



PC update

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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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Human capital: what is it and why is it important?

Human capital development is increasingly recognized as a key driver of productivity growth. Some recent Commission publications, including a speech by Commission Chairman Gary Banks, have examined aspects of human capital development in Australia and its reform significance.

In 2006 the Council of Australian Governments (COAG) adopted a new National Reform Agenda (NRA), which aims to raise overall productivity growth and workforce participation and productivity, in order to sustain Australia's economic prosperity over the long term. A major element of the NRA is the human capital reform agenda, designed to improve health and education outcomes, and encourage and support increased workforce participation among key groups.

While human capital development yields benefits to the economy – it is also of considerable benefit to the individuals concerned. Improved skill levels and health outcomes enhance people's ability to participate in all aspects of society. To the extent that human capital development raises higher productivity, it means individuals are likely to have higher incomes, more interesting jobs and less vulnerability to unemployment.

In the Fourth Ian Little Memorial Lecture presented in Melbourne in April this year, Productivity Commission Chairman Gary Banks reviewed recent developments in the education component of the human capital reform agenda under COAG, and discussed priorities for further reform. As well, two new Productivity Commission research papers have explored important aspects of human capital development: one examines the effects of health and education on wages and productivity; the other investigates factors influencing the work choices of married women.

Improving school education

In his Ian Little Lecture, Gary Banks observed: 'At its core, human capital is a pretty simple concept. It relates to the bundle of attributes that determine how productive people are in their workplaces and in society. Higher levels of human capital, whether measured directly by skills or indirectly by educational attainment, are strongly associated with higher levels of productivity and workforce participation.'

The accumulation of human capital, like physical capital, requires investment of both resources and time. It occurs from an early age. Some of it happens naturally as a consequence of experience and observation. But the key drivers are structured or institutionalised environments for formal learning – education and training – and these have naturally become a major concern of public policy.'

Under the NRA human capital agenda, COAG has agreed to a suite of reform programs totalling outlays of



Australia's educational outcomes: a mixed report card

- Australia does well, on *average*, in terms of the *quality* of education, but it does less well than other countries for students with lower socio-economic backgrounds (figure 1).
- There has been a significant rise in educational attainment over the past few decades, but most of this occurred in the decade from 1983 – there has been no real progress since 1993 (figure 2).
- There is evidence that Australia's comparative educational performance is declining for the foundation skills of literacy and mathematics. This appears not to be just a consequence of some other countries doing better, but also of Australia doing worse.
- Over 20 per cent of 20-24 year olds are not fully engaged in education and training or in employment (figure 3).

some \$6-\$8 billion over the next five years. This equates to around 2 per cent of Australia's educational investment. 'It would be a pretty good investment if it indeed generated returns equivalent to over 2 per cent of GDP. The extent to which this can be achieved will depend on the effectiveness of the specific programs adopted and how well they are implemented.' ►

Teachers are crucial to outcomes

Gary Banks identified two areas requiring special attention: the quality of teaching, and governance and regulatory arrangements that influence the profession's performance at the 'coalface' (or blackboard).

'No part of an education system is more vital than its teachers. However, there are disturbing signs that all is not well within the education workforce.'

He gave the following examples:

- There is evidence that the general abilities of people entering teaching have declined significantly – particularly for women.
- There are significant shortages of teachers of mathematics and science, and some 40 per cent of younger teachers in Australia's government schools are teaching courses for which they lack expertise.
- There is a general shortage of teachers in country and remote areas, and declining numbers of men in the profession, especially primary teaching.
- There is a significant 'greying' of the education workforce: around one-half of secondary school teachers and 60 per cent of VET teachers are aged over 45.
- The 'opportunity cost' of becoming a teacher has risen significantly – between 1983 and 2003 the real earnings of teachers fell by 4 per cent for women and 13 per cent for men. And the declines were amplified when measured relative to other professions.

'An absolute priority is understanding how we can best enhance the performance of the education workforce at all levels. Remuneration issues and their complexities deserve closer analysis but there are various other dimensions to



this challenge, including more fundamental questions to do with governance, regulatory frameworks and decision-making on human resource matters, as well as the training of new teachers and upgrading of existing teacher's skills.'

School-based decision making is lacking

'In most schools across Australia, management has little say about who is appointed to their teaching staff and who is promoted or removed. Merit based appointment is demonstrably lacking.

There has been a global move towards providing schools with autonomy to manage their budgets and human resources more effectively. Australia as a whole is defying this trend, being at the most centralised end of the spectrum. The data that are now available on the 'My School' website should help drive change for the better. As things stand, poor school performance is not apparent or acknowledged, and school leaders have little opportunity to respond to poor performance.'

Identifying the most effective policies

In conclusion, Gary Banks emphasised the importance of strengthening the evidence base for policy decisions and reform initiatives going forward.

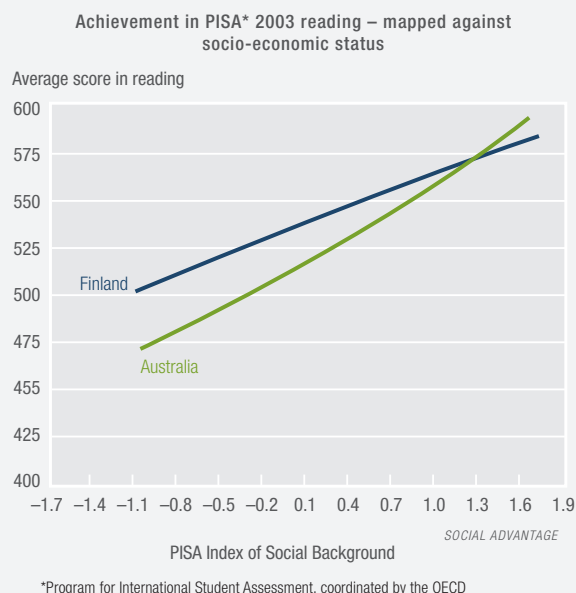
The education and training workforce – new commissioned study

The Productivity Commission has been asked to undertake a study of Australia's education and training workforce. The study will investigate workforce issues affecting the following sectors: VET, schools and early childhood development. The study's initial focus will be on VET, with a report on this sector to be submitted to the Australian Government in April 2011. More information about the study is available on the Commission's website.

'The lack of an evidence-based approach has likely contributed to the observed decline in the measured productivity of our school systems. Arguably the most costly mistake has been to spend scarce budgetary resources on reducing class sizes instead of better teachers.'

‘COAG’s human capital reform agenda has the potential to be transformative. However, in the fiscally constrained aftermath of the GFC, it will be especially important that any new programs can be demonstrated to have a large expected payoff, based on solid analysis and evidence. Better evidence demands both better data and better methodologies. Relative to the United States and Britain, Australia has made little use of longitudinal data, and proper experimental trials in social policy have been rare. Further progress in these areas should be a funding priority in advancing the human capital agenda.’

Figure 1: Australia’s system serves lower socio-economic groups poorly



Modelling the effects of health and education

As noted above, COAG’s human capital reform agenda aims to improve outcomes in three broad areas: health, education and work incentives. A recent Commission Staff Working Paper presents results of modelling the effects of two of these factors – health and education status – on wages and, by implication, labour productivity.

The modelling results confirm that increasing levels of education and reducing the incidence of chronic illness are likely to increase labour ‘productivity’ (as proxied by wages):

- higher levels of education have a large positive effect on wages:
 - men with year 12 education earn around 13 per cent more than those with year 11, and women earn around 10 per cent more

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Figure 3: Many young Australians are still not fully ‘engaged’

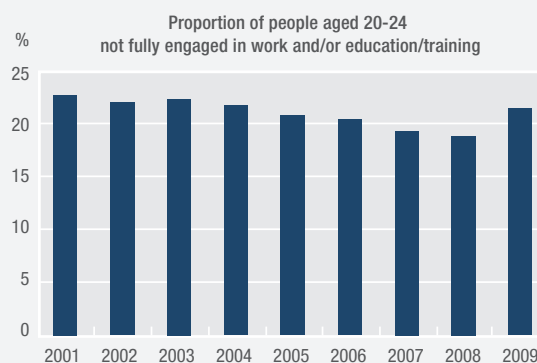
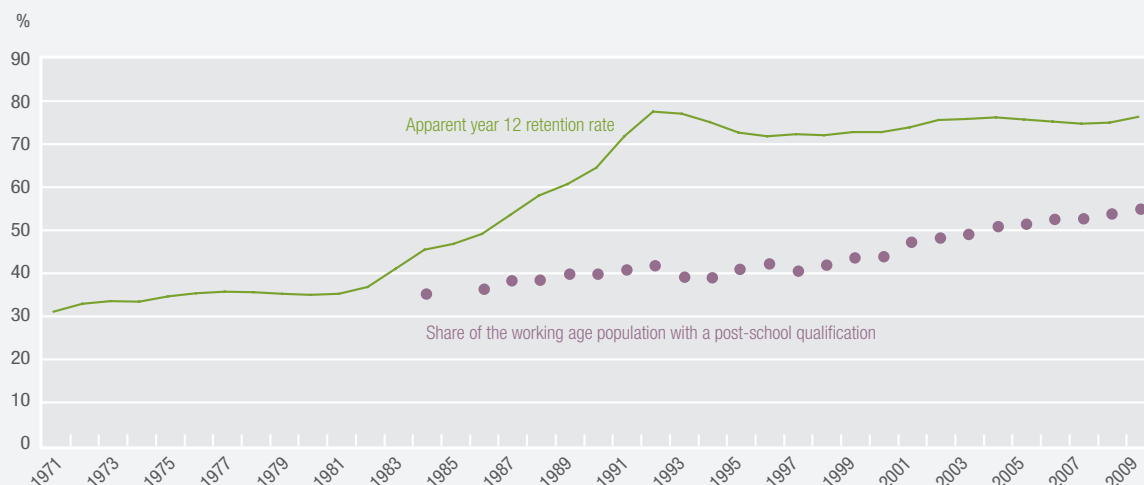


Figure 2: Educational attainment has risen in Australia (mostly in the 1980s)



Contribution of the not-for-profit sector

Regulatory, institutional and funding reforms are required to enhance the effectiveness of the not-for-profit sector.

The Productivity Commission was asked by the Australian Government to assess the contribution of the not-for-profit (NFP) sector and identify impediments to its development. After wide consultation, including in response to a draft report, the Commission's final report was presented to Government in January 2010, and released in February.

There are impediments

The Commission's report identified a number of issues that restrict the sector's ability to improve its efficiency and effectiveness. These include:

- a complex regulatory framework that lacks coherence and sufficient transparency, and imposes unnecessary compliance burdens
- information requirements imposed for funding and evaluation purposes that are poorly designed and unduly burdensome
- lack of consistency and comparability in financial reporting requirements for NFPs
- excessive conditions and compliance requirements in contracting for government-funded services
- increasing workforce pressures, including difficulties in attracting and retaining employees and volunteers.

The Commission proposes a 'one-stop shop' for Commonwealth-based regulation in the form of a Registrar for Community and Charitable Purpose Organisations. An Office for Sector Engagement should also be established to drive reform and policy development at the Commonwealth level.

A way forward

The Commission accordingly found that a range of regulatory, institutional and funding reforms are needed to enhance the effectiveness of the NFP sector and achieve better outcomes for the community.

The report proposed an integrated approach to reform, with five main elements:

- improved knowledge systems that inform program design, build understanding of the NFP sector and

The not-for-profit sector

The NFP sector has grown rapidly over the past decade, and now makes up over 4 per cent of GDP (just under \$43 billion), with nearly 5 million volunteers contributing an additional \$15 billion in unpaid work.

There are around 600 000 NFP organisations. The majority, some 440 000, are small unincorporated organisations (such as neighbourhood tennis, babysitting, or card clubs).

Around 59 000 NFPs are 'economically significant' in the ABS's definition, employing 889 900 staff, equivalent to 8 per cent of total employment.

NFPs operate in a number of market sectors, mostly services such as sports and education, as well as in social or community 'non-market' areas.

The proportion of total NFP funding from governments increased from 30.2 per cent in 1999-2000 to 33.2 per cent (\$25.5 billion) in 2006-07.

Philanthropic giving increased (in real terms) by 8 per cent per annum over 1997-2005 to \$7.7 billion.

strengthen trust

- clearer governance and accountability through a consolidated regulatory framework
- more effective arrangements for sector development
- support for social innovation to develop new and better ways of tackling social problems
- greater effectiveness of direct government funding of service delivery by NFPs.

Recognising the challenges and scope of the proposed reform agenda, the report set out a framework for implementation over a number of years. All levels of government would need to improve their relations with the NFPs: it is crucial that the state and territory governments also implement the government-sector reforms.

On the release of the report, Presiding Commissioner Robert Fitzgerald said: 'The proposed reforms address concerns about the multiplicity of regulatory requirements, poor collaboration between the sector and governments and emerging capacity constraints. They would thereby create a much stronger foundation for this expanding sector'. ■

The not-for-profit sector

Summary of key recommendations of the Commission's final report

Smarter regulation
A national Registrar for Community and Charitable Purpose Organisations should be established to consolidate Commonwealth regulation; register and endorse NFPs for concessional tax status; register cross-jurisdictional fundraising organisations; and provide a single portal for corporate and financial reporting.
A separate chapter in the Corporations Act dealing with NFP companies should be introduced, as well as rules on the disposal of assets.
Building knowledge systems
The Australian Government should initiate an Information Development Plan for the not-for-profit sector.
Australian governments should adopt a common framework for measuring the contribution of the not-for-profit sector embodying the principles of proportionality, transparency, robustness, flexibility, and relevance.
The Australian Government should provide funding for the establishment of a Centre for Community Service Effectiveness to promote 'best practice' approaches to evaluation.
Effective sector development
Deductible gift recipient status should be progressively extended to all charitable institutions and funds endorsed by the proposed national Registrar.
Australian governments should assist in the development of a sustainable market for not-for-profit organisations to access debt financing.
The Australian Government, in consultation with Skills Australia, should commission the Community Services and Health Industry Skills Council to undertake workforce planning for the community services sector.
Stimulating social innovation
Government agencies funding community services should establish 'social innovation funds' in significant program areas to support trials and demonstration programs for innovative solutions to identified problems.
Improving the effectiveness of direct government funding
Australian governments should explicitly state in any tender or negotiated contracts whether they intend to fully fund a service provided by a NFP, or only make a contribution. If the latter, the extent of the contribution should be made explicit.
Australian governments should fully fund those services that they would otherwise provide directly (allowing for co-contributions from clients and any agreed contributions by service providers).
Australian governments should ensure that they choose the model of engagement with NFPs that best suits the characteristics and circumstances of the service being delivered.
Improving the effectiveness of direct government funding
An Office for NFP Sector Engagement within a central Commonwealth agency should be established to drive the reform agenda.

Contribution of the Not-For-Profit Sector

> Productivity Commission Research Report

> Released February 2010

Report on Government Services 2010

Following a major review of the Report on Government Services, COAG has endorsed the Report's role as the key tool for measuring the efficiency and effectiveness of government services.

The Report on Government Services was first commissioned in 1993 by Heads of Government (now COAG) to measure the performance of government services across Australian jurisdictions. The Report, which is released annually, is produced by a COAG Steering Committee of senior officials from Australian, state and territory governments. The Steering Committee is chaired by the Commission's Chairman, Gary Banks.

In 2009, a COAG Working Group undertook a major review of the Report, to examine its ongoing usefulness to government, non-government and community stakeholders. Following the review, in December 2009 COAG confirmed that 'the Report on Government Services should continue to be the key tool to measure and report on the productive efficiency and cost effectiveness of government services'.

Services covered in the 2010 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

- Public and community housing
- State-owned and managed Indigenous housing
- Commonwealth Rent Assistance

Emergency management

- Fire and ambulance services

COAG has endorsed updated terms of reference for the Report, highlighting its relationship with the national performance reporting system under the new Intergovernmental Agreement on Federal Financial Relations. (The Steering Committee also collates National Agreement performance information for the COAG Reform Council.) COAG has requested that the Steering Committee review aspects of the Report over the next few years, including the scope of reporting, suitability of performance indicators and comparability of data.

On the release of the 2010 Report in January this year, Gary Banks observed that:

'The Report promotes open and informed debate about the performance of government services across Australia. Governments spent over \$136 billion on the services covered in this year's Report, equivalent to around 13 per cent of Australia's national income.'

The 2010 Report contains significant improvements including the alignment of education and training performance indicators with those in the related National Agreements; new information on access to aged care residential services for veterans; new juvenile justice performance indicators; enhancement of the Health preface to include data on risk factors; and new data on housing access and affordability.

Reporting on services to Indigenous Australians has expanded and been improved over recent years. It remains a priority. Developments in this year's Report include enhanced reporting of participation by Indigenous people in the vocational education and training system, and additional reporting of Indigenous recipients of Extended Aged Care at Home Dementia services. ■

Report on Government Services 2010

> Released January 2010

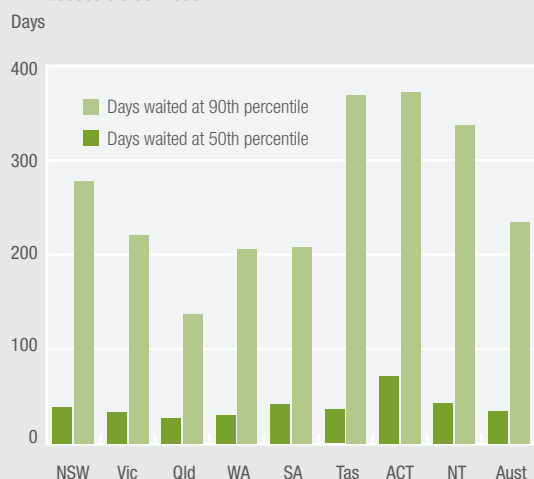
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Report on Government Services 2010 – selected indicators

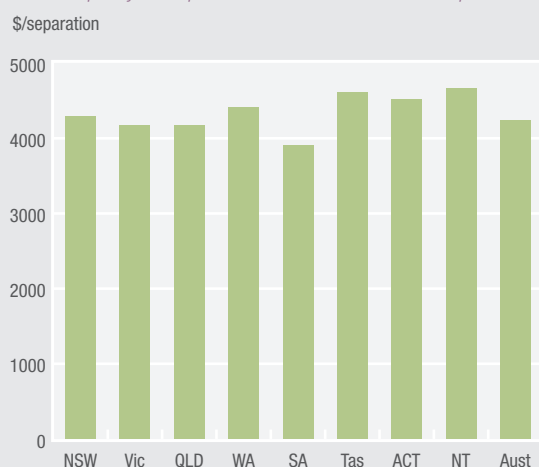
Public hospitals

- Total recurrent expenditure on public hospitals (excluding depreciation) was \$28.9 billion in 2007-08, a real increase of 6.1 per cent in expenditure from 2006-07.
- Australian public (non-psychiatric) hospitals provided 4.7 million separations in 2007-08, equal to 216.9 separations per 1000 people.

Elective surgery waiting times, public hospitals, 2007-08
An indicator of governments' objective to provide accessible services.



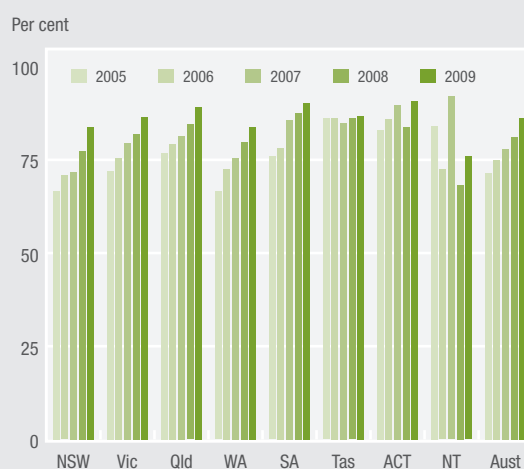
Recurrent cost per casemix-adjusted separation, public hospitals, 2007-08
An indicator of governments' objective to deliver services in a cost-effective manner. Casemix adjusts for the relative complexity of the patient's condition and the services provided.



Aged care services

- Total government expenditure reported on aged care services in 2008-09 was \$10.1 billion. This included residential care services (\$6.7 billion) and community care services (\$2.9 billion).

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'.



Waiting times for residential care^a
An indicator of governments' objective to maximise the timeliness with which people are able to access care.



^a Includes residential places categorised as high care.

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

The Report on Government Services 2010 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.

Modelling an urban water system

Recent shortages of water in urban areas have triggered calls for reform to urban water policy. In a new Commission Staff Working Paper, an innovative model has been developed as a tool that can be used to quantify the costs and benefits of reform options.



A number of recent studies have suggested significant potential for welfare gains from reforms to the pricing and supply of urban water. However, limitations in existing models for evaluating urban water policy hampered quantification of the costs and benefits.

Given the importance of such modelling, Commission staff have constructed a ‘partial equilibrium’ model specifically to investigate urban water policy issues. This quantifies the impact of reform within the urban water system. (Any wider effects are likely to be minimal.) Adopting a partial approach allows more detailed and realistic modelling – for example, the inclusion of multiple policy options, binary ‘yes/no’ investment decisions and stochastic variability of inflows to dams – which are difficult to incorporate into general equilibrium models. Although the model is a stylised representation of the real world, it should provide a useful tool for investigation of investment decisions and policy choices.

Model framework

In the model, scarcity-based pricing is the optimised ‘base case’ against which other policy options are compared. Under scarcity-based pricing, prices respond to variations in rainfall and storage levels in dams. When levels are low, water is more expensive. Conversely, when dams are full

and additional water would cause them to overflow, water is cheaper. The model allows prices to adjust to equate demand and supply in each year, and across years.

Other illustrative policies modelled include regulated pricing based on long-run marginal cost or cost recovery, water-use restrictions, and bans on, or mandates for, particular forms of supply. The model includes several options for new sources of supply: desalination; new dams; aquifers; rural-urban trade using pipelines; and household tanks.

The model has been calibrated for, and applied to, a hypothetical urban system, drawing on aspects of Australian capital cities. This approach means that although the model provides general insights into policy issues, the results cannot be used to make policy judgements for any specific city in Australia.

A key insight from this research is the importance of taking into account variability of inflows to dams in assessing supply options and evaluating policy.

The model reinforces the importance of making investment decisions regarding new supply sources based on *expected* returns to investment. The extreme variability

in streamflows in Australia, combined with a reliance on water from dams, means that accounting for variability in project benefits and costs is important in evaluating investment options. The modelling demonstrates how guaranteed investment returns can lead to inefficient investment and consumption, and reduce community welfare.

In the model, actual payoffs to investment depend on future inflows to dams, as prices respond to demand, supply and storages. If future rainfall is plentiful (scarce), returns to investment are likely to be low (high). For example, the model indicates that investing in a pipeline to facilitate rural-urban trade is more likely to be a better decision after a series of dry years, when dam storages are low, than when water is plentiful and dams are full. ■



Some illustrative policy implications

Model results indicate that constraining prices, including through long-run marginal cost pricing, imposes costs on the community, as prices are not free to increase or decrease during dry or wet periods. Constrained prices are also likely to require restrictions to ration water during times of scarcity because prices are not able to perform a 'rationing' function.

The modelling indicates that water restrictions can impose large economic costs on the community. The costs are a consequence of preventing outdoor users from using water that they would have been willing to pay for.

A key feature of scarcity-based pricing is the variability in the price of water over time, depending on rainfall. On average, however, prices are lower under scarcity-based pricing than under the other policy options modelled.

Model results also indicate potentially high costs from ruling out access to particular sources of water (for example, relatively low-cost rural-urban trade using pipelines), or from pursuing supply options that are not least cost.

Existing urban water arrangements

Supply of potable water to households and businesses in Australia's capital cities and other urban centres is typically the responsibility of state government-owned utilities.

Pricing of urban water is regulated with the aim of ensuring revenue is sufficient to cover costs and secure adequate supply, including a return on assets.

No value is attached to the scarcity of the water resource itself. Regulators typically use long-run marginal cost pricing for price setting, which smooths prices over time. During extended dry periods, water restrictions are used to ration supply to end users.

The supply of water for most urban centres in Australia comes mainly from dams. Among capital cities, the exceptions are Perth (which obtains most of its supplies from groundwater and also has a desalination plant) and Hobart (which sources around 60 per cent of its water from the Derwent River).

The supply of water from dams is characterised by significant annual variation in inflows, which has been exacerbated by a decreasing trend in rainfall across much of southern Australia in recent decades.

This has resulted in extensive reliance on restrictions to ration water use, with approximately 80 per cent of Australia's households subject to water restrictions in 2008.

Recent shortages have also led to investments to augment water supplies, including desalination plants, water recycling, aquifers, new dams, household tanks and sourcing water from rural areas.

Developing a Partial Equilibrium Model of an Urban Water System

> Productivity Commission Staff Working Paper

> Released March 2010

> An earlier version of the paper presented at the Australian Conference of Economists on 30 September 2009 was awarded the prize for best contributed paper.

Recovering ‘environmental water’ in the Murray-Darling Basin

A recent Commission report recommends improvements to the broader strategic approach adopted by the Australian Government in recovering water for the environment.

The Commission released its final report on Market Mechanisms for Recovering Water in the Murray-Darling Basin on 31 March.

The Commission found that the Australian Government’s buyback of permanent water entitlements has been cost effective. However, the report made several recommendations aimed at improving the broader institutional framework governing environmental water recovery. In particular, the Commission expressed concerns about: the process used to determine how much water should be recovered for the environment; the implementation of water recovery before the environmental needs were clearly identified; and the generally ill defined and poorly coordinated governance arrangements for water recovery and management. The Commission also found that subsidising infrastructure is not a cost-effective way of recovering water for the environment relative to the other options. ■

(c) MDBA, Murray River at Nyah, photographer Arthur Mostead



Key findings and recommendations from the final report

- All Basin jurisdictions should clarify, as soon as possible, how the risk assignment provisions set out in the National Water Initiative, as amended in the *Water Act 2007* (Cwlth), will apply to the reductions in water availability that are likely under the Basin Plan.
- In setting sustainable diversion limits, factors such as community preferences, the opportunity cost of water, and the role of other inputs (such as land management) should be taken into account.
- Subsidising infrastructure is rarely cost effective in recovering water for the environment, nor is it likely to be the best way of sustaining irrigation communities. Rigorous approval processes should be applied to all projects under the Sustainable Rural Water Use and Infrastructure program.
- The current buyback of water entitlements is an appropriate way of achieving long term transition objectives, however other water products, such as seasonal allocations, could also be acquired to meet short-term environmental needs.
- Where active water markets exist, water should be acquired directly from those markets, rather than through tender processes.
- The 4 per cent limit on out-of-area trade of water entitlements should be eliminated as soon as possible. Limits on the amount of entitlements that can be sold to the Commonwealth through the buyback should also be eliminated.
- Greater coordination of water recovery and environmental watering is required.

Market Mechanisms for Recovering Water in the Murray-Darling Basin

- > Productivity Commission Final Report
- > Released March 2010

Wheat export marketing arrangements

The transition to competition in the exporting of bulk wheat has progressed remarkably smoothly and there is now scope to reduce regulation further, according to the Commission's draft report on wheat export marketing arrangements.



In 2008, the Australian Government effectively deregulated the marketing of bulk wheat exports by removing the 'single desk' operated by AWB (International) Limited. Wheat Exports Australia was established under the *Wheat Export Marketing Act 2008* to administer the Wheat Export Accreditation Scheme, under which any trader, once accredited, could export bulk wheat. Bulk handling companies wishing to trade for export were required to satisfy an additional 'access test' to gain accreditation. The access test aims to prevent wheat exporters with port terminal operations using their control of those facilities to disadvantage potential new entrants.

The legislation also required the Productivity Commission to conduct a review of the new arrangements. After extensive consultation with wheat producers and exporters around Australia, the Commission's draft report was released in March. Following further consultations, including public hearings, the final report will be prepared and presented to Government by 1 July 2010.

Transition to competition

On releasing the draft report, Presiding Commissioner Wendy Craik observed: 'the export marketing arrangements have played an important role in facilitating a

The Australian bulk wheat export industry

Wheat is the most significant crop grown in Australia in terms of area sown, volume of grain produced and value of the crop. The majority of wheat produced is destined for export in bulk.

Production of wheat in Australia is highly concentrated. In 2005-06, 50 per cent of wheat growers accounted for less than 10 per cent of production, and 10 per cent of growers accounted for almost half of the industry's production.

Of all the states, Western Australia is the largest producer of wheat, has the largest wheat growers and relies on the export market to dispose of 90 per cent of its crop. Other states produce smaller quantities of wheat and export between 75 per cent and 30 per cent on average. In poor production years, some states export very little wheat.

The 'single desk'

'Single desk' is a term used to describe the monopoly exporting of wheat by the Australian Wheat Board, and its privatised successor, AWB (International) Limited. The scope of the single desk varied over time, encompassing both domestic and export sales of wheat until 1989, then only export sales, and finally from August 2007 to June 2008, only bulk wheat export sales. A key characteristic of the single desk was the national pooling of returns to growers, whereby the price received by growers (apart from adjustments for quality and transport costs) was the average from sales to various export markets minus the costs incurred by the Board.

smooth transition to competition in the export of bulk wheat, particularly given that deregulation coincided with a pronounced commodity price cycle and the global financial crisis.'

According to the Commission's draft report, the industry has performed well under the new arrangements:

- as at March 2010, 29 organisations are now accredited to export bulk wheat from Australia ►

- in the first marketing year of the current arrangements a relatively large volume of wheat was successfully exported to a diverse range of international markets in 41 countries
- none of the accredited exporters has experienced bankruptcy or had its accreditation revoked, despite the challenging international trading conditions
- cross-subsidies and inefficiencies that were embedded in the previous compulsory national pool have been revealed, and prices now more accurately reflect grain quality and the costs of grain transportation, storage and handling.

Accreditation

The Commission's draft report finds that most of the benefits from the accreditation of bulk wheat exporters have accrued during the transition phase and are rapidly diminishing over time. Accreditation is not required for exporters of other grains, or for most other agricultural commodities, and the export of those commodities operates smoothly. The Commission's preliminary assessment, therefore, was that an ongoing accreditation scheme would yield little benefit and continue to impose costs, and should be abolished on 30 September 2011.

Access test

Similarly, the benefits of the access test were found to be mostly attributable to the transition phase of managing deregulation, whereas the ongoing administrative and compliance costs are sizable. However, given the need to embed competitive market settings in wake of the highly regulated environment preceding deregulation, the draft report proposes that the access test remain in place until 30 September 2014, after which grain port terminals should be subject to the declaration provisions of Part IIIA of the Trade Practices Act.

The draft report notes that the ongoing benefits of accreditation and the access test are diminishing rapidly while the ongoing costs remain considerable. The Commission has not found a case for continuing the accreditation in the short term, nor access arrangements in the longer term.

Transport, storage and handling

The draft report presents evidence that increasing on-farm storage, and competition between road and rail in the transport, storage and handling sector, are leading to improvements in supply chain efficiency. According to the report, access to up-country storage facilities should not be regulated, as these facilities do not have natural monopoly characteristics. While greater investment in rail and/or road infrastructure is likely to be required in the future, the report recommends that governments base investment decisions on rigorous cost-benefit analysis, with a focus on developing economically efficient logistics chains. ■

Wheat export marketing: key draft recommendations

The Wheat Export Accreditation Scheme 2008 should be abolished on 30 September 2011.

Regulation 9AAA of the Customs (Prohibited Exports) Regulations 1958, which prohibits bulk exports of wheat unless exported by an accredited wheat exporter, should be repealed on 30 September 2011.

Wheat Exports Australia (WEA) should be abolished on 30 September 2011.

The Wheat Export Charge (designed to fund WEA) should be abolished on 30 September 2011.

The current 'access test' under the *Wheat Export Marketing Act 2008* should be abolished on 30 September 2014, after which regulated access should rely primarily on Part IIIA of the Trade Practices Act.

Operators of wheat port terminals should still be required to publish daily shipping stems and port access protocols on their websites.

The wheat industry should support the provision of monthly statistics on wheat stocks by state, funded through a compulsory levy mechanism.

Wheat Export Marketing Arrangements – Public Inquiry

- > Draft Report released March 2010
- > Contact: John Salerian Ph: 03 9653 2190
- > Email: wheatexport@pc.gov.au

Benchmarking occupational health and safety regulation

A new research report by the Productivity Commission finds significant differences across jurisdictions in occupational health and safety regulations and the action of regulators. It also finds that these are hard to justify.



The Commission report compares inter-jurisdictional differences in the administration and enforcement of occupational health and safety (OHS) legislation in 2008-09, and the resultant costs imposed on business. The report finds that Australia's OHS outcomes have been steadily improving. National injury incidence rates fell almost 20 per cent between 2002-03 and 2007-08. However, the report notes that while the core OHS Acts of Australia's jurisdictions are based on the principle of allocating duties of care to those most able to influence OHS outcomes, the Acts all differ. In addition, there are 70 industry or hazard-specific Acts that regulate OHS in some way.

On the release of the research report, Commissioner David Kalisch said:

'The report should provide governments and the Workplace Relations Ministers Council with further opportunities to reduce the regulatory burden on business. The report also highlights many ways to improve the practices of government regulators across Australia.'

Areas where the report identified significant differences across jurisdictions in 2008-09, include:

- record keeping for risk management, training, incidents and a range of hazards
- worker consultation, participation and representation, including union involvement in OHS consultations and investigations of possible OHS breaches
- dealing with a range of workplaces hazards including asbestos, 'psychosocial' hazards, prevention of falls, manual handling and licences for high risk work
- resourcing, availability of enforcement tools and key strategies of regulators. ■

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. The Commission has released a series of studies under this benchmarking program:

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

The Commission is currently undertaking a performance benchmarking study of states and territories' planning and zoning systems and land development assessment processes. A draft report is scheduled for October 2010, with the final report to be presented to government in December.

Performance Benchmarking of Australian Business Regulation: Occupational Health and Safety

- > Productivity Commission Research Report
- > Released March 2010

Human capital: what is it and why is it important?

...continued from page 5

- men with a diploma or certificate earn around 14 per cent more, and women earn around 11 per cent more
- a university education adds around 40 per cent to men's and women's earnings.
- chronic illness was found to have a negative – but often small – effect on wages.

The paper also presents estimates of the potential wages of people who are unemployed or not in the workforce. Such people have systematically different characteristics from people who are employed. For example, they tend to have lower levels of education, a greater incidence of chronic illness and a longer experience of unemployment.

The results indicate that a person with the labour market and demographic characteristics of the average unemployed person would be expected to earn around 70–75 per cent of the average employed person in their age group. The estimated potential wage of Disability Support Pension recipients is lower, around 64–70 per cent of the average wage of employed people of the same age.

Understanding the labour force choices of married women

An important aim of the National Reform Agenda is to increase the workforce participation of three groups that currently have relatively low rates of labour force engagement: women, people on welfare, and the mature aged. A recent paper sheds light on the factors affecting the labour supply decisions of married Australian women – a large component of the NRA target groups. Titled *Work Choices of Married Women: Drivers of Change* it is the first in a new series of Visiting Researcher Papers published by the Commission.

The paper focuses on whether, and to what extent, state dependence occurred in the labour supply of married Australian women. The study also investigated the labour supply effects of various observed factors, such as education, age, health and the number and age of children.

The results suggest that the individual characteristics of married women are the key drivers of their labour supply. This has important policy implications.

Using data from the first six waves of the HILDA survey and a dynamic Tobit model, the study found that labour supply decreased with permanent non-labour income,

What drives female labour supply?

Female labour market activity is characterised by a high degree of 'inter-temporal persistence'. That is, women tend to remain in the same labour force state – whether employed or not employed. Labour market persistence could be a result of:

- *state dependence* – where an individual's current labour force state depends on their past labour force state – for example, being employed today improves the likelihood of being employed in the future;
- *persistent individual heterogeneity* – where individuals' characteristics, rather than their labour market history, determine labour market behaviour – such characteristics could include differences in preferences between work and leisure, and differing motivations and abilities;
- *serially correlated transitory shocks* – for example, deterioration in a person's health in one year may imply that the person is more likely to experience deterioration in health in subsequent years, with a potentially negative effect on labour force participation.

deterioration of health, and the number of young children, but increased with education. It also found that labour supply in general decreased with a woman's age; and women who migrated from a non-English speaking country tended to supply less labour compared to those from an English-speaking country, or women born in Australia.

Wages were also found to be important. Unsurprisingly, improvements in a married woman's own permanent wage increases her labour supply. Conversely, the higher the wage of a woman's partner, the lower was her labour supply. However, an increase in her partner's working hours was associated with an *increase* in her labour supply.

Interestingly, the study found no evidence of state dependence in the labour supply of married Australian women. ■

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- > Banks, G. *Advancing Australia's 'Human Capital Agenda'* Fourth Ian Little Memorial Lecture, Melbourne, 13 April 2010. Available from the Commission's website www.pc.gov.au and Monash University website www.buseco.monash.edu.au/events/ilml/gary-banks.pdf
 - > Cai, L. 2010, *Work Choices of Married Women: Drivers of Change*. Productivity Commission Visiting Researcher Paper. Released January 2010.
 - > Forbes, M., Barker, A. and Turner, S., 2010, *The Effects of Education and Health on Wages and Productivity*. Productivity Commission Staff Working Paper. Released March 2010.

Commission news

Judith Sloan and Neil Byron say farewell

Two inaugural Commissioners of the Productivity Commission, Judith Sloan and Neil Byron, retired from the Commission in March and April respectively. Both made an important contribution to the Commission's work program over the past 12 years.

Inquiries headed by Judith Sloan include the Impact of Competition Policy Reforms on Rural and Regional Australia; Review of the Job Network; National Workers' Compensation and Occupational Health and Safety Frameworks; and the Impact of Migration and Population on Productivity Growth in Australia.

Neil Byron had a particular role in developing the Commission's research program in the environmental area. He headed inquiries into Government Drought Relief; Impacts of Native Vegetation and Biodiversity Regulations;



Energy Efficiency; and Conservation of Historic Heritage Places. Staff and Commissioners farewelled Judy and Neil at events in Melbourne and Canberra, and wished them well for their future activities. ■

Executive remuneration: Government accepts Commission's recommendations

The Government's response to the Commission's final report on executive remuneration was announced in April. The Government commended the Commission for its comprehensive report and thorough and consultative approach. Almost all the Commission's recommendations were accepted, including the modified 'two strikes' proposal for board re-election. In announcing the Government's response, the Treasurer Wayne Swan, Minister Chris Bowen and Assistant Treasurer Nick Sherry said: 'These are important reforms that will improve Australia's

remuneration framework by encouraging shareholder engagement, tackling conflicts of interest, improving disclosure requirements and improving the design of remuneration policies. They will ensure that Australia's regulation of director and executive remuneration remains at the forefront of international best practice.' The Government's detailed response to the Commission's report is available at: <http://mfsscl.treasurer.gov.au/Ministers/ceba/Content/pressreleases/2010/attachments/033/033.pdf> ■

Compendium of Chairman's speeches on structural reform

An edited selection of speeches by Gary Banks since his appointment as Chairman of the Productivity Commission in 1990 is contained in the recent Commission publication *An Economy-wide View: Speeches on Structural Reform*. The speeches were selected for inclusion in the volume according to the significance and contemporary relevance of the issues they address as reflected in continuing requests for them on the Commission's website. Topics covered include structural reform, regulation, social policy, and the role of institutions and processes.



In a foreword to the volume, respected Australian journalist Paul Kelly observes: 'The Productivity Commission and its predecessor organisations have been pivotal to the dynamic and turbulent story of Australia's embrace of economic reforms, structural change and improved public policy over recent decades ... These speeches highlight some guiding principles of the Commission – that trade liberalisation and competition enhance overall living standards, that special deals for vested interests impose costs upon the public, that new regulations should deliver benefits greater than the costs they impose. The speeches also reveal the far more expansive reach of the Commission and its Chairman into new areas of social and environmental policy.'

The publication is available on the Commission's website www.pc.gov.au. Printed copies can be obtained from the Commission's Media and Publications Unit (tel 03 9653 2244). ■

Commission news

New inquiries and commissioned studies

The education and training workforce

A research study into the issues affecting the workforces of the early childhood development, schooling and vocational education and training sectors. The study's initial focus is on the vocational education and training sector, with the final report on this sector to be submitted to the Australian Government by April 2011. An Issues Paper, outlining the matters to be considered by the Commission, will be released at the end of May. The next stage of the study – on the early childhood development sector – will commence in October 2010 and report in October 2011. The last stage – the schools workforce study – will commence in April 2011 and report in April 2012. (See also pages 3–5, 16.)

Caring for older Australians

A public inquiry into options for redesigning Australia's aged care system. In announcing the inquiry, Assistant Treasurer Nick Sherry and Minister for Ageing Justine Elliot said: 'The inquiry should set out a path to transition from the current regulatory arrangements to a new system that will provide continuity of care and allows time for service providers to adjust.' An Issues Paper was released in May and initial submissions are due by the end of July. A draft report will be released in December 2010 and a final report in April 2011.

Disability care and support

A public inquiry into a national disability long-term care and support scheme for Australia. The inquiry will examine how such a scheme should be designed and funded to better meet the long-term needs of people with disability, their families and carers. An Issues Paper was released in May and public hearings will be held in June and July 2010. A draft report will be issued in February 2011 and a final report will be sent to Government by 31 July 2011.

Rural research and development corporations

The Productivity Commission is conducting a public inquiry into arrangements for rural research and development corporations. The inquiry will assess the economic and policy rationale for Australian Government investment in rural research and development, and examine the interactions and potential overlaps across governments and programs. Initial submissions are due by 25 June. A



Members of the Commission's inquiry team into rural research and development corporations visited cotton producers in Narrabri (NSW) in April. From left: Dr Mary Corbett, Cotton Research and Development Corporation; Darren Eather, Bellevue cotton farm owner/manager; Aaron Morey, Productivity Commission; Phil Weickhardt, Inquiry Presiding Commissioner; Ana Markulev, Productivity Commission; Cliff Samson, Inquiry Associate Commissioner; and Bruce Finney, Executive Director, Cotton Research and Development Corporation.

draft report will be released in September, public hearings will be held during October and November, and the final report will be sent to Government by 15 February 2011.

Business regulation benchmarking: planning, zoning and development assessment

The Commission has been asked to continue the program of performance benchmarking of Australian business regulation by examining land development assessments and the states and territories' planning and zoning systems. The study is to:

- consider the impact of the planning and zoning systems on business compliance costs, and on competition and the overall efficiency and effectiveness of the functioning of cities
- report on best practice approaches that support competition.

Initial submissions due by 16 July 2010. An exposure draft will be published in October and a final report completed in December 2010. (More information about the Commission's business regulation benchmarking program appears on page 15). ■

Recent releases

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

May 2010

Caring for Older Australians
Issues paper

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

Public and Private Hospitals: Multivariate Analysis
Supplement to Research Report

Disability Care and Support
Issues Paper

April 2010

Advancing Australia's 'Human Capital Agenda'
Chairman's speech

Valuing the Future: The Social Discount Rate in Cost-Benefit Analysis
Visiting Researcher Paper

Report on Government Services 2010: Indigenous Compendium
Steering Committee for the Review of Government Service Provision

Performance Benchmarking of Australian and New Zealand Business Regulation: Occupational Health and Safety
Research Report

Strengthening Evidence-Based Policy in the Australian Federation
Roundtable Proceedings

March 2010

Market Mechanisms for Recovering Water in the Murray-Darling Basin
Research Report

Rural Research and Development Corporations
Issues Paper

An Economy-wide View: Speeches on Structural Reform
Compendium of speeches by Gary Banks

Statistics, Productivity and Reform
Chairman's speech

Developing a Partial Equilibrium Model of an Urban Water System
Staff Working Paper

Wheat Export Marketing Arrangements
Draft Inquiry Report

Effects of Education and Health on Wages and Productivity
Staff Working Paper

February 2010

Contribution of the Not-for-Profit Sector
Research Report

January 2010

Report on Government Services 2010 (2 vols)
Steering Committee for the Review of Government Service Provision

Performance Benchmarking of Australian and New Zealand Business Regulation: Food Safety
Research Report

Work Choices of Married Women: Drivers of Change
Visiting Researcher Paper

Executive Remuneration in Australia
Final Inquiry Report

December 2009

Performance Benchmarking of Australian and New Zealand Business Regulation: Food Safety
Research Report

Bilateral and Regional Trade Agreements
Issues Paper

Public and Private Hospitals
Research Report

Market Mechanisms for Recovering Water in the Murray-Darling Basin
Draft Research Report

Modelling the Effects of the EU Common Agricultural Policy
Staff Working Paper

Annual Review of Regulatory Burdens on Business: Business and Consumer Services
Issues Paper

Current commissioned projects

24 May 2010

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

Caring for Older Australians – *Public Inquiry*

Issues paper released May 2010. Draft report December 2010.
Final report to Government April 2011.

Contact: Stewart Plain 02 6240 3219 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 due February 2011.
Final report to Government 31 July 2011.

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

Education and Training Workforce – *Commissioned Study*

The study's initial focus is on the vocational education and training sector. Issues paper released May 2010. Draft report due November 2010. Final report to Government April 2011.

Contact: Patrick Laplagne 03 9653 2167 education@pc.gov.au
www.pc.gov.au/projects/study/education-workforce/vocational

Rural Research and Development Corporations – *Public Inquiry*

Issues paper released March 2010. Draft report due September 2010.
Final report to Government 15 February 2011.

Contact: Greg Murtough 03 9653 2163 rural-research@pc.gov.au
www.pc.gov.au/projects/inquiry/rural-research

Bilateral and Regional Trade Agreements – *Commissioned Study*

Issues Paper released December 2009. Draft report due June 2010.
Final report to Government 27 November 2010.

Contact: Andrew Irwin 02 6240 3350 tradeagreements@pc.gov.au
www.pc.gov.au/projects/study/trade-agreements

Wheat Export Marketing Arrangements – *Public Inquiry*

Issues Paper released October 2009. Draft report released March 2010.
Final report to Government by 1 July 2010.

Contact: John Salerian 03 9653 2190 wheatexport@pc.gov.au
www.pc.gov.au/projects/study/wheatexport

Performance Benchmarking of Australian Business Regulation: Planning, Zoning and Development Assessments – *Commissioned Study*

Issues paper released May 2010. Draft report due October 2010.
Final report to Government December 2010.

Contact: Rosalyn Bell 02 6240 3308 planning@pc.gov.au
www.pc.gov.au/projects/study/regulationbenchmarking/planning

Annual Review of Regulatory Burdens on Business – *Commissioned Study*

The Commission is undertaking a series of annual reviews of the burdens on business from the stock of Commonwealth regulation. In 2010 the Commission will review regulations affecting business and consumer services.

Issues paper released December 2009. Draft report due June 2010.
Final report to Government August 2010

Contact: Les Andrews 02 6240 3251 regulatoryburdens@pc.gov.au
www.pc.gov.au/projects/study/regulatoryburdens