Australian Government
Productivity Commission

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Special Feature

Frameworks for efficient infrastructure

Other Highlights

Emissions trading
Are supplementary measures justified?

Paid parental leave
Identifying potential models for Australia

Part time employment
The Australian experience

Assistance for the auto industry
Modelling options for the future

Australia's consumer policy framework
Promoting a national approach

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Contents

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

Australian Government
Productivity Commission

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Regulatory and governance frameworks for promoting efficient infrastructure

Recent Productivity Commission reports highlight the importance of appropriate regulatory and governance frameworks for efficient public and private provision of national infrastructure assets.

Economic infrastructure is integral to the effective functioning of our economy and society. It involves long-lived capital investments that provide key services for consumers and business, such as energy, water, communications and transport.

But, like other goods and services, investment in infrastructure is only justified where it yields a net payoff to the community. *Efficient* provision is paramount — such that, through time, the right amount and type of infrastructure services are provided at least cost.

Infrastructure reforms in the 1980s brought large gains

Historically, infrastructure services were provided by statutory monopolies immune from competitive pressures. The absence of market signals and commercial disciplines typically led to high cost and poor quality services, a lack of innovation and sub-optimal investments (sometimes inadequate, sometimes excessive).

The opening of the Australian economy from the early 1980s increased competitive pressures on Australian industries and turned attention to the cost impediments imposed on them by inefficient infrastructure. Successive reforms, culminating in the National Competition Policy, removed many statutory monopolies, enabling competition and market pressures to exert an influence on infrastructure performance. Key reform elements were the corporatisation, privatisation and structural separation of infrastructure facilities, more commercial pricing (entailing removal of cross-subsidies and more explicit public funding of community services), together with regulation to facilitate third-party access to natural monopoly networks.

The Productivity Commission's 2005 Review of National Competition Policy (NCP) found that productivity had risen greatly across most utilities over the preceding decade, and prices had fallen significantly. For some infrastructure though, higher prices were needed to reflect the (true) costs of providing services (for example, airports). At the same time, service quality was found to have been maintained or improved. The Commission estimated that the productivity and price gains from infrastructure during the NCP reform period boosted Australia's GDP by around 2.5 per cent per year.

However, in its reviews of the NCP, and more recent National Reform Agenda, the Commission identified a number of areas where there was scope for further improvement (see table). Commission modelling in 2006 indicated that further identified competition reforms in electricity, gas, rail freight and ports and related services could boost GDP by around 0.4 per cent a year (in 2006-07 dollars). Many of these are being progressed under COAG.

Scope for further improvement to infrastructure services under the NRA

Sector	Potential improvements
Electricity	• Increased dispatch efficiency in the National Electricity Market (NEM) • More cost-reflective pricing • Greater competition among generators • Improved regulation of transmission infrastructure • Reduced investment risks • Increased regulatory efficiency from referral of regulation of the NEM to the Australian Energy Regulator
Gas	• Increased competition between natural gas suppliers • Reduced investment risk and regulatory compliance costs
Road and rail transport	• Improved operational efficiency of the rail network • Reduced impediments to innovation in road vehicle configuration and use • Reduced compliance costs of regulation • Improved transport infrastructure planning and project appraisal
Ports and associated infrastructure	• Increased operational efficiency • Reduced impediments to new entrants and efficient investment in port service operations

Current pressures challenge policy settings

Australia's circumstances in the 2000s differ significantly from those of a decade ago. The key issue today is achieving timely new investment in infrastructure to meet buoyant demand. Regulatory and institutional settings devised in previous decades are being tested, with capacity constraints emerging in a number of areas. The policy challenge is to create a regulatory and institutional framework that encourages efficient *investment* in essential infrastructure services, as well as efficient use of existing assets.

Because private ownership is subject to the commercial discipline enforced by competitive capital markets, it can avoid many of the incentive and governance problems associated with public assets.

Testing the case for continued government provision

According to a recent OECD report, Australia leads the world in the breadth and quality of privatised infrastructure. Major privatisations include airports, some railways and energy distribution networks in a number of jurisdictions. But government ownership prevails in industries such as roads, water, and some postal services. And it remains substantial in rail, ports, electricity generation and telecommunications.

Because private ownership is subject to the commercial discipline enforced by competitive capital markets, it can avoid many of the incentive and governance problems associated with public assets. Accordingly, the Commission has called for clarification and public scrutiny of the rationale for ongoing government ownership of infrastructure entities. In its NCP review, the Commission recommended consideration of divesture of electricity generation facilities once efficient markets had been established.

The Commission recognises, however, that strong 'public good' features make it hard, even undesirable, to privatise some infrastructure services, such as the bulk of the (non-trunk) road networks or many 'community services'. Yet even where public good type services are being provided, there is considerable scope for private sector service delivery and competition in supply, within transparent parameters set by government. Private providers might not only supply inputs but also develop innovative ways of meeting social objectives.

Need for more efficient road provision

In its 2007 report for COAG on road and rail freight infrastructure pricing, the Commission noted that even with scope for direct road user charging, road infrastructure is likely to continue to be largely provided by government, given its public good features. However, it recommended a closer relationship between user charges and road usage costs, and better governance arrangements for investment, both of which are subject to heavy political influence. The Commission also noted the potential for large efficiency gains from consistent application of the AusLink investment principles across jurisdictions.

Better governance of public infrastructure

Corporatisation was intended to bring greater commercial disciplines to bear on government infrastructure entities, but the results have been mixed.

The Commission reports annually on the financial performance of government trading enterprises (GTEs). Despite some recent improvement, about half the monitored GTEs still do not achieve commercial rates of return. Investment decision-making remains subject to undue political influence and ill-defined, non-commercial community service obligations (CSOs) and financing restrictions. The Commission's 2005 GTE report set out several priority areas for reform, including:

- greater clarification and transparency of objectives
- the need for clearer distinction between internal and external governance, especially improved transparency regarding the role of ministers
- greater independence of corporate boards with CEOs appointed by and accountable to those boards
- a general strengthening of accountability
- full and transparent funding of CSOs from government budgets.

Where governments fund infrastructure directly, investment decisions routinely should be based on transparent and comprehensive evaluations of costs and benefits.

Assessing infrastructure needs

'Assessing the adequacy of national infrastructure, particularly in a forward-looking context, is a very complex undertaking. The intention is to help guide priority-setting for public infrastructure investments, but there would still be the need for detailed cost-benefit analysis of particular projects. Such analysis has typically not been done well in the past. Even where it has revealed that costs would exceed benefits, some projects have proceeded (the iconic example being the Alice Springs-to-Darwin rail line). In its road and rail report, the Commission observed that a sound conceptual framework for investment decisions was contained in Auslink's processes. It just needed to be more widely adopted.'

Gary Banks, 'Some Challenges in National Reform', March 2008.

Commission reviews of the gas access regime, telecommunications competition regulation and price regulation of airport services have all argued for lighter-handed regulation to guard against the investment 'chilling' effects of prices held too low by regulators.

Regulatory arrangements for efficient infrastructure

The shift from public to private or corporatised infrastructure provision has been accompanied by various measures to address concerns about market power, including removal of 'artificial' barriers to competition, horizontal and/or vertical separation of entities, and regulation of prices and access either through third-party access provisions (rail, electricity), or industry-specific regulation (telecommunications, airports).

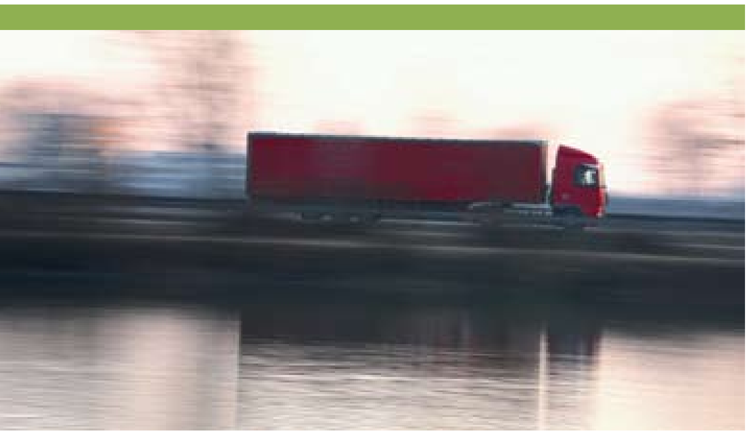
The Commission has identified a number of areas where there appears to be scope for greater competition, including in electricity generation and gas and water supply.

The importance of pricing for efficient urban water augmentation

Unlike irrigation water, there are no real market mechanisms for urban water. Provision remains highly centralised, with government acting as planner, regulator, wholesaler, distributor and retailer. A recent Commission discussion paper explored options for a more market-oriented approach to urban water management and infrastructure provision.

Under current arrangements, water charging regimes recover operating costs and a return on assets. Excess demand during drought is managed by restrictions on water use. A more efficient approach would be to introduce scarcity-based water pricing, with households able to choose how to use and conserve water in ways they value most. Importantly, better price signals would also facilitate efficient investment decisions in supply augmentation by revealing community willingness to pay.

(See: Productivity Commission 2008, *Towards Urban Water Reform)*



But while removing artificial barriers to competition almost certainly will increase economic wellbeing, regulating to achieve 'competitive' outcomes is less straightforward.

For example, as the Commission observed in its road and rail infrastructure report, vertical separation and access regulation, originally designed to encourage above-rail competition, might be constraining scope for efficient pricing, increasing costs of provision and impeding efficient investment, potentially reducing the long-run viability of some lines.

Commission reviews of the gas access regime, telecommunications competition regulation and price regulation of airport services have all argued for lighter-handed regulation to guard against the investment 'chilling' effects of prices held too low by regulators. In its review of the national access regime, the Commission proposed new measures to ensure that access regulation is better targeted, lower cost and does not deter investment. A number of changes to the National Access Regime and other specific regimes followed — in particular, to clarify the efficiency objective and raise the hurdle on declarations.

This reinforces the need for ongoing refinements to the regulatory and institutional frameworks shaping infrastructure provision in the light of changing circumstances and new evidence.

This article draws on a speech by Gary Banks titled 'Riding the Third Wave: Some Challenges in National Reform' delivered to the Melbourne Institute Economic and Social Outlook Conference, March 2008, as well as a number of recent Productivity Commission reports. Gary Banks chaired the Infrastructure sub-group in the 'Future Direction of the Australian Economy' stream at the Australia 2020 Summit, held in Canberra in April 2008.

Efficient national infrastructure: Productivity Commission reports

Towards urban water reform (2008)

Road and rail freight infrastructure pricing (2007)

Potential benefits of the National Reform Agenda (2007)

Price regulation of airport services (2006, 2002)

Review of the National Competition Policy reforms (2005)

Review of the gas access regime (2004)

Review of the national access regime (2002)

Telecommunications competition regulation (2001)

Financial performance of Government Trading Enterprises (annual)

Emissions trading – are supplementary measures justified?

With the introduction of a national emissions trading scheme, a number of existing and proposed greenhouse policies could prove counterproductive.

The Australian Government has committed to the implementation of an Emissions Trading Scheme (ETS) as an efficient, nationally consistent mechanism for achieving targeted reductions in greenhouse gas emissions. A key issue is what supplementary measures may also be warranted. In particular, will policy measures to reduce emissions devised in the absence of a market price for carbon still serve a useful purpose?

In a submission to the Garnaut Climate Change Review, the Productivity Commission argued that an effective ETS, by putting a price on carbon throughout the economy, will achieve a given emission reduction target in the most cost-effective way. Consequently, with the introduction of an ETS, much of the current patchwork of climate change policies will become redundant.

Once an ETS is in place, other abatement policies generally will change the mix, not the quantity, of emissions reduction (see box). Indeed, continuing with such policies would raise the cost of emission reduction and would potentially undermine the credibility and effectiveness of the ETS.

In particular, with an ETS in place, the most significant climate change policy instrument, the Mandatory Renewable Energy Target (MRET) (which is marked for significant expansion) would not achieve any additional abatement but would impose additional costs on the Australian community.

In the presence of a well functioning ETS, supplementary policies could only be justified economically if they:

- lowered the cost of abatement by correcting for underprovision of innovation in low-emissions technologies, or overcame barriers to the uptake of energy efficient technologies
- addressed gaps in the coverage of an ETS where excluded sectors offer low-cost abatement or sequestration opportunities.

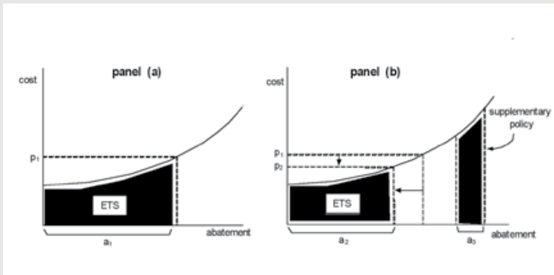
The Commission's submission concludes that all other climate-related programs need to be assessed according to principles of good regulatory process, and whether the policy objective is already met by the ETS.

Why other policies won't reduce emissions with an ETS

Supplementary policies are likely to reduce the abatement task required of the ETS — that is, the gap between business-as-usual emissions and the abatement target. This means that the demand for, and hence price of, emissions permits falls. However, the overall cost of achieving the abatement target increases.

Panel (a) depicts an ETS operating in isolation. The abatement required of the ETS to meet the target is a1, which is achieved with a permit price of p1. The cost of abatement is the shaded area. In panel (b) a supplementary policy achieves a quantity of abatement, shown as a3. The abatement required of the ETS falls by the same amount (that is, a1 = a2 + a3), which causes the permit price to fall to p 2.

While the permit price falls, the total cost to the economy of achieving the abatement target *increases*. In this instance, the additional cost is represented by the difference between the shaded areas in panel (b) and the shaded area in panel (a). A supplementary policy that required 'low cost' abatement would be redundant but still impose additional administrative and other policy-related costs.



What Role for Policies to Supplement an Emissions Trading Scheme?

Productivity Commission Submission to the Garnaut Climate Change Review. Released May 2008

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Inquiry into paid parental leave

The Productivity Commission has been asked to inquire into the economic and social costs and benefits of paid maternity, paternity and parental leave.

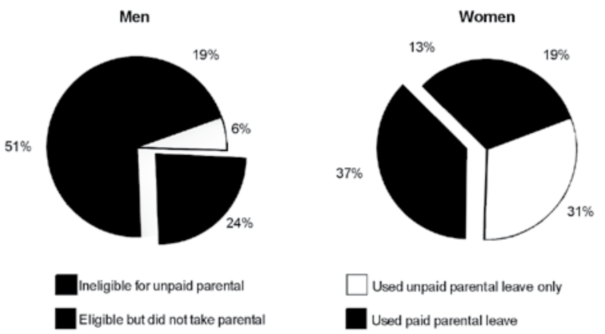
More than 250 000 children are born each year in Australia. Many working parents caring for these children are not entitled to paid parental leave. The Australian Government has asked the Commission to explore the extent of paid maternity, paternity and parental leave ('paid parental leave') provided by employers; and identify models of paid parental leave that could be used in Australia. In an Issues Paper released in April, the Commission outlined the key issues to be considered by the Inquiry.

Evaluating models of parental leave

A key starting point will be to specify the rationales for, and objectives of, paid parental leave. This helps to identify the appropriate design features of alternative models. There are three broad choices concerning the nature of possible schemes:

- ***Eligibility criteria:*** Who should be eligible? Should the eligibility test be designed to encourage ongoing workforce attachment? Should other prime carers be covered? Should all employees (including the self-employed, casual workers, contractors, and employees in small business) be covered?
- ***Duration and generosity of benefits:*** Should the rate of payment be linked to an employee's wage? What should be the duration of benefits? Should each parent have a separate entitlement or should leave be shared between parents?
- ***Financing options:*** Should government contribute to the funding of a paid parental leave scheme? If the cost were to be shared among employees, employers and government, how should their relative contributions be calculated?

The use of paid and unpaid parental leave in Australia (by employees with children born between March 2003 and February 2004)



Source: Whitehouse, G. *et al.*, 2006, *Parental Leave in Australia Survey*.

How does Australia compare?

Australia and the United States (with the exception of California) are the only jurisdictions in the OECD without some form of statutory paid parental leave. However, publicly-funded family support is relatively high in Australia. While the provision of parental leave is common among OECD countries, specific features vary considerably, with schemes differing in the level of parental leave payments, eligibility requirements, the length of leave offered and the funding basis.

Determining the appropriate combination of particular design elements will depend on their prospective benefits and costs and the extent to which these are compatible with the objectives of the scheme. Some of the key impacts include how various parental leave schemes affect family health and wellbeing; the impact of parental leave on family income and parental employment; the impacts on employers and the broader labour market; and the interaction with social security and other government programs.

Inquiry Into Paid Maternity, Paternity and Parental Leave

Draft report: September 2008

Public hearings for draft report: late November 2008

Final report: 28 February 2009

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Part time employment: the Australian experience

Part time work has grown rapidly over recent decades. A new Commission Staff Working Paper explores the nature of part time work and the role it plays within the Australian labour market.

The rise of part time employment over the past 40 years represents a fundamental change in the Australian labour market. In 1966, part time employment accounted for 10 per cent of overall employment – by 2007 it had grown to 29 per cent.

In 2007, prime aged individuals (those aged between 25-54 years) accounted for just over half the total part time workforce. Prime aged women represent 44 per cent of all part time workers, and those aged 15–24 years comprise nearly 28 per cent of the part time workforce.

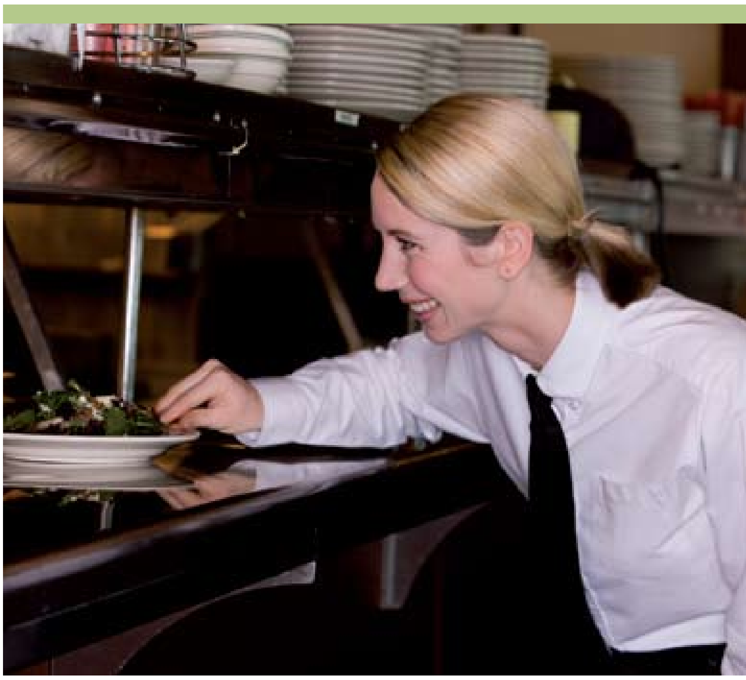
While part time workers are more likely to be located in the service industries and in lower skilled occupations than full time workers, they are not confined to particular occupations, industries or skill levels.

Why has part time employment grown so fast?

The drivers of the increase in part time employment are varied. They include factors relating to job seekers (supply factors) and employers (demand factors). A key supply side factor is the entry into the labour force of people combining employment and other activities such as education and raising a family. An important demand side factor is the use of part time work by employers to increase operational flexibility.

Are part time jobs 'bad' jobs?

There has been much debate about the quality of part time jobs. Part time workers receive less training and have poorer promotion prospects than full time workers. Because of the strong link between part time and casual employment, part time workers have less access to some conditions of employment, such as paid leave. But for a large share of part time workers these are secondary considerations – for example, most younger workers are combining part time work with education or training. Overall, part time workers are as satisfied with their jobs as full time workers.



Composition of the part time workforce by age and gender, 2007 (Per cent)

Age range	Men	Women	Total
15–24 years	11.6	16.0	27.6
25–54 years	10.6	44.1	54.7
55–64 years	4.4	9.0	13.4
64 years and over	2.5	1.8	4.3
Total	29.1	70.9	100.0

Areas of policy interest

There is a high level of involuntary part time employment among certain demographic groups, such as mature aged males and younger people. Around 25 per cent of women who are working part time, and around 35 per cent of male part time workers, would prefer to work more hours. The policy challenge is to ensure that these workers do not become trapped in such jobs. The Commission paper makes a number of suggestions for further research to help inform policy formulation in this and other areas.

Part Time Employment: The Australian Experience

Productivity Commission Staff Working Paper

Released June 2008

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Modelling assistance options for the auto industry

Productivity Commission modelling indicates that the current program of reductions in assistance for the automotive industry will have economy-wide benefits.

The Commission was asked by the Government to undertake modelling of the economy-wide effects of assistance options and scenarios identified by the current Bracks Review of Australia's automotive industry. The modelling is to assist the Review, as well as inform public debate and the Government's deliberations.

The options cover various combinations of tariffs and assistance under the Automotive Competitiveness and Investment Scheme (ACIS). The results of the modelling are presented in a new Commission Research Report: *Modelling the Economy-wide Effects of Future Automotive Assistance*.

The Commission's modelling indicated that there would be economy–wide benefits from further reductions in assistance to the automotive sector, particularly from decreases in tariffs. It also indicated that the economy-wide benefits would be larger under the assistance reduction program currently in place than under options that would prolong higher assistance for the industry. The model projected potential net benefits to the community of some $0.5 billion a year, from reducing tariffs to 5 per cent in 2010 and phasing out ACIS as scheduled under the current legislated plan, with gains to consumers and other industries outweighing negative impacts on the automotive industry.

Modelling also indicated that a significant further appreciation of Australia's currency, associated with the mining boom, would have a much greater impact on the automotive industry than scheduled assistance reductions.

The Commission found that its modelling results were not significantly affected by consideration of influences not captured directly by the model, such as adjustment costs and 'spillover' effects.

Tariffs tax domestically-produced goods as well as imports

A tariff directly increases the price of the imported good. Higher import prices allow domestic producers of similar goods to increase their prices and profits, which in turn encourages expansion of domestic production. So in effect, the expansion is paid for by domestic consumers — from the consumer's perspective, tariffs impose a 'tax' on purchases of both imports and domestically-produced substitutes. But whereas the government receives the revenue from the tariff on imports, local producers receive the proceeds from the higher prices which the tariff allows them to charge.

The expansion in domestic production of the protected good bids resources away from other industries (particularly those facing international competition which cannot increase their prices). But this comes at a net cost to the economy: the resources are used to produce goods that could have been imported more cheaply. The net reduction in consumption of the protected goods (as a result of the 'tax' effect of the tariff) also imposes a net cost.

Tariffs versus subsidies

If instead a local industry were assisted by a production subsidy, the local price of competing imports would not increase. The price of subsidised locally produced goods could fall or remain the same, but local production would expand and take a larger share of the market. Compared with a tariff, a production subsidy avoids the loss from reduced consumption but, as for the tariff, still generates a loss by drawing resources into the protected industry from other sectors. The funds for the subsidy also must be raised from general taxes, which impose some real costs of their own.

The auto industry receives a range of assistance

The general tariff rate for passenger motor vehicles and components, which was reduced to 10 per cent in 2005, remains at least twice the rate applying since 1996 to most other manufacturing activities (excluding the textiles, clothing and footwear sector, the subject of a parallel government review). Budgetary assistance also remains substantial, primarily through the Automotive Competitiveness and Assistance Scheme (ACIS).

The Commission estimated that the automotive industry received around $1.1 billion in support in 2006-07, from three sources:

- a tariff of 10 per cent on imported passenger vehicles
- a tariff of 5 per cent on light commercial and 4WD vehicles
- the ACIS program, which provides around $0.5 billion in duty credits a year.

Additional support is provided by fringe benefit provisions which favour fleet sales, and the luxury car sales tax which primarily affects imported vehicles. The industry also has access to a range of support measures generally available to business, such as R&D grants and export assistance.

In 2002 the Government announced a reduction in tariffs to 5 per cent in 2010, and an extension and expansion of the ACIS program until 2015.

Modelling Economy-wide Effects of Future Automotive Assistance

Productivity Commission Research Report
Released June 2008

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Stop Press

The Commission has prepared a technical supplement to its auto modelling report in response to a separate modelling exercise concerned with terms of trade effects. The supplement reaffirms the Commission's approach and conclusions. (Available from the Commission's website.)

New inquiry

Government drought support

The Productivity Commission has been asked to undertake a public inquiry into government arrangements for drought support, reporting by the end of February 2009. Australian ministers for primary industries have agreed that current approaches to drought and exceptional circumstances are no longer the most appropriate in the context of a changing climate, and that drought policy must be improved to create an environment of self-reliance and preparedness and to encourage the adoption of appropriate climate change management practices.

Specifically, in relation to farmers, farm businesses and farm dependent rural small businesses, the Commission has been requested to:

- report on the appropriateness, effectiveness and efficiency of the Commonwealth, state and territory governments' business support and income support measures
- identify impediments to improving self-reliance and preparedness for periods of financial difficulty
- identify the most appropriate, effective and efficient responses by Commonwealth, state and territory governments, to build self-reliance and preparedness to manage drought.

The inquiry is part of a national review of drought policy that also includes an expert panel's assessment of the social dimensions of the impacts of drought and the current government and non-government social support services available to farm families and rural communities; and the Bureau of Meteorology and Commonwealth Scientific and Industrial Research Organisation's assessment of what a changing climate means for drought in Australia and the appropriateness of using the concept of exceptional climatic circumstances to trigger the availability of assistance measures. The Commission will draw on the findings of these assessments.

During the course of the inquiry, the Commission will travel throughout rural and regional areas for meetings and public hearings. In addition, written submissions from interested parties are invited. A draft report will be released in October.

Government Drought Support Public Inquiry

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Local government revenue raising

Productivity Commission research indicates that there is some capacity for local governments to raise additional revenue. Whether they should do so, however, will depend on the willingness of the local community to pay for the additional services that could be provided.

A recent Commission research report '*Assessing Local Government Revenue Raising Capacity*' examined the capacity of different types of local councils to raise revenue, and the impacts of any regulatory limits on their revenue-raising capacity.

Local government revenue consists of own-source revenue and grants from other spheres of government. Own-source revenue represents about 83 per cent of total revenue. Local governments in urban areas are predominantly funded from their own sources of revenue, particularly rates, fees and charges. For most rural and remote councils, grants are also a substantial source of their revenue.

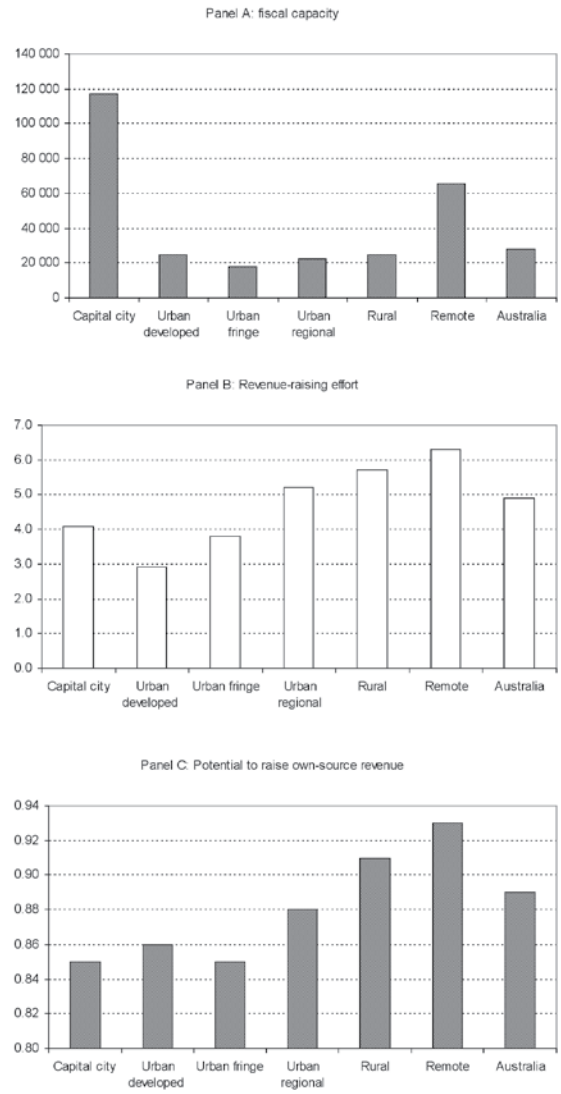
One approach to assessing the capacity of local governments to raise additional revenue is based on the *fiscal capacity* of a local government – that is, the aggregate after-tax income of its local community.

Drawing on estimates of the fiscal capacity of local governments across Australia, as well as their revenue-raising, the Commission calculated the potential of councils to raise *additional* revenue. The estimates suggest that capital city, urban developed and urban fringe councils have the highest potential to raise additional revenue, and remote and rural councils have the lowest. On average, compared with hypothetical benchmarks, councils are raising about 88 per cent of their revenue-raising potential. However, whether councils can realise their hypothetical revenue-raising potential will depend on their individual circumstances and the willingness of their communities to pay. For many, but not all, urban councils, such an increase in revenue-raising effort would result in financial independence. However, a significant number of rural and remote councils would remain dependent on grants.

State governments impose a variety of legislative and regulatory constraints on the use of local government revenue-raising instruments. However, except for New South Wales, it was not clear that this was significantly affecting revenue raising.

The Commission report contains a set of guiding principles for the revenue raising and expenditure decisions of local government. Application of these principles would provide a more effective way to determine those services that local communities really want and value, and how much they are prepared to pay for them. In this way, local governments can enhance the well-being of their communities.

Estimated fiscal capacity and revenue-raising effort by class of council 2004-05



Assessing Local Government Revenue Raising Capacity	
Productivity Commission Research Report. Released April 2008	
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Australia's consumer policy framework

In a comprehensive review of Australia's consumer policy framework, the Commission recommended the introduction of a single generic consumer law to apply across all states and territories, among many other reforms.

A recent Commission inquiry report found that, while Australia's consumer policy framework has considerable strengths, there are also some significant weaknesses. Deficiencies include:

- the division of responsibility between the Australian and State and Territory Governments, which leads to variable outcomes for consumers, added costs for business and lack of responsiveness in policy making
- gaps and inconsistencies in the policy and enforcement tool kit and weaknesses in redress mechanisms for consumers.

These problems will make it increasingly difficult to respond to rapidly changing consumer markets, and mean that the associated costs for consumers and the community will continue to grow.

Establish clear objectives

The Commission considered that a set of clear objectives and supporting principles is required to anchor the future development of consumer policy. The overarching objective should be to improve consumer wellbeing by fostering effective competition and enabling the confident participation of consumers in markets in which both consumers and suppliers can trade fairly and in good faith.

A national approach

The Commission saw a pressing need to put in place institutional arrangements that are more compatible with the increasingly national nature of Australia's consumer markets and that will deliver more timely and effective policy change than the current regime. In keeping with many of the other key policies governing commerce in Australia, greater responsibility for consumer policy development and enforcement should reside with the Australian Government.

The first step in this process should be the introduction of a single generic consumer law applying across Australia. This would be based on the consumer provisions in the Trade Practices Act, modified to address gaps in its coverage and scope, but retaining the States' enforcement responsibilities for the generic law.

Other measures proposed by the Commission include:

- Transferring to the Australian Government responsibility for regulating the provision of consumer credit and related advice by finance brokers and other intermediaries (with ASIC as the primary regulator)
- A similar transfer of responsibilities to the Australian Government for product safety matters, buttressed by the capacity for individual states and territories to put in place temporary bans

- Oversight by COAG of a general reform program of industry-specific consumer regulation
- Modification of some regulatory requirements for utility services and home building
- Enhancement of consumers' access to remedies where they suffer detriment from breaches of consumer law, including improved alternative dispute resolution processes and greater scope for regulators to undertake class actions on behalf of consumers
- A range of new enforcement tools, such as civil pecuniary penalties
- The introduction of a law against unfair contract terms
- Improvement of mandatory disclosure requirements
- Additional pubic funding for consumer advocacy and policy related research, including the establishment of a National Consumer Policy Research Centre.

The Commission estimates that the proposed reform package could provide a net gain to the community of between $1.5 billion and $4.5 billion a year. Most of the benefits would come from improving the effectiveness of existing measures and their enforcement, or lowering compliance costs for business.

Ministerial Council response to consumer policy paper

On 23 May 2008, the Ministerial Council on Consumer Affairs announced a commitment to meeting the Council of Australian Governments' deadline of October 2008 for developing enhanced national processes to improve the consumer policy framework, drawing on the Commission's final report. Ministers agreed in principle to adopt a common overarching objective for Australian consumer policy based on the Commission's recommendations.

Review of Australia's Consumer Policy Framework	
Final Inquiry Report. Released May 2008	
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Review of Mutual Recognition Schemes

The Commission has been asked to review the Mutual Recognition Agreement (MRA) and the Trans-Tasman Mutual Recognition Arrangement (TTMRA).

Under these schemes, jurisdictions in Australia and New Zealand mutually recognise compliance with each others' laws for the sale of goods and the registration of occupations. This means goods sold in one jurisdiction can be sold in other jurisdictions without satisfying additional requirements. Similarly, people with occupational registration in one jurisdiction can practise in other jurisdictions. This creates benefits from the free movement of goods and labour across borders.

The Commission has been asked to review the operation of the MRA and TTMRA in the context of relevant developments in Australia and New Zealand since the last review, in 2003.

The Commission released an Issues Paper in June. A draft report will be released in October, and a final report will be presented to Australian and New Zealand Governments in January 2009.

Review of Mutual Recognition Schemes	
Productivity Commission Issues Paper. Released June 2008	
Contact	Patrick Laplagne (03) 9653 2167
Email	mutualrecognition@pc.gov.au

Recent releases

July 2008

Financial Performance of Government Trading Enterprises 2004-05 to 2006-07 (Commission Research Paper)

Review of Regulatory Burden on the Upstream Petroleum (Oil and Gas) Sector (Issues Paper)

Modelling Economy-wide Effects of Future TCF Assistance (Research Report)

Government Drought Support (Issues Paper)

Health Costs and Policy in an Ageing Australia (Chairman's Speech)

Annual Review of Regulatory Burdens on Business: Manufacturing and Distributive Trades (Draft Research Report)

June 2008

Part Time Work: The Australian Experience (Staff Working Paper)

Review of Mutual Recognition Schemes (Issues Paper)

Modelling Economy-wide Effects of Future Automotive Assistance (Research Report)

May 2008

What Role for Policies to Supplement an Emissions Trading Scheme? Productivity Commission Submission to the Garnaut Climate Change Review

Behavioural Economics and Public Policy (Roundtable Proceedings)

Review of Australia's Consumer Policy Framework (Inquiry Report)

Defence Housing Australia (AGCNCO Investigation Report Number 13)

April 2008

Assessing Local Government Revenue Raising Capacity (Research Report)

Commission news

Productivity Commission celebrates 10 year anniversary

On the 16th April, the Productivity Commission celebrated its 10 year anniversary at a special event for staff, past and present, held simultaneously via videolink in Canberra and Melbourne. Terry Moran, Secretary of the Department of the Prime Minister and Cabinet, and Ken Henry, Secretary of the Treasury, addressed the function. Ken Henry congratulated the Commission for its achievements over the decade, and noted its unique role in the policy formulation process. Terry Moran remarked on the Commission's prolific output and its contribution to policy debate across many areas, including the COAG reform process.

Gary Banks reappointed as Chairman

In April the Treasurer announced the reappointment of Gary Banks as Chairman of the Productivity Commission for a further five years. Mr Banks has been Chairman of the Commission since it was established as an amalgamation of the Industry Commission, Economic Planning Advisory Commission and Bureau of Industry Economics in 1998. The Treasurer noted that under Gary's stewardship, the Commission has become a vital, independent source of advice to government. As well as his role as Chief Executive, Gary has headed a number of major Commission inquiries and chaired the Australian Government's Taskforce on Reducing Regulatory Burdens on Business.

Two new Commissioners appointed

The Government appointed Dr Matthew Butlin as a part time Commissioner in May. Dr Butlin recently completed an Associate Commissioner appointment to the annual review of regulatory burdens on businesses.

Ms Louise Sylvan has been appointed as a full time Commissioner. Ms Sylvan has been Deputy Chair of the ACCC for the last five years and a former CEO of the Australian Consumers Association.

New Associate Commissioner

Mr Bob Granger has been appointed as a part time Associate Commissioner on the Commission's inquiry into government drought support. Bob has extensive experience in the agriculture and horticulture sectors.

10 year anniversary


Commission Chairman Gary Banks welcomed guests to the Commission's 10 year anniversary celebrations in April


Gary Banks (left) with Ken Henry, Secretary of the Treasury and Terry Moran, Secretary of the Department of the Prime Minister and Cabinet (right) at the event

Parental leave inquiry


Commissioner Angela McRae at the Dandenong community consultation for the parental leave inquiry held at the Dandenong Town Hall, Victoria in May 2008

Current commissioned projects

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

Government Drought Support – Public Inquiry

Initial submissions are due by 22 August 2008. A draft report will be released in October. Public hearings will be held during November and December with final submissions due by December. A final report will be completed by 27 February 2009.

Contact: Rick Baker (03) 9653 2146

Email: droughtreview@pc.gov.au

Paid Maternity, Paternity and Parental Leave – Public Inquiry

A draft report will be released in September 2008, followed by public hearings in November. The final report is due for completion in February 2009.

Contact: Troy Podbury (02) 6240 3257

Email: parentalsupport@pc.gov.au

Review of Regulatory Burden on the Upstream Petroleum (Oil and Gas) Sector – Commissioned Study

Initial submissions due by 15 August 2008. A draft report will be released in November. A final report will be completed by 9 April 2009.

Contact: Chris Chan (03) 9653 2219

Email: upstreampetroleum@pc.gov.au

Review of Mutual Recognition Schemes – Commissioned Study

Draft report to be released in October 2008. Final report due January 2009.

Contact: Patrick Laplagne (03) 9653 2167

Email: mutualrecognition@pc.gov.au

Business Regulation Benchmarking – Stage 2 – Commissioned Study

Final report is due for completion in August 2008.

Contact: Adam Sheppard (02) 6240 3294

Email: regulationbenchmarking@pc.gov.au

Annual Review of Regulatory Burdens on Business – Commissioned Study

Final report to Government by 31 August 2008.

Contact: Les Andrews (02) 6240 3251

Email: regulatoryburdens@pc.gov.au

Chemicals and Plastics Regulation – Commissioned Study

Final report to be released 7 August 2008.

Contact: Paul Belin (03) 9653 2177

Email: chemicalsandplastics@pc.gov.au