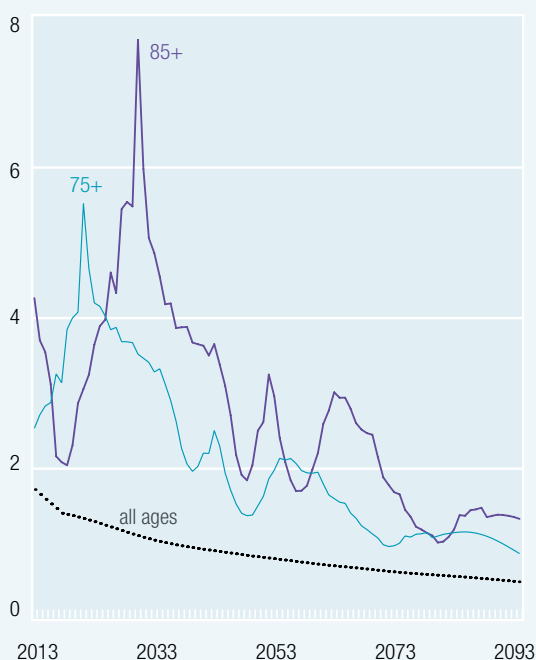
Projected city populations, end June 2011-12 and 2059-60

millions

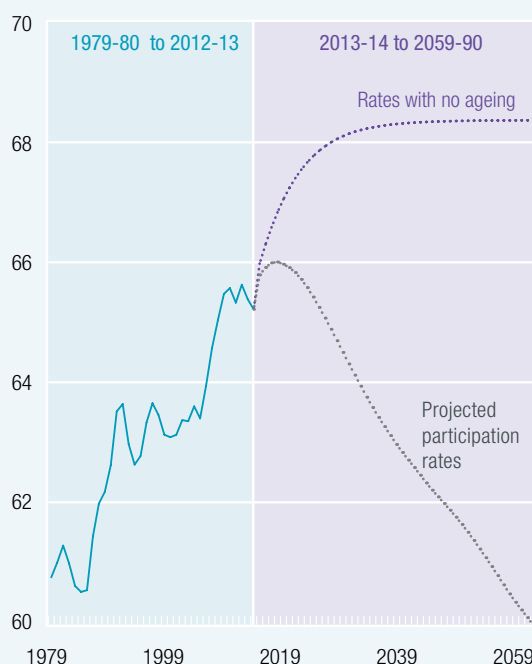


Growth rates of the oldest age groups will dramatically increase as baby boomers enter old age

Annual population growth (%)



Labour force participation rates are projected to fall – older Australians have lower participation rates than prime-age workers



However, the combined effects of population growth, ageing and expected reductions in the terms of trade and productivity growth will have significant impacts on labour supply, economic output, infrastructure requirements and governments' budgets.

- Labour participation rates are expected to fall from around 65 to 60 per cent, and overall labour supply per capita to contract by 5 per cent from 2012

to 2060.

- Average labour productivity growth is projected to be around 1.5 per cent per annum from 2012-13, well below the high productivity period from 1988-89 to 2003-04.
- Real disposable income per capita is expected to grow at 1.1 per cent per annum compared with the average 2.7 per cent annual growth over the last 20 years. >

- Total private and public investment requirements over this 50 year period are estimated to be more than 5 times the cumulative investment made over the last half century.

It is projected that by 2060, Australian governments collectively will face additional pressures on their budgets equivalent to around 6 per cent of national GDP, principally reflecting the growth of expenditure on health, aged care and the Age Pension. The Commission Research Paper argues that policy actions taken early can make the transition to an older Australia easier.

Responding to future fiscal pressures

The Commission Research Paper argues that closing the aggregate funding gap facing all Australian governments would require an increase of around 21 per cent in total taxes collected by governments, or

an equivalent reduction in expenditure, or some combination of the two. The key issue will be how governments manage to close a gap of this size in an orderly, efficient and equitable way. The research paper examines some innovative reform options aimed at reducing future budgetary pressures on government.

Increasing work force participation amongst older people

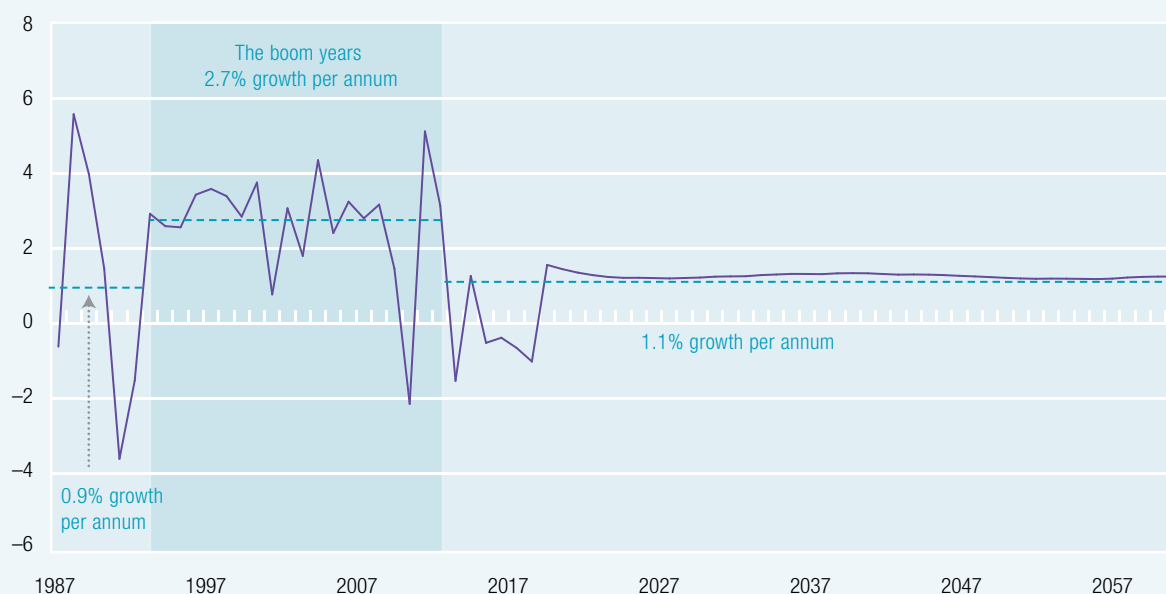
While workforce participation rates have been rising for older Australians, they are still at comparatively low levels. This reflects various obstacles to workforce participation by older people, including the financial incentives of the tax, superannuation and pension systems.

People are living much longer, yet for the last 100 years, there has been little change in the age at which people are eligible for the Age Pension or the period spent in the labour force. While life expectancy at birth has increased by an estimated 33 years for males born in 2013 compared with those born in 1901, based on past trends, only seven of these additional years will be spent in the labour force.

The Age Pension eligibility age influences some people's retirement decisions, while the long run impact of wage indexation of the pension increases its costs to taxpayers.

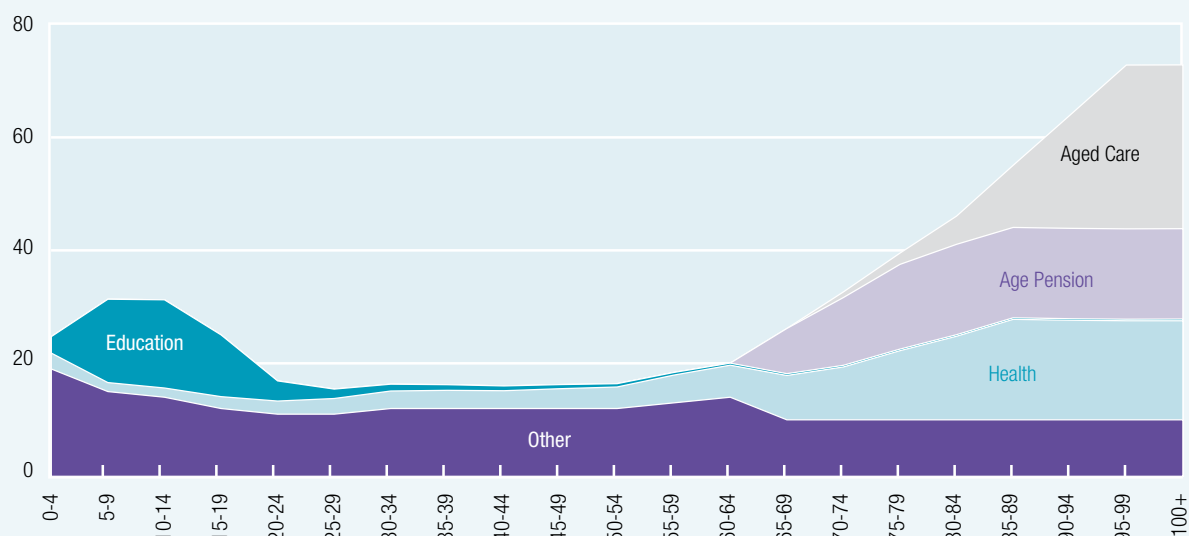
A major slowdown in income growth is looming, due to falling labour supply per capita, declining terms of trade and lower productivity growth rates

Percentage change in real net national disposable income per capita



Age-related government spending

All governments, \$'000 per person, 2011-12



Budget pressures will grow substantially over the next 50 years

	2011-12	2059-60	Change
	Share of GDP (%)	Share of GDP (%)	Share of GDP (%)
Australian Government			
Health care	4.1	7.0	2.9
Age Pension	2.7	3.7	1.0
Aged care	0.8	2.6	1.8
Education	1.9	1.7	-0.2
Other (including disability)	11.2	10.2	-1.0
Sum	20.7	25.1	4.4
State and territory governments			
Health care	2.4	3.8	1.4
Education	3.5	3.2	-0.3
Disability	0.2	0.5	0.3
Sum	6.1	7.5	1.4

Numbers may not add to totals due to rounding.

Many OECD countries, including Australia, have recognised that older people have a greater capacity to work, and have increased the pensionable age. Moreover, many OECD countries have linked their pensions automatically to life expectancy – either by lowering the value of pensions as life expectancy rises or (more rarely) by explicitly linking the pensionable

age to average life expectancy.

The research paper suggested that there were grounds for linking the Age Pension eligibility age and life expectancy in Australia after the already legislated shift to 67 years in the eligibility age has been completed in 2023 (though it did not include recommendations about lifting the pensionable age). The Commission >

gave an example of the possible effects on employment and on budgetary savings if this were to occur and the eligibility age was gradually shifted to 70 years by 2035. It would:

- yield ongoing fiscal savings of between 0.1 and 0.15 per cent of GDP per annum from 2035
- increase participation rates for people in the relevant ages by around 3–10 per cent.

Under this scenario, people unable to work would still be able to access the Disability Support Pension. They could access other savings if they wished to retire early, and would be given a long lead time to think about how they would finance any earlier retirement.

Of course, under any such arrangement, people would choose when they would retire – the issue would be when taxpayer funds would be used to provide retirement income.

Aspects of the superannuation system, particularly the preservation age and taxation arrangements, also have incentive effects on labour supply and entail taxpayer costs of a similar magnitude to those posed by the Age Pension eligibility age. The paper argues that issues raised by population ageing should be considered across the entire retirement income system.

Tapping the wealth held in the housing assets of older Australians

Older people are often cash strapped but asset rich. The Commission paper suggests there may be scope for creative mechanisms that allow people to help finance high quality services through access to some of their housing equity, without them having to reduce their existing consumption.

One option, which is already in use to help households pay council rates, is a government equity release scheme targeted at older households. Across the aged population, even half the annual real increase in housing equity could reduce government expenditures by around 30 per cent. An equity release scheme could leave older households with an appreciating asset base and significantly reduce government fiscal pressures over the longer term.

Improving health sector productivity

Healthcare is likely to be a source of significant pressure on government budgets, as older people tend to use more health services, and existing trends for more advanced and costly services continue. Appropriate increases in the efficiency of the healthcare sector could relieve these fiscal pressures without diluting the quality of services.



Areas where reform could be investigated include:

- Financial incentives and regulation: health regulation and differentiated funding can distort choices between procedures, and between providers.
- Organisational efficiencies: adoption of 'lean' management principles and superior care models by hospitals could lower costs.
- Diffusing medical research: to help reduce over diagnosis and over treatment.
- Workforce demarcation and regulation: current arrangements could inhibit more efficient skill mixes and create unnecessary regulatory burdens.
- The cost effective use of technology and pharmaceuticals: to reduce costs and facilitate other reforms (such as telehealth in concert with modified scopes of practice).
- Procurement: hospitals, in particular, could leverage purchasing power by aggregating some purchases, and seek efficiencies in the purchasing process itself.
- Preventative health measures: to improve the overall health of the population, but the impacts and cost effectiveness of some preventative measures are marginal or unclear.

The Commission estimates that a 5 per cent improvement in health sector productivity could reduce the projected fiscal pressure from rising health costs by 0.5 percentage points of GDP in 2059-60.

An Ageing Australia: Preparing for the Future

- > Productivity Commission Research Paper
- > Released November 2013

Australia's automotive manufacturing industry

Global forces are driving dramatic changes in both the demand for motor vehicles and the size, scale and location of production. From an economy-wide perspective, the Commission has found that policy rationales for ongoing industry-specific assistance for the industry are weak, and has called on governments to adopt a measured approach to the development of adjustment assistance plans for the industry and its employees.

In October 2013 the Australian Government asked the Productivity Commission to undertake an inquiry into government assistance for Australia's automotive manufacturing industry. The scope of the inquiry includes passenger motor vehicle, engine and automotive component production, and the provision of services and skills that support automotive manufacturing such as design, research and development, tooling, engineering and production services. Following stakeholder consultation, the Commission released its preliminary findings report in December 2013. The report examined global trends in automotive manufacturing, and the factors affecting the competitiveness of Australia's automotive manufacturing industry. In January 2014 a position paper was released, outlining the Commission's views regarding ongoing government assistance for the industry. The Commission's preliminary findings report and position paper were released prior to Toyota's announcement that it would cease automotive manufacturing in Australia by 2017. After further consultation, the Commission's final report and recommendations will be sent to Government in March 2014.

The competitiveness of Australia's automotive manufacturing industry is affected by a range of factors

At a global level, production capacity exceeds demand for motor vehicles, and there is unrelenting pressure on vehicle producers worldwide to reduce manufacturing costs, particularly in the small to medium size car, high volume, market segments.

Production scale and labour costs are key drivers of automotive manufacturing costs.

- All vehicle manufacturers in Australia are producing well below the 200 000 to 300 000 vehicles needed annually for an assembly plant to be cost competitive.
- Labour costs in automotive manufacturing are substantially higher in Australia than in countries such as China and Thailand.
- Despite continuing efforts by vehicle producers and their employees, a substantial cost gap between



Australian and many overseas assembly plants remains.

Increasing vehicle production in Australia, for local supply or export, is challenging. Vehicle producers in Australia have been losing local market share.

- The Australian new car market is small by global standards. It is highly competitive, to the benefit of Australian consumers, but is fragmented. Top selling models enjoy sales of only a little over 40 000 vehicles a year.
- Export opportunities are limited by the high costs of production, the sustained high Australian dollar, competition, and continuing barriers to trade.

Global trends place ongoing pressure on Australian automotive component suppliers.

- Component manufacturing in Australia is high cost compared to countries such as China and India. Motor vehicle producers in Australia are increasingly sourcing automotive components from overseas.
- Vehicle producers increasingly require their key component suppliers to have a global presence and be located near major production regions.
- The greater use of global platforms may lead to opportunities for some Australian component suppliers, but may lead to the closure of others. >

Automotive manufacturing is one of the most heavily assisted industries in Australia

Government assistance for Australia's automotive manufacturing industry takes many forms, including tariffs and co-investment grants. Budgetary assistance programs for the industry include the Automotive Transformation Scheme, the Green Car Innovation Fund and the Automotive New Markets Initiative.

The Commission estimates that around \$30 billion (2011-12 dollars) was provided to the industry between 1997 and 2012 in the form of tariffs and subsidies.

Industry-specific assistance imposes costs on taxpayers and means that alternative higher-value uses for public funds are forgone. Industry-specific assistance dulls the incentive for automotive manufacturing firms to

improve productivity, seek export opportunities, cease unsuccessful investments early and diversify into other industries.

Automotive industry assistance can only be justified where investment and production decisions in the industry are affected by market failure, the market failure is substantial and amenable to government action, and the benefits to the community from providing assistance outweigh the costs. Intervention by governments in the absence of these conditions will come at a cost to the performance of the economy overall. Separately, issues of equity and fairness can justify government assistance to individuals and groups in the community.

Is further industry-specific assistance warranted?

In the Commission's view, the community would benefit from the ending of specific assistance to automotive manufacturing, as the policy rationales for assistance are weak:

- There is no compelling evidence that spillover and multiplier benefits exceed the costs of assistance to the industry.
- Decades of transitional assistance have forestalled but not prevented the structural adjustment now being faced by the industry.
- Assistance imposes costs on the community and dulls incentives to improve productivity, seek export opportunities, and diversify into other industries.

What does this mean for existing industry-specific assistance measures?

Assistance provided to automotive manufacturers through the Automotive Transformation Scheme (ATS) is scheduled to cease in 2020. The Green Car Innovation Fund and Automotive New Markets Initiative are scheduled to close in 2014-15 and 2015-16 respectively. The Commission does not support extending these programs or replacing them with other forms of specific assistance, as this would impose net costs on the community.

In the meantime, a substantial amount of assistance is committed to the automotive manufacturing industry until 2020, most of which falls under the ATS. The

Commission is seeking more information on whether the ATS funding schedule could be reconfigured such that the net benefits to the community from phasing out assistance over the period to 2020 are maximised, taking efficiency and equity considerations into account.

Adjustment pressures are likely to be concentrated

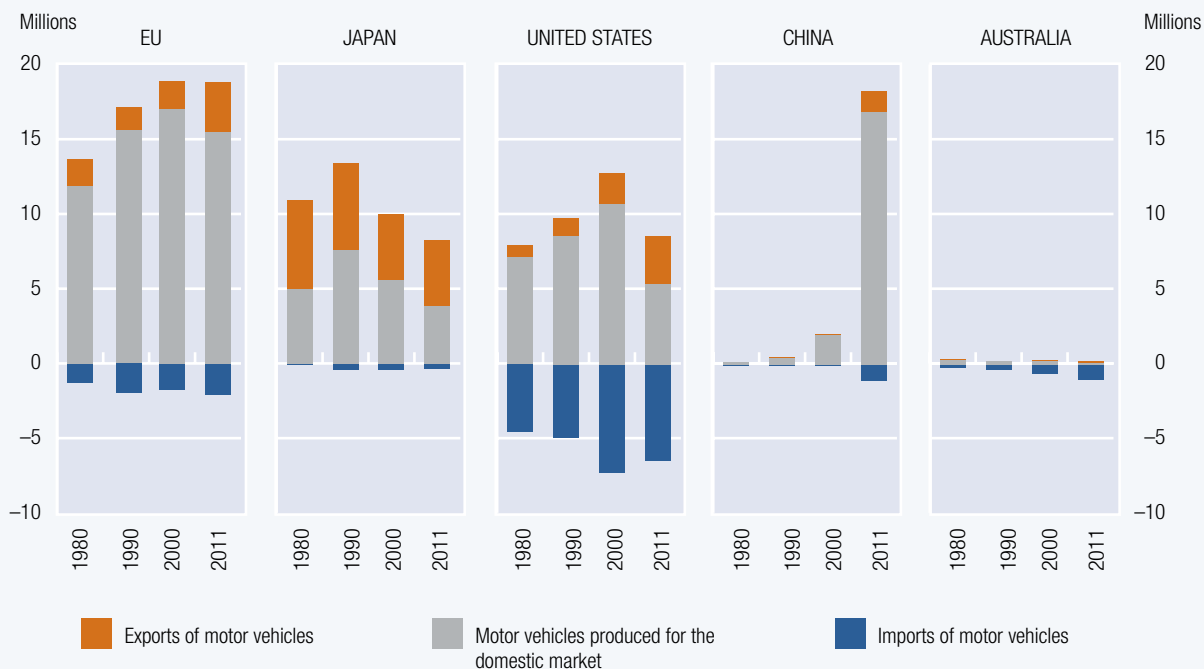
The Commission's position paper notes that adjustment pressures in the automotive manufacturing industry, including plant closures announced by Ford and Holden, will result in concentrated reductions in industry employment in specific regions in and around Melbourne and Adelaide. Relatively high rates of unemployment and social disadvantage in some regions, such as in northern Adelaide and in Melbourne's south east, will likely exacerbate adjustment costs.

Generally available welfare, employment and training services should be relied on in the first instance, and need to be adequately resourced in the affected regions. These measures have some distinct advantages in dealing with adjustment pressures, relative to ad hoc or special adjustment assistance, as they:

- treat individuals in similar circumstances equally
- target assistance to those in genuine need whatever the cause
- address the net effects of the various factors influencing the financial circumstances of individuals and families

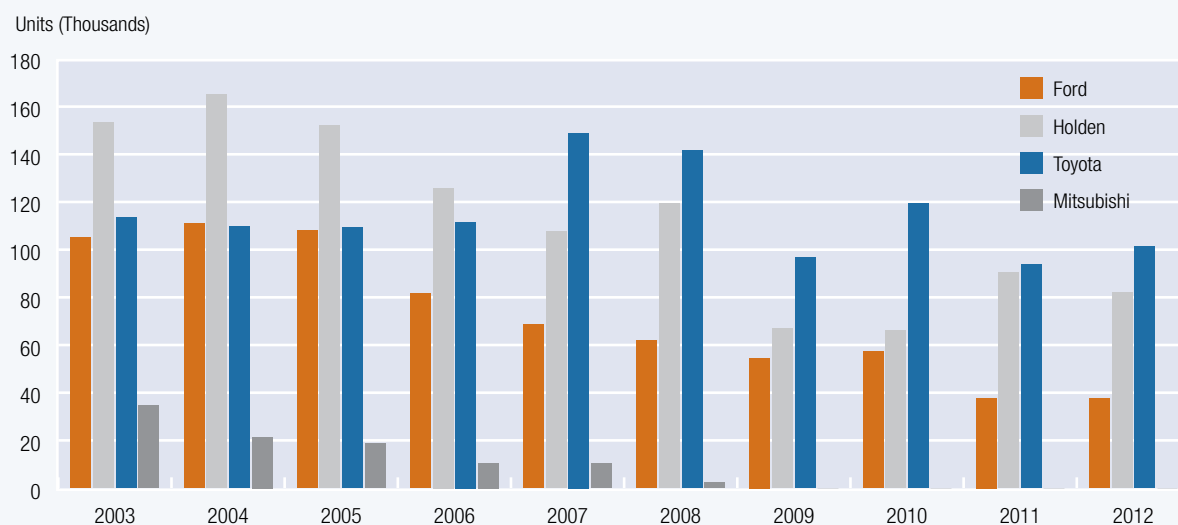
Production of motor vehicles

Selected countries and years. Passenger and light and heavy commercial vehicles.



Motor vehicle production in Australia, by producer

Passenger and light commercial vehicles, 2003–2012



- support individuals and families rather than a particular industry or activity
- minimise the design, administration and monitoring costs of assistance provision.

The Commission is seeking input from participants on the extent to which generally available measures are likely to adequately address equity and efficiency concerns related to structural adjustment in the automotive manufacturing industry, and whether there are models of facilitating structural adjustment more cost-effectively. In particular, the Commission is seeking input

on whether the circumstances facing employees in the extensive and varied component manufacturing sector are different to those facing motor vehicle producers.

Australia's Automotive Manufacturing Industry

> *Preliminary Findings Report*, released December 2013

> *Position Paper*, released January 2014

Geographic labour mobility in Australia

Australians move residence relatively frequently. These movements, together with the increase in long-distance commuting and temporary immigration, have assisted in meeting labour demand in many parts of the country.

Geographic labour mobility is one element of a flexible labour market, and is important for broader economic efficiency. By enabling labour to move to its best use across different regions of Australia, geographic labour mobility can alleviate labour shortages and regional disparities in labour market conditions, and increase skills utilisation and incomes. In doing so, geographic labour mobility can contribute to community wellbeing.

The Australian Government has asked the Productivity Commission to assess geographic labour mobility within Australia and its role in a well functioning labour market. The study aims to examine the patterns and key determinants of mobility, and identify any major impediments. Key themes of the Commission's draft report, released in November 2013, are outlined below. A final report will be sent to Government by May 2014.

Australians are highly mobile

About 16 per cent of working-age Australians change residence each year, which is high by international standards. However, most of these moves are over a short distance and are unlikely to affect labour supply in a region. About 3.5 per cent of working-age people move between regional labour markets each year and about 1.7 per cent move interstate (Table 1).

Some Australians are more mobile than others – younger people, unemployed people, Indigenous Australians, recent overseas migrants, single people, people without children, more highly educated and skilled people, and people working in the mining industry all have a higher propensity to move residence between labour markets than do other cohorts (Figure 1).

Where are they moving to?

People appear to be responding to market signals and moving to areas of better job and income opportunities. Over the past decade, there has been continuing net interstate migration into Queensland, and to a lesser extent, Western Australia (Figure 2). New South Wales and South Australia lost residents to other states.

Table 1: Population movement, 2010-11

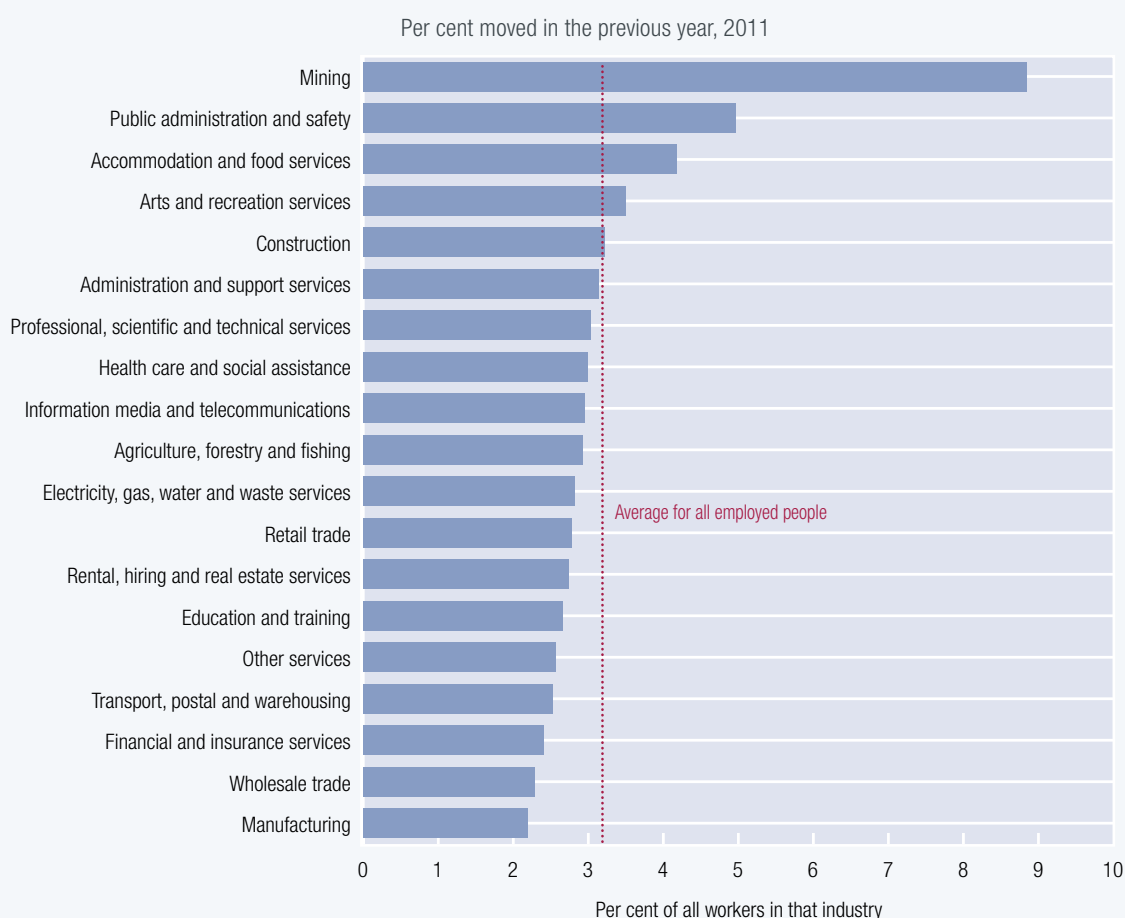
Residence in 2011	Per cent of labour force	
	Lived elsewhere in Australia in 2010	Overseas in 2010
NT	22.6	2.1
Queensland	18.9	1.5
ACT	18.6	2.0
WA	17.3	2.2
Australia	16.0	1.5
Victoria	14.9	1.4
Tasmania	14.9	0.6
NSW	14.7	1.4
SA	14.4	1.0
Very remote	22.7	1.8
Remote	20.0	1.5
Outer regional	16.3	0.9
Australia	16.0	1.5
Major cities	15.8	1.7
Inner regional	15.8	0.6

Source: Productivity Commission estimates using ABS (*TableBuilder Pro*, 2011, Cat. no. 2073.0).

International migration is a large component of Australia's population growth. While most international migrants traditionally settle in large 'gateway' cities, such as Sydney and Melbourne, the past decade has seen an increase in immigrant settlement in regional areas. Western Australia and Queensland have increased their share of net overseas migrants, largely at the expense of New South Wales.

Cities play an important role in the efficient matching of workers and employers. In the past decade, population growth has generally been higher in capital cities and surrounding areas, and coastal regions. While the population in many inland and sparsely populated regions has declined or has grown very slowly, this is not the case for remote regions with mining activity.

Figure 1: Residential mobility by industry of worker



Source: Productivity Commission estimates using ABS (*TableBuilder Pro*, 2011, Cat. no. 2073.0).

Workers are increasingly relocating their labour supply without moving residence

Different forms of geographic labour mobility have increased the flexibility of workers and employers to respond to market conditions. For example, 'fly-in, fly-out' practices and temporary immigration have been critical to meeting labour demand in some regions.

The number of people long-distance commuting is increasing, although it is still a small proportion of the workforce (2.1 per cent in 2011). Long-distance commuting occurs in many sectors, but there has been a significant increase in the resource sector, in part reflecting growth in the sector.

The number of temporary work visa applications granted has trended upwards over the past decade. Working holiday visas are particularly important for seasonal work, such as in agriculture and tourism and 457 visas are used across a wide range of industries to address skills shortages.

The mobility of unemployed people varies

Unemployed people are more likely to change residence than those who are employed or not in the workforce (Figure 3). However, the limited evidence available suggests that mobility declines with the duration of time on unemployment benefits and that the mobility of discouraged workers is also relatively low.

Despite adjustment, there is room for improvement

The Commission's work leads to the broad conclusion that geographic labour mobility has been an important mechanism for adjusting to the demographic, structural and technological forces shaping the Australian economy. Employers are using a range of labour sources in order to find the skills they require and are sourcing workers from a much wider geography than in the past.

Yet, there are some areas of ongoing skills shortages, in certain occupations in regional and remote areas, while at the same time there remain regions of high unemployment. >

Figure 2: Interstate migration in Australia, 2011-12

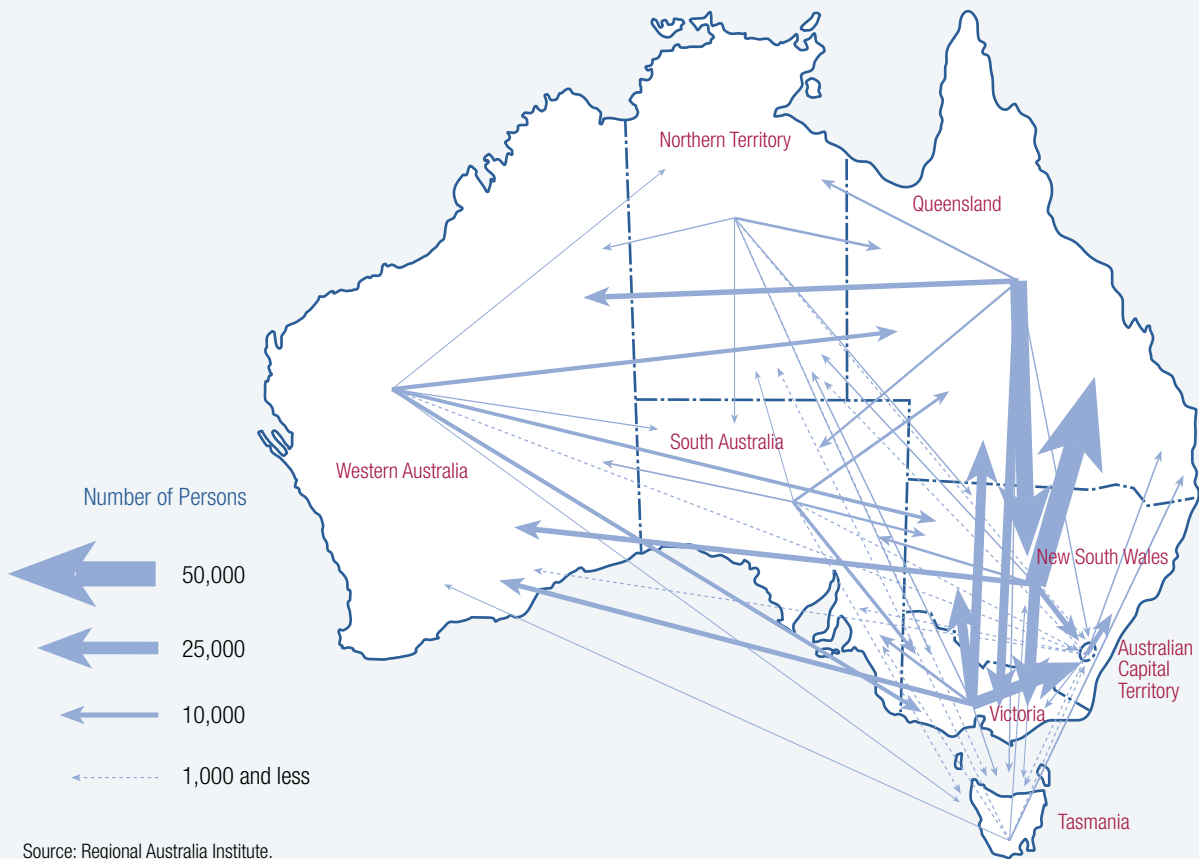
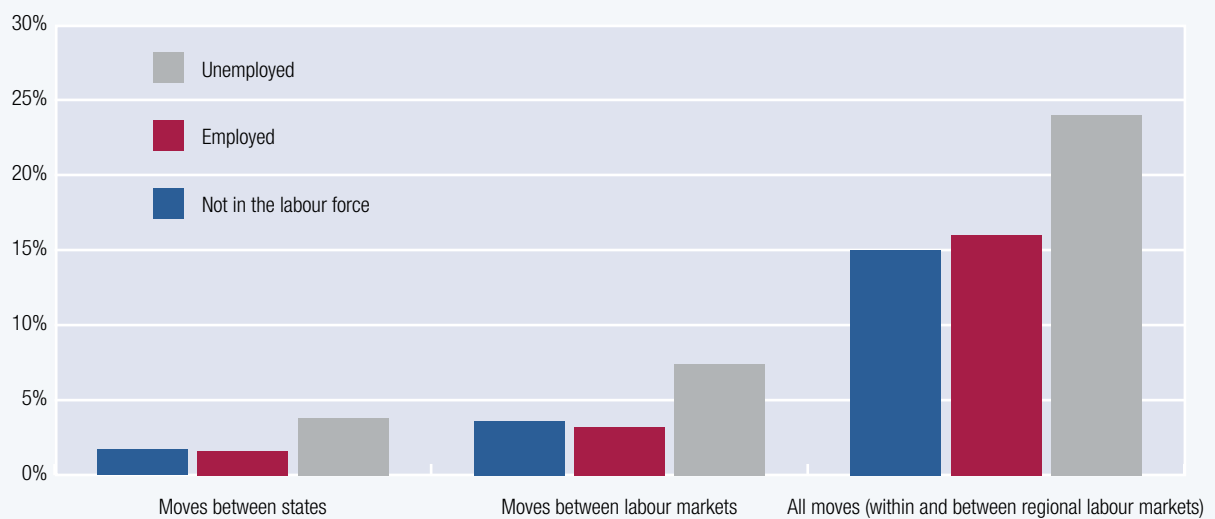


Figure 3: Residential mobility by labour force status and scale of move

Census 2011

Proportion who moved in past year

Source: Productivity Commission estimates using ABS (*Tablebuilder Pro*, 2011, Cat. no. 2073.0).

Geographic labour mobility can have positive and negative impacts on individuals and communities. For example, geographic labour mobility can lead to greater job opportunities as a result of increasing demand for workers in service industries in growing regions. On the other hand, population growth can be accompanied by increased traffic congestion and reduced housing affordability. Managing these impacts is sometimes the purview of employers and, at other times, the government. In particular, local governments should have the capacity and capability to manage the effects of population change in their areas.

Many of the policies designed to influence mobility have had limited effectiveness. A key finding in the report is that the main impediments to geographic labour mobility relate to personal factors, and in particular family circumstances.

Geographic labour mobility is also affected by broader policies. Reforming poorly designed policies in areas such as taxation, housing and occupational licensing, would lessen impediments to geographic labour mobility, and also have broader benefits.

Geographic labour mobility: Summary of the Commission's draft recommendations

Structural adjustment programs

Governments should ensure structural adjustment programs are properly evaluated including how they promote or hinder geographic labour mobility. This should apply to the programs announced by the Australian and Victorian Governments in response to the Ford closure in Victoria.

Housing

State and territory governments should remove or significantly reduce housing related stamp duties, and increase reliance on more efficient taxes, such as broad based land taxes.

State and territory governments should ensure there is a responsive housing supply through efficient planning and flexible land release.

The Australian Government should review the level, indexation and eligibility for Commonwealth Rent Assistance to assist the mobility of low income workers in rental accommodation.

National occupational licensing

COAG should take remedial action now to ensure national occupational licensing reforms commence in 2014 and that the reforms' governance structure and reform processes are streamlined and simplified¹.

Employment services

The Australian Government's review of employment services should examine barriers within the jobs services system to the geographic mobility of unemployed people.

Job service providers should be encouraged to work directly with employers to identify new opportunities for job seekers, including opportunities outside their immediate labour market region where relevant.

Managing the potential impacts of geographic labour mobility

State governments should ensure that local governments have the capacity and capability to manage the effects of population change in their areas.

Early local consultation should be emphasised as part of state government planning and approval processes.

State government imposed restrictions on local governments' capacity to raise own-source revenue should be reviewed.

1. In December 2013, COAG decided not to pursue the national occupational licensing reforms and to disestablish the National Occupational Licensing Authority. The states will work through the Council for the Australian Federation to develop alternative options to national licensing.

Geographic Labour Mobility

> Draft Report

> Released November 2013

How effectively do regulators engage with small business?

The Commission has found no evidence of major systemic problems with regulator engagement, but there is significant scope to improve regulatory interactions with low risk small businesses.



The Productivity Commission has recently released its final report *Regulator Engagement with Small Business*, benchmarking the way regulators engage with Australia's small businesses.

While the Commission has focused on regulator engagement with small business, generally the Commission's recommendations have the potential to improve engagement with all businesses and improve overall regulatory outcomes for the community.

Over 95 per cent of Australia's businesses are 'small', with the majority of these employing no staff. Small businesses operate in all sectors of economy, but are particularly prevalent in construction, professional and technical services, rental and real estate services, and agriculture.

Through its small business roundtables, visits and submission processes, the Commission received no evidence from small businesses of major systemic problems with the approach of regulators. However, a number of businesses did report some costly and unacceptable

regulatory experiences. The Commission considers that there is significant scope for improvement in the practices of most regulators and many of the shortcomings could be readily addressed through implementation of the leading engagement practices identified in the report.

Engagement posture is important

The actual burden of regulation on small business can depend critically on the posture adopted by regulators. Some regulators adopt a more facilitative posture – assisting businesses to comply with their regulatory obligations – while others tend to view their role as being more of a strict enforcer of regulations. The engagement posture adopted by regulators reflects the underlying 'culture' of the regulator – the values, beliefs and attitudes of the organisation.

Why engagement is important

There are over 1000 regulators across all three levels of government in Australia. These regulators 'engage' with small business in carrying out various functions: from licensing and accreditation to monitoring and enforcing compliance with regulations. The way regulations are implemented and 'delivered' by regulators is often as important an influence on small business compliance costs as the content of the regulations themselves.

Small businesses feel the cumulative effects of compliance burden more strongly than other businesses. Almost universally, their lack of staff, time and resources present challenges in understanding and fulfilling compliance obligations. The nature of small businesses and the constraints they face also create challenges for regulators.

Where regulators view their role as assisting business to comply with their regulatory obligations, better regulatory outcomes are likely to result – higher rates of compliance, lower compliance costs for business and an increase in overall community welfare.

Leadership is vital in ensuring the right regulatory culture exists within an agency and most importantly that it permeates through the organisation. Too often it seems that those at the top recognise good practices but there is insufficient awareness, understanding or commitment to these practices by officers 'on the ground'.

The Commission found there is generally scope for regulators to be more responsive to small businesses in their communications. In particular, greater use of industry associations to disseminate information and tailoring information requirements around data already collected by businesses would be likely to improve small business experiences with regulators. It is often inconvenient or daunting for small business owners to contact regulators directly, and many prefer to receive compliance information from industry associations or other businesses.

Small businesses typically do not have time to understand long and complex compliance documents, preferring instead to be told 'what to do' in order to comply. The Commission found that regulators almost universally use their websites to communicate compliance information, but the level of clarity and brevity varies significantly.

While small businesses generally want to comply with their regulatory obligations and are happy to see rogue businesses 'weeded out' of the industry, regulators'

responses need to be proportionate to non-compliance. The Commission found that some regulators have insufficient regulatory tools (such as warning notices and enforceable undertakings) to proportionately respond to regulatory breaches and may appear to small businesses as being either 'too hard' or 'too soft' in their enforcement approaches.

There is scope for more effective risk based approaches

Responses to the Commission's survey of regulators found that 70 per cent of regulators consider that they do, to some extent, adopt a risk based approach to compliance and enforcement. Typically, this entails regulators focussing more of their resources on securing compliance from businesses which pose the largest risks to regulatory outcomes and the community. Such an approach can reduce costs for lower risk small businesses.

However, the adoption of a risk based approach is less prevalent among smaller regulators, and the degree of sophistication and consistency in the risk frameworks used varies significantly. There is considerable scope to implement more effective risk based approaches – in particular, the Commission found that of those regulators using a risk based approach:

- over half did not make the details of this approach available to business
- 85 per cent did not monitor the costs imposed on businesses – an important aspect of ensuring compliance costs are proportionate to the risks a business poses
- 55 per cent did not give enforcement officers discretion in choosing the severity of sanctions used following a compliance breach. >

Regulator engagement with small business

Summary of the Commission's recommendations^a

Before engagement: regulation design and resourcing

- Government agreed regulatory impact analysis principles should be applied, including evaluation of the likely impacts of proposed regulations and the regulator's implementation approach on small business.
- Governments must ensure that where regulators have insufficient resourcing, guidance on priorities is given.

Regulator culture

- Governments must ensure that appropriate transparency, accountability and capacity building mechanisms are in place to foster a regulatory culture that embraces continuous improvement.

Helping small businesses manage compliance

- Where possible, regulators should set outcome based regulatory requirements, but also offer detailed guidance about acceptable solutions.

Better communication

- Information on regulatory requirements should be provided in brief, clear and business friendly formats, using language that is easy to comprehend – including by small businesses that face particular challenges, such as rapid industry or regulatory changes, or those with owners with poor English skills.
- Guidance should be provided through a multi-channel strategy, including printed guidance, websites, seminars, help desks and face to face interaction.

Lowering compliance costs

- Unnecessary complexity in regulatory compliance requirements should be removed where possible.
- Regulators should adopt an educative and facilitative approach towards lower risk businesses.
- Processes for approvals and licences should be as simple and streamlined as possible, including requiring less frequent renewals and having lower information requirements for lower risk activities where appropriate.
- Governments must ensure regulators have access to a sufficient range of enforcement tools.

Timeliness in processes and decisions

- Regulators must commit to target timeframes for key processes, communicate these timeframes to businesses and report on their performance in meeting these targets.

Transparency and accountability in decision making

- Enforcement strategies and key decision making processes should be published and a client service charter provided, detailing what businesses can expect in their interaction with the regulator.
- All decisions must be potentially subject to internal review and appropriate dispute resolution mechanisms made available to businesses.

Improved performance monitoring and reporting

- Governments must require all regulators, including regulatory functions embedded within government departments, to monitor and regularly report on their performance.
- Performance reporting should include measures of effectiveness in achieving outcomes and reducing the compliance burden imposed on business (and small business in particular).

^a A complete list of recommendations is available in the report overview.

Regulator Engagement with Small Business

- > Productivity Commission Research Report
- > Released October 2013

Accessing administrative data to improve policy outcomes

The Commission's latest Annual Report calls for a sustained and concerted effort to improve access to administrative datasets held by Australian governments.

Systematic evidence-based analysis is an essential element of all good policy. It is particularly important for social services as they comprise a significant share of budget outlays. In 2013-14, Australian Government spending on social security, health, and education is expected to total \$233 billion or 58 per cent of total outlays. In 2010-11, expenditure by all Australian governments on health alone was around \$130 billion. Significantly, the costs of health and aged care are expected to rise sharply as Australia's population ages and advances in medical treatments continue.

A rich vein of information is held by governments in the form of 'administrative data' collected for regulatory requirements (for example, vehicle registrations and taxation declarations), program administration (for example, Centrelink and Medicare payments, educational enrolments and completions, and hospital admissions) or as a byproduct of transactions (for example, fines and fees).

Administrative data is sometimes used to detect fraud or over-claiming, reducing waste and reinforcing public confidence in a program's integrity. But what of the costs if the programs themselves are administered well but designed poorly? Policy analysis using these data could identify programs that do not work and where and how enhancements could be made to programs that do.

What could be done with greater access to data?

We could better understand disadvantage

Access to administrative data could improve understanding of the paths into, through, and out of, disadvantage. For example, using administrative data, researchers could obtain evidence about people's use of income support across the lifecycle, the duration of support, and parental benefit history. By linking data on other factors – such as location, educational attainment, mental health, hospitalisations and incarceration – it would be possible to analyse the pathways for individuals and families with characteristics that make them vulnerable to persistent or intergenerational disadvantage. Without this information, policy must rely on partial analyses and intuition.



We could connect more dots in health

Australia has population-based data on Medicare services, dispensing of subsidised pharmaceuticals, emergency department presentations, hospital admissions, aged care and deaths. Linked, these data have huge potential for policy-relevant research. For example, access to real-time prescription and birth data could have detected the connection between the morning sickness drug thalidomide and thousands of birth defects much earlier. And access to administrative data was pivotal in research establishing that a maternal diet rich in folic acid can prevent spina bifida in babies.

Greater linking of health and non-health data sets could save lives and deliver more efficient and better targeted services. Current privacy guidelines allow disclosure of MBS and PBS information for medical research, but not statistical research. Protecting confidentiality is warranted, but the current approach is too cautious and complex. >

We could analyse the interactions between welfare and work

Pathways between welfare and work are complex. Effective marginal tax rates may create 'poverty traps' for those moving from welfare to work, and factors such as minimum wage levels, educational attainment, skills, location and labour mobility may also affect welfare to work transitions. There is also debate about how the level of income support affects incentives to seek work. Recent independent research into that question was constrained by insufficient access to administrative data. And the OECD has drawn attention to a failure to provide data or conduct external evaluations of Job Services Australia (formerly the Job Network), describing Australia 'as secretive, relative to other countries'.

Sometimes government departments draw on administrative data but keep the evaluations in-house, and sometimes they will use outside researchers. But such arrangements, while positive, are not broad enough, and tend to be driven by the needs of government agencies, rather than releasing data *per se* for wider evaluation and analysis.

Why isn't more happening?

Australia lacks a culture of information sharing and proactive data release. The main barriers to changing this culture appear to be: protection of privacy; the resources needed to ensure that data are of sufficient quality for policy evaluation; and concerns by governments about unfavourable findings on policy effectiveness.

The Australian Government has made statements recognising the benefits from better use of administrative data and has introduced strategies and integration initiatives with new administrative architecture. This is positive, but it has not yet been matched by open access to data for independent policy research.

There is a lack of durable commitment by the Australian Government and most state and territory governments to make better use of data. Political will is required at the highest levels to persevere with a concerted strategy based on the principle that open access to de-identified information should be a default position. International practices, and over thirty years of experience in Western Australia, suggest that the capabilities necessary to achieve a more open data culture could be developed by all Australian governments.

Western Australia leads the way

At the state level, Western Australia (WA) has been a leader in making state-based administrative data available. WA has significant data linkage capability and has periodically been able to access and link to Commonwealth data (typically for medical research).

Western Australia's Data Linkage System is seen by international peers as a leader in the field. Over 700 studies have drawn on the linked data in areas including health and aged care, development pathways for children, family connections, Indigenous identification, and road safety.

Progress in other Australian jurisdictions has been patchy. The Centre for Health Record Linkage, established in 2006, enables access to health data in New South Wales and the ACT. It is one of the largest linked, health-related databases in Australia. Queensland has recently made some databases available online and some other jurisdictions are making progress.

The Australian Government is in the early stages of developing a big data strategy to enhance cross-agency data analytic capability to improve policy and service delivery. Drawing on the data linkage experience of WA, the Population Health Research Network (PHRN) is an Australian Government initiative to build a nationwide data linkage infrastructure and enhance the way health and health-related data are made available to approved researchers. The Statistical Data Integration Involving Commonwealth Data (SDIICD) initiative was established in 2009 to facilitate linkage of social, economic and environmental data for statistical and research purposes.

While these institutional arrangements could facilitate data linkage and access for research, it is important that they do not become too onerous and 'chill', rather than encourage, collaboration.

Can valuing environmental effects improve government policy decisions?

A new Productivity Commission Staff Working Paper provides an up-to-date guide to valuing environmental outcomes. The paper concludes that non-market assessments can, if handled effectively, make a valuable contribution to policy and project assessment.



Government decisions about the environment involve trade-offs between environmental outcomes and other things that benefit the community. For example, investing in environmental improvements (such as cleaner rivers) takes resources that could have been used for other desirable purposes (such as funding for schools or hospitals). Similarly, allowing the use of an environmental asset (such as logging of a native forest) could put pressure on the habitat of a threatened species, but provide benefits (such as timber to build houses).

How such policy trade-offs should be made is a matter of considerable debate. Some stakeholders favour prioritising environmental outcomes above other considerations, while others argue that jobs and economic development should come first. The former approach effectively assigns an infinite value to environmental outcomes, while the latter assigns a value of zero.

Valuing environmental outcomes in these types of situation, while difficult and sometimes contentious, may assist with making trade-offs in a more considered way. Dollar values are used, not to 'commodify nature', but rather to help decide whether having more of one good thing is preferable to having more of some other good thing in situations where a choice must be made.

Over the last few decades several 'non-market' valuation methods have been developed for this purpose, but to date they have not been widely used for policy analysis in Australia. A new Productivity Commission Staff Working Paper, *'Environmental Policy Analysis: A Guide to Non-market Valuation'* examines the potential for these methods to contribute to policy decisions that better reflect community preferences. The paper also offers suggestions on how best use can be made of non-market valuation in developing environmental policy.

The validity of non-market valuation methods

There are two main types of non-market valuation methods: revealed preference and stated preference. In addition, benefit transfer can be used to apply existing value estimates to new contexts.

Revealed preference methods use observations of purchasing decisions and other behaviour to estimate non-market values. For example, the hedonic pricing method attempts to isolate the influence of non-market attributes (like proximity to parks) on the price of >

goods (such as houses). The validity (or potential accuracy) of these methods is widely accepted, but there are many circumstances where they cannot provide the estimates needed for environmental policy analysis. For example, they cannot be used to estimate so called 'non-use' values (such as the value people derive from the existence of a species or ecosystem).

In principle, stated preference methods (including contingent valuation and choice modelling) could be used to estimate virtually all types of values, but their validity is more contentious. These survey-based methods typically impute values by asking people to make choices between policy options, in which better environmental outcomes are associated with higher costs (such as higher taxes).

The available evidence suggests that stated preference methods are able to provide valid estimates for use in environmental policy analysis. However

- there are many elements that practitioners need to get right to produce meaningful results (for example, participants should be made to feel that their responses could influence outcomes that they care about, and clear information about the environmental outcomes that people are being asked to value should be provided)

Stated preference methods have been contentious

Ever since contingent valuation was used to estimate damages from the Exxon Valdez oil spill in Alaska in the early 1990s, there has been a lively and sometimes heated debate about the validity of stated preference methods. In Australia, an estimate of the environmental cost of proposed mining near Kakadu National Park also proved contentious in the early 1990s.

However, the methods have been refined over time, the theory behind them has developed and more evidence about their validity has accumulated. This led one group of analysts to argue:

Those who formulated their beliefs about contingent valuation two decades ago, whether positive or negative, should update their beliefs based on the research agenda that has unfolded.

Source: Kling, Phaneuf and Zhao 2012, 'From Exxon to BP: Has some number become better than no number?', *Journal of Economic Perspectives*, vol. 26, no. 4, pp. 3–26.



- value estimates are likely to be less reliable when respondents are asked about environmental assets that are especially complex or relatively unfamiliar to them.

Benefit transfer is likely to be very imprecise (and possibly misleading) unless the primary studies are of high quality and relate to similar environmental and policy contexts.

What role should non-market valuation play?

The authors of the Staff Working Paper argue that because non market valuation methods can generally provide objective estimates of the value that the community places on environmental outcomes, they offer advantages over other approaches (such as multi-criteria analysis) to factoring these outcomes into policy analysis.

The case for using non-market valuation varies according to circumstances. It is likely to be strongest where the financial or environmental stakes are high and there is potential for environmental outcomes to influence policy decisions.

Where non-market valuation estimates are made they should generally be included in a cost–benefit analysis. Sensitivity analysis should be provided, as well as descriptive information about the environmental outcomes of the proposed policy.

There is a range of steps that could be taken to realise more fully the potential of non-market valuation, including developing greater knowledge about it within relevant government agencies.

Environmental Policy Analysis: A Guide to Non-Market Valuation

- > Baker, R, and Ruting, B.
- > Staff Working Paper
- > Released January 2014

Productivity in manufacturing

A new Staff Working Paper examines recent productivity performance of manufacturing in Australia, including the key drivers of the decline between the last two productivity cycles.

Manufacturing has been one of the main contributors to the recent decline in multifactor productivity (MFP) growth in the market sector of the Australian economy. A Staff Working Paper, 'Productivity in Manufacturing: Measurement and Interpretation', unpacks the key drivers of the sharp decline in Manufacturing MFP growth between the last two productivity cycles. Average annual MFP growth fell 1.4 per cent a year over the last complete productivity cycle (2003-04 to 2007-08) following growth of 1.3 per cent a year over the previous cycle (1998-99 to 2003-04).

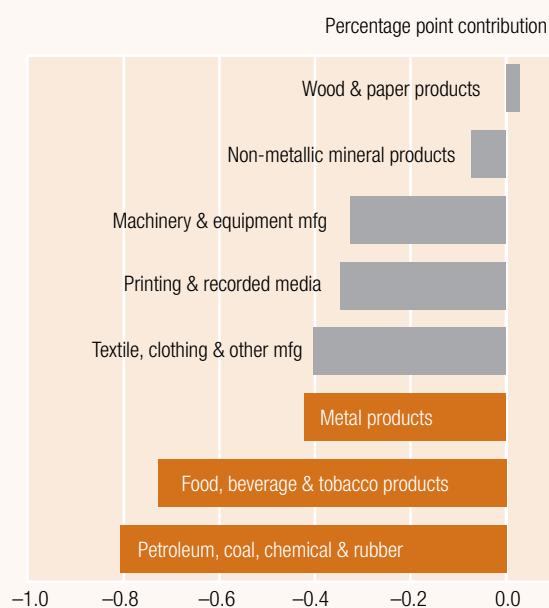
While the majority of Manufacturing subsectors contributed to the decline in MFP growth, three subsectors: Petroleum, coal, chemical and rubber products; Food, beverage and tobacco products; and Metal products, collectively accounted for two-thirds of this decline.

The new Staff Working Paper examines in closer detail the proximate causes (in terms of output, and capital and labour inputs) for the decline in these subsectors.

The Australian Manufacturing sector is relatively diverse. Similarly the underlying influences driving productivity performance are varied across Manufacturing. In the key subsectors examined in the paper, some of these underlying influences include:

- lags between new investment in capital, to expand capacity to meet increased demand, and the output from that investment – for example, in chemical production and alumina refining
- additional investment in petroleum refining to meet new environmental standards – with the resulting improvements in fuel quality not being fully reflected in the measures of output and productivity
- consumer preferences driving changes in the mix of output from food and beverage manufacturing – for example, growth in smaller-scale bakeries that use more labour-intensive processes
- reduced utilisation of some production capacity, in response to factors such as the appreciation of the Australian dollar and changing competitive conditions – for example, in plastics and some food and beverage products.

Contribution to the decline in Manufacturing MFP growth between the last two productivity cycles^a



^a Last complete productivity cycle was 2003-04 to 2007-08, and the previous productivity cycle was 1998-99 to 2003-04.

Data source: Barnes, P., Soames, L., Li, C., and Munoz, M. 2013, *Productivity in Manufacturing: Measurement and Interpretations*, Productivity Commission Staff Working Paper

The decline in Manufacturing MFP has continued since the end of the last complete productivity cycle but at a slower rate. Over the period 2007-08 to 2010-11, Textiles, clothing and other manufacturing made the largest contribution to the continued decline, followed by Printing and recorded media and Petroleum, coal, chemical and rubber products. Food, beverage and tobacco products and Metal products made much smaller contributions to the decline in Manufacturing MFP than in the last cycle. Notwithstanding possible measurement issues, it appears likely that the significant declines in MFP in these two subsectors over that cycle were atypical.

Productivity in Manufacturing: Measurement and Interpretation

- > Barnes, P., Soames, L., Li, C. and Munoz, M.
- > Productivity Commission Staff Working Paper
- > Released December 2013

Prevalence of transition pathways in Australia

Over time, people change the nature and extent of their engagement with the labour market and the education system. A recent Staff Working Paper uses longitudinal data from the HILDA survey to identify 17 pathways, each with a distinct pattern in individuals' transitions between various labour market and education activities. This information can help inform strategies to reduce the risk of unsuccessful labour market outcomes.

The Australian labour market is adjusting constantly to changes in the national and global economies. The incentives to participate in the labour force and to study change with economic circumstances and life cycle factors. As circumstances change, some workers change their hours of work, others change jobs, while others cease work for various lengths of time; some search for a job, others leave the labour force. To improve their prospects, some individuals undertake some education. Others exhibit stable employment with no change in their labour market status over long periods of time.

Labour statistics typically measure participation, employment and unemployment rates for the working age population or for particular subgroups at a point in time or for a defined period. The data on engagement in study are defined similarly. Such cross-section data reveal little about labour market or educational engagement transitions over time. Longitudinal data are required to analyse transitions between – and persistence in – various education/labour market activities.

Much of the literature on transitions examines changes from one activity to another (such as study to employment, or employment to retirement). Over time, individuals can experience multiple transitions (such as leaving and returning to the labour force or churning in and out of employment) and different patterns can arise with key life events (such as leaving education, family formation or retirement).

In a Commission Staff Working Paper released in August 2013, authors Jane Fry and Clare Boulton use within-year information from the calendar in the *Household, Income and Labour Dynamics in Australia* (HILDA) survey to track monthly activities from 2000 to 2010 for about 6500 working age individuals. The activities comprise: work; study without work; (concurrent) work and study; unemployment without study; and being 'not in the labour force' (NILF) without study.

There are many different patterns of activities. There are variations in what people do, when they start, how long they continue and what they did before and do next. Since activity patterns and their possible implications for policy are likely to vary over the life cycle,

the working-age population was divided into four age segments for analysis according to each person's age in the year 2001: youths (aged 15-24); young adults (aged 25-39); mature adults (aged 40-54); and seniors (aged 55-64).

Within each age segment, individual activity patterns can have similarities in the type of activities undertaken, their ordering, timing and duration. By forming groups of individuals with similar activity patterns, the authors identify 17 pathways of various sizes that describe the broad ways in which individuals move through the labour market and the education system. The pathways are determined using statistical techniques and do not depend on the authors' judgements. Although each pathway contains some variation between the individual sequences of activities, each pathway provides a useful way of characterising and summarising the large amounts of data.

Overview of pathways

The characteristics of the sequences in each pathway identify overall patterns in education and labour market transitions that are used to label each pathway. Some pathways are dominated by education or by work, some mostly by NILF; others show one or several transitions (such as education to work or work to NILF).

Figure 1 summarises the average time spent on each activity by the individuals in each age segment and pathway. Pathways associated with work tend to predominate, except among the senior segment (where individuals tend to retire).

For youths aged 15-24 in 2001, five pathways were identified: three associated with education and transition to work, and one dominated by women's withdrawal from the labour force to raise children. One pathway was associated with work, although that pathway also showed extensive 'churn' as most individuals interspersed other activities with spells of work. Frequent churning into and out of the labour force can lead to tenuous labour force attachment. However, for many individuals, stable employment eventually results.

The activity sequences for young adults aged 25-39 were grouped into four pathways: two paths involved work (one with increasing education) and two were closely associated with women spending prolonged periods outside the labour force raising children (with one pathway showing their subsequent return to work).

Four pathways were identified for mature adults aged 40-54: work dominated one pathway, two others were driven by women spending time outside the labour force as they raised their children (and one of those pathways showed their return to work), and one pathway was associated with early retirement from the labour force.

For seniors aged 55-64, four pathways were identified: one pathway was dominated by work and the other three were associated with retirement or transitions to retirement.

More broadly

Nearly 30 per cent of the working-age sample spent ten years continuously in the same activity. For example, although still of working age, 8 per cent had already retired in 2000.

Another 51 per cent spent most of their time in work; 21 per cent continuously in employment and 30 per cent undertaking other activities some of the time. Other key patterns followed were:

- 7 per cent of individuals had a tenuous attachment to the labour force, churning frequently in and out of the labour force
- 5 per cent moved from education to work
- 4 per cent returned to education and spent long periods studying while working
- 10 per cent spent several years outside the labour force (mostly raising children)
- 7 per cent transitioned to work, having been outside the labour force
- 8 per cent transitioned to retirement.

A better understanding of dynamics

Outcomes in the labour market are related to the pathways that individuals follow and to their characteristics. This type of analysis can be used to identify such relationships to inform strategies to reduce the risks of unsuccessful labour market outcomes, such as prolonged unemployment. >

Focus on youth transitions from 'work and study' to 'work'

Most of the focus in studies of transitions has been on youth transitions to work. Although there is a lot of variation in the *Work and Study to Work* pathway, most youths are making the transition from education to work (figure 2).

In 2001, about 90 per cent of individuals are aged 15-21 and have either attained low to medium education levels (Year 12 or lower) or are still at school. In this pathway 85-90 per cent of youths start off in study only or combine work and study (predominantly those aged 18 or over who have left school having completed Year 12). For those in apprenticeships their area of study relates to their current occupation; but most others work in hospitality, retail or as labourers while studying for a degree.

The 10-15 per cent of youths who are not studying tend to be working. This might be the first job after leaving the education system. Alternatively, they could be on a 'gap year'. About 5 per cent of youths in this pathway are not studying and are unemployed or NILF in 2001.

By 2003, about 90 per cent of individuals are aged 18 or over. The majority – over 80 per cent – combine work and study.

In 2005, members of the group are in their early to mid 20s and the balance between activities shifts from education to work as post school qualifications are completed. For those who have finished their initial study, their jobs are likely to relate to their acquired qualifications.

From 2007, about one quarter of individuals who have been in work for one or two years re-enter the education system and combine work and study. Many of them pursue higher level qualifications for career advancement.

In 2010, the group is aged 24-33 and over 90 per cent of individuals work. Education levels are much higher than in 2001: over half the group has attained at least a Bachelor Degree by this stage. Those who are not working tend to be women raising children.

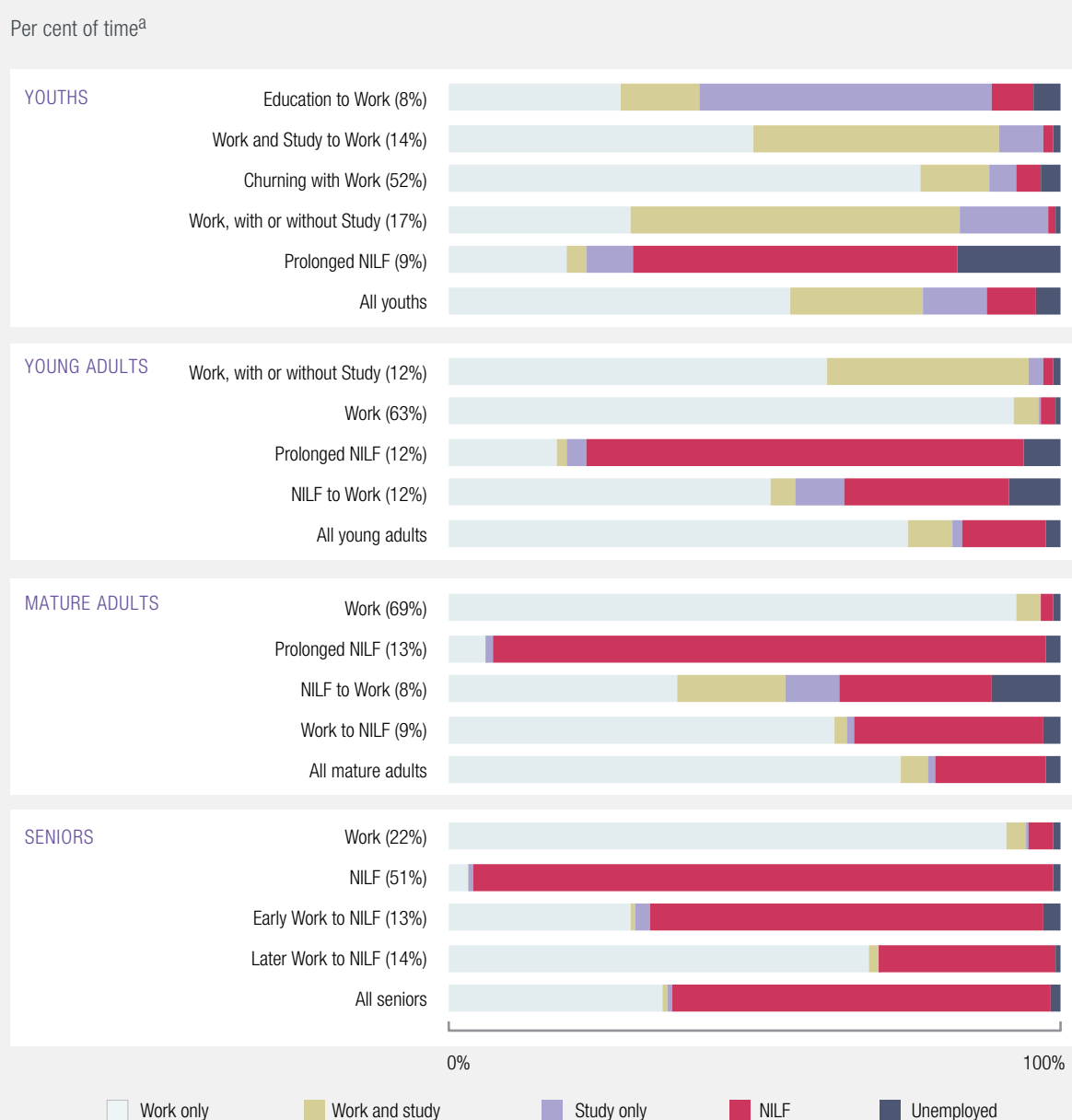
HILDA's education and labour market calendar is a rich source of information. These data have been under-utilised because they are somewhat intractable. The calendar data are extremely valuable for understanding the dynamic processes associated with, for example:

- how youths transition to employment

- how and when workers transition to retirement
- how jobseekers become discouraged.

In highlighting the value of such analysis, and to encourage further use of the calendar data, the Commission has released the programming code required to perform such analyses.

Figure 1: Activities and time allocation, by age segment and pathway

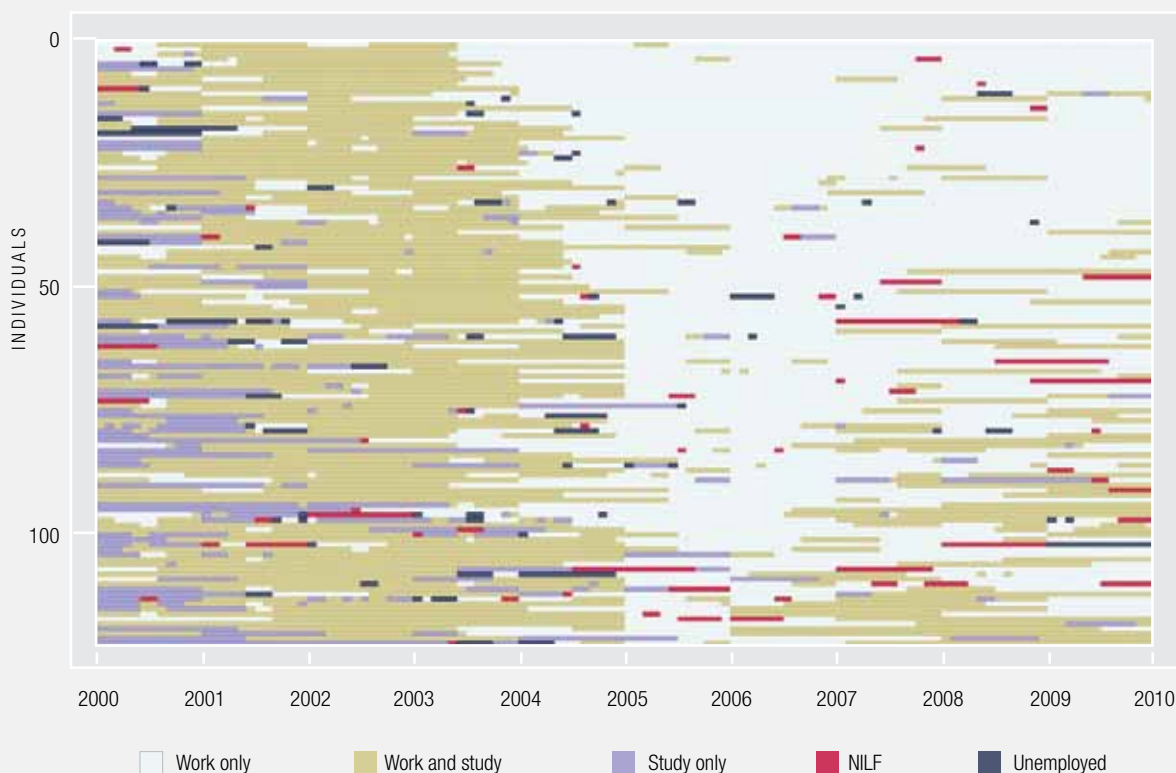


^a The time allocation for each activity represents the percentage of the ten-year period spent in that activity, averaged over individuals in that age segment and pathway. The average time that individuals spent on an activity is not necessarily one continuous stretch and the ordering of activities shown is not related to the underlying patterns in the sequences. Pathway prevalence shown in brackets.

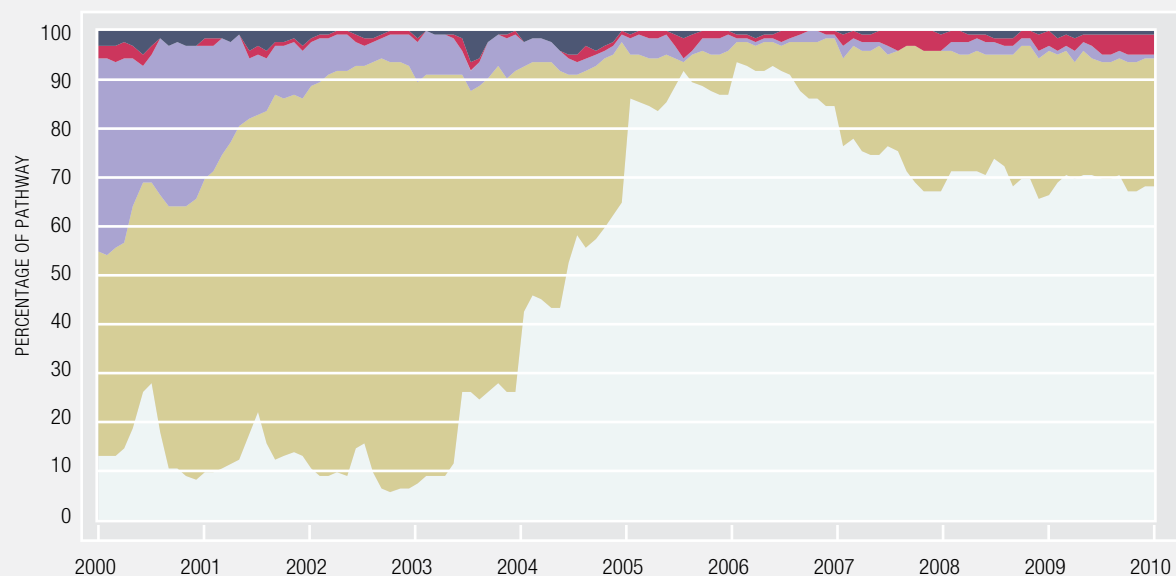
Source: Fry, J. and Boulton, C. 2013, *Prevalence of Transition Pathways in Australia*, Productivity Commission Staff Working Paper.

Figure 2: Activities in the *Work and Study to Work* pathway for youths

(A) Activity sequences by individual



(B) Activities by monthly share



The chart labelled (A) *Activity sequences by individual* shows the data. Individuals are numbered along the vertical axis and time is shown on the horizontal axis. The activity sequence for each individual in the pathway is represented by a horizontal series of coloured markers, with each type of activity represented by a different colour: a change in colour from one period to the next represents a transition to another activity. Individual sequences are ordered according to their similarity to the most common sequence for the age segment, with those most similar along the top of the plot. The chart labelled (B) *Activities by monthly share* shows the share of individuals undertaking each activity each month (in essence, a time series of activity participation rates). It does not provide any information on activity duration.

Source: Fry, J. and Boulton, C. 2013, *Prevalence of Transition Pathways in Australia*, Productivity Commission Staff Working Paper.

Prevalence of Transition Pathways in Australia

> Fry, J. and Boulton, C.

> Productivity Commission Staff Working Paper

> Released August 2013

Report on Government Services 2014

The 2014 Report on Government Services contains comparative data on the equity, efficiency and effectiveness of government services in Australia.

The Report on Government Services (RoGS) is produced annually by a Steering Committee of senior officials from Australian, State and Territory governments for the Council of Australian Governments (COAG). The Steering Committee is chaired by Peter Harris, Chairman of the Productivity Commission.

The Report promotes awareness about the performance of government services, and helps drive improvements in design and delivery.

The services covered are particularly important for the more disadvantaged members of society, who benefit from better access to services and improved delivery. There are also economic benefits from improving the efficiency of these services – governments spent around \$184 billion on the services covered in this year's Report, equivalent to around 12.1 per cent of Australia's national income.

The 2014 report is the nineteenth edition of the publication. In a break from previous practice, the report has been released in electronic form only and is available from the Review's website www.pc.gov.au/gsp.

Enhancements on previous editions include reporting various new performance indicators for four of the six broad service sectors – Child care, education and training; Emergency management; Health; and Community services. Development of new indicators also continues in Justice, and major improvements in data comparability are reflected in Housing and homelessness in this edition.

All services included in RoGS affect the community in significant ways. Some services form an important part of the nation's social welfare system (for example, public housing and other community services), some are provided to people with specific needs (for example, aged care and disability services), and others are typically used by each person in the community at some stage during their life (for example, education and training, health services, police services and emergency services).

Services covered in the 2014 Report on Government Services

Child care, education and training

- Early childhood education and care
- School education
- Vocational education and training

Justice

- Police services
- Courts
- Corrective services

Emergency management

- Fire and ambulance services

Health

- Public hospitals
- Primary and community health
- Mental health management

Community services

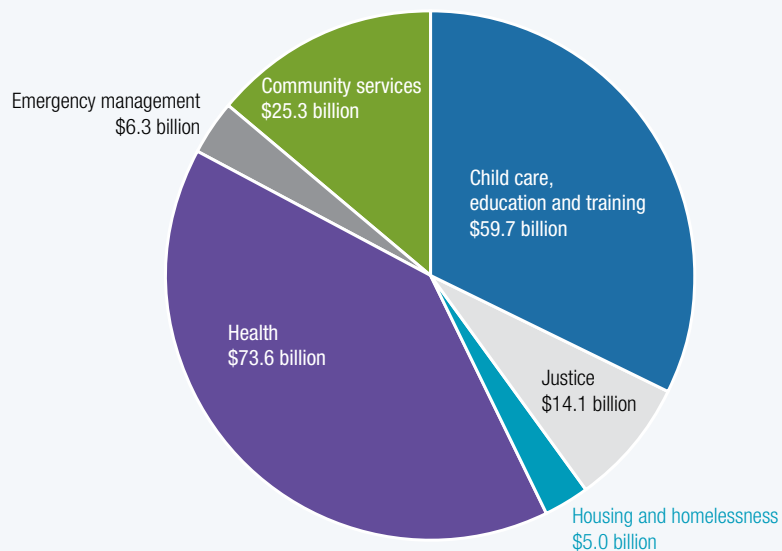
- Aged care services
- Services for people with disability
- Child protection services
- Youth justice services

Housing and homelessness

- Housing
- Homelessness services

The current focus of RoGS is on social services, such as child care, education and training, health, justice, emergency management, community services, and housing and homelessness, which aim to improve the wellbeing of people and communities by supporting people's ability to participate in social and economic activities. RoGS also aims to present information on the performance of services provided to the following special needs groups: Indigenous Australians, people living in communities outside the capital cities; and people from culturally and linguistically diverse backgrounds. However, the Steering Committee notes the paucity of data on outcomes for these groups in some service areas.

Estimated government recurrent expenditure on services covered by the 2014 Report on Government Services



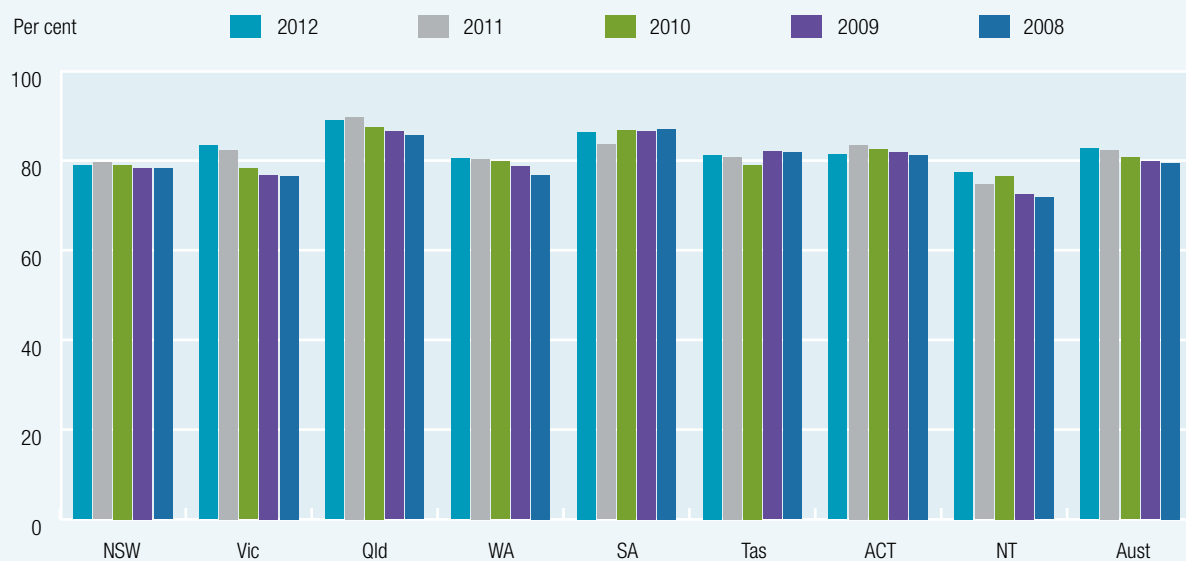
Data sources and caveats: see *Report on Government Services 2014*, figure 1.1.

Report on Government Services 2014 – selected indicators

Vocational education and training

Load pass rate, all students

An indicator of government's objective for students to achieve success in VET

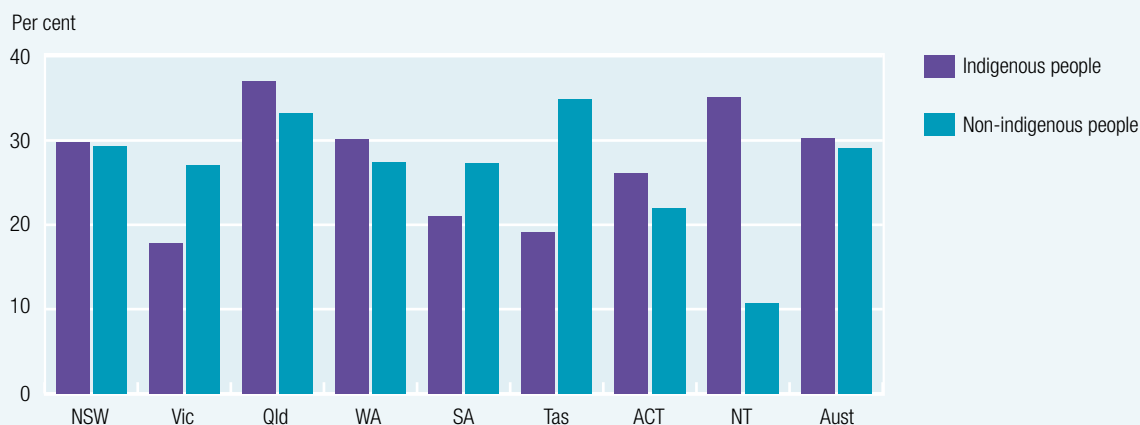


Note: Data are for government funded hours.

Health

Older people who received an annual health assessment by Indigenous status, 2012-13

An indicator of governments' objective to provide equitable access to primary and community healthcare services for Indigenous Australians

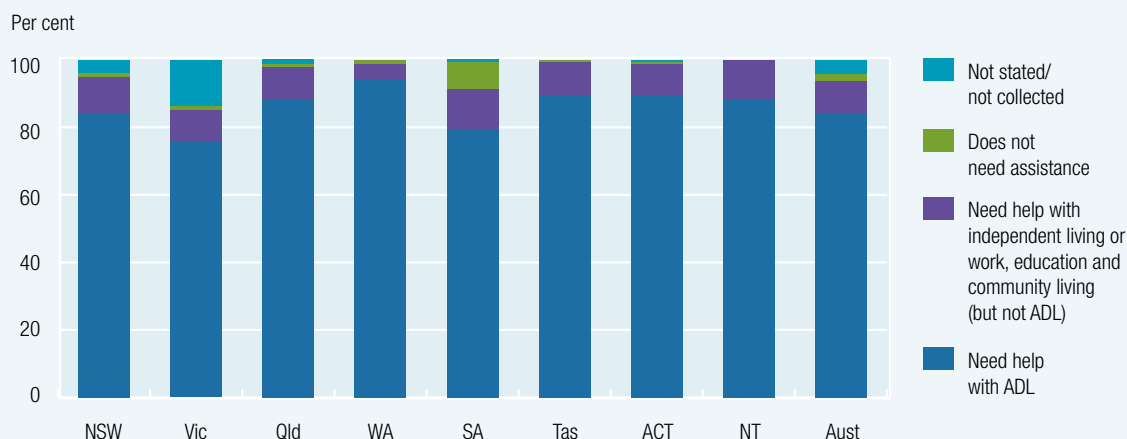


Note: Older people are defined as Indigenous Australians aged 55 years or over and non-Indigenous Australians aged 75 years or over.

Community services

Users of specialist disability services by need for help with Activities of Daily Living, accommodation support, 2011-12

An indicator of government's objective to use available resources to provide services to people on the basis of relative need, where need for services is assumed to vary according to the need for help with the Activities of Daily Living



Note: Need for help with Activities of Daily Living relates to the level of support needed in self care, mobility and communication. It does not necessarily relate to the level of support needed to find or maintain employment or with other activities.

Data sources and caveats for these charts are available from the website for the Review of Government Service Provision.

The Report on Government Services 2014 is available from the Review's website www.pc.gov.au/gsp. Fact sheets, providing information on the performance indicator framework from each of the service areas, are also available from the website.

Report on Government Services 2014

- > Released January 2014
- > Contact: Lawrence McDonald 03 9653 2178
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Safeguards inquiries into the import of processed fruit and tomato products

The Commission found no case for the implementation of temporary 'safeguard' measures to protect the processed fruit and tomato industries from injury caused by increased imports.

Over the past decade, the Australian processed fruit and vegetable industry has undergone substantial change. Several large manufacturers have consolidated or closed processing facilities, and production profitability and sales levels have fallen for remaining producers. In June 2013 the Australian Government asked the Productivity Commission to undertake inquiries into whether 'safeguard' measures to protect Australian producers against imported processed fruit and tomato products were warranted.

Processed fruit products

The Commission found that although the domestic processed fruit products industry is suffering serious injury, this has not been caused by a surge in import volumes. There was no compelling evidence of increasing price pressure from imported products. Injury to domestic production has been caused by other factors, including:

- decreasing domestic demand for processed fruit
- reduced export volumes
- rising costs of production.

Domestic competitive pressures in the retail sector, have also played an important role:

- the emergence of 'premium' supermarket private label products, which directly compete with branded products
- the use of imports to improve reliability of supply for supermarkets in the face of adverse domestic weather events – in this context, an increase in imports is not a cause of injury to the domestic industry, but a response to factors affecting the industry.

Processed tomato products

Similarly, the Commission found that although the processed tomato products industry faced serious injury, a sudden, sharp or significant increase in imports was not the cause. Reductions in domestic production were the result of several other factors:

- increased supermarket price competition
- appreciation of the Australian dollar
- flooding in tomato growing areas in 2010-11
- decreased exports.

What is a safeguard action?

Under the terms of the WTO Agreement on Safeguards, a member country may invoke temporary safeguard action when an increase in imports causes or threatens to cause serious injury to a domestic industry. Safeguard measures can take the form of an increased tariff, a tariff-quota or quota.

Under WTO rules, safeguard measures can only be applied if:

- imports have increased in absolute terms or relative to domestic production
- the increase in imports is the result of unexpected and unforeseen developments and is 'recent, sharp, sudden and significant'
- the industry must be suffering serious injury
- when factors other than increased imports are causing injury, such injury is not attributed to increased imports.

Safeguards Inquiry into the Import of Processed Fruit Products

- > Final Inquiry Report
- > Released December 2013

Safeguards Inquiry into the Import of Processed Tomato Products

- > Final Inquiry Report
- > Released December 2013

Current commissioned projects

24 February 2014

Access to Justice Arrangements – Public Inquiry	
Issues paper September 2013 Draft report April 2014 Final report September 2014	Contact: Alan Raine 02 6240 3304 Email: access.justice@pc.gov.au www.pc.gov.au/projects/inquiry/access-justice
Australia's Automotive Manufacturing Industry – Public Inquiry	
Issues paper November 2013 Preliminary findings report December 2013 Position paper January 2014 Final report March 2014	Contact: Paul Loke 03 9653 2316 Email: automotive@pc.gov.au www.pc.gov.au/projects/inquiry/automotive
Childcare and Early Childhood Learning – Public Inquiry	
Issues paper December 2013 Draft report July 2014 Final report October 2014	Contact: Troy Podbury 02 6240 3257 Email: childcare@pc.gov.au www.pc.gov.au/projects/inquiry/childcare
Geographic Labour Mobility – Commissioned Study	
Issues paper July 2013 Draft report December 2013 Final report May 2014	Contact: Anthea Long 03 9653 2162 Email: labour.mobility@pc.gov.au www.pc.gov.au/projects/study/labour-mobility
Public Infrastructure – Public Inquiry	
Issues paper November 2013 Draft report March 2014 Final report May 2014	Contact: Greg Murtough 03 9653 2163 Email: infrastructure@pc.gov.au www.pc.gov.au/projects/inquiry/infrastructure
Tasmanian Shipping and Freight – Public Inquiry	
Draft report January 2014 Final report March 2014	Contact: Stewart Plain 02 6240 3219 Email: tasmanian.shipping@pc.gov.au www.pc.gov.au/projects/inquiry/tasmanian-shipping

Log on to the Commission's website www.pc.gov.au for full details of all current projects.