

Barton Deakin Brief: Productivity Commission's five year productivity review

24 October 2017

Today, the Productivity Commission publicly released its report on Australia's productivity performance: *Shifting the Dial: 5 year productivity review*.

The report covers the factors and influences that may affect Australia's economic performance over the medium term and provides recommendations on where Government priorities should lie to enhance national welfare.

This Barton Deakin Brief outlines the Productivity Commission's report and its key recommendations.

Background

On 16 September 2016 the Turnbull Government tasked the Productivity Commission to undertake a 12 month inquiry into Australia's productivity performance and provide recommendations on reform priorities.

The Commission was asked to:

1. analyse Australia's productivity performance in both the market and non-market sectors including an assessment of the settings for productive investment in human and physical capital and how they can be improved to lift productivity
2. examine the factors that may have affected productivity growth, including an assessment of the impact of major policy changes, if relevant
3. prioritise potential policy changes to improve Australian economic performance and the wellbeing of Australians by supporting greater productivity growth.

The Commission was encouraged to consult widely and undertake appropriate public consultation processes, including the acceptance of public submissions and the Commonwealth, state and territory governments.

The final report was presented to the Government in August 2017 and was publicly released today.

The Productivity Commission's Chairman, Peter Harris AO, will present the report to State and Territory Treasurers at the Council of Federal Financial Relations meeting on 27 October.

This report is the first in a regular series which will be undertaken at five-yearly intervals providing an overarching analysis of where Australia stands in terms of its productivity performance.



Commission's Recommendations

The Report focuses its recommendations in five broad policy areas where there is the greatest scope for deliverable gains in the medium term:

Healthier Australians

Here, the Commission suggests that implementing its recommendations will lead to substantial improvements in the health of Australians and estimates a 20-year stream of economic benefits at approximately \$140 billion.

Recommendation 2.1 - Implement nimble funding arrangements at the regional level

Commonwealth, State and Territory Governments should allocate funding pools to Primary Health Networks and Local Hospital Networks for improving population health, managing chronic conditions and reducing hospitalisation at the regional level.

Recommendation 2.2 - Eliminate low-value health interventions

Australian governments should revise their policies to more rapidly reduce the use of low-value health interventions.

Recommendation 2.3 - Make the patient the centre of care

Australian governments should re-configure the health care system around the principles of patient-centred care, with this implemented within a five year timeframe.

Recommendation 2.4 - Use information better

Australian governments should cooperate to remove the current messy, partial and duplicated presentation of information and data, and provide easy access to health care data for providers, researchers and consumers.

Recommendation 2.5 - Embrace technology to change the pharmacy model

The Australian Government should move away from community pharmacy as the vehicle for dispensing medicines to a model that anticipates automatic dispensing in a majority of locations, supervised by a suitably qualified person. In clinical settings, pharmacists should play a new remunerated collaborative role with other primary health professionals where there is evidence of the cost-effectiveness of this approach.

Recommendation 2.6 - Amend alcohol taxation arrangements

The Australian Government should move towards an alcohol tax system that removes the current concessional treatment of high-alcohol, low-value products, primarily cheap cask and fortified wines.



Future skills and work

The Commission suggests that there are substantial benefits to be gained through raising foundational skills and providing greater access to learning through life.

Recommendation 3.1 - Improve educational outcomes of school students

Australian governments should:

- address teaching out of field within a tight time-frame
- improve the skills and effectiveness of the existing teacher workforce, with comprehensive professional development initiatives and other mechanisms, supported by evidence that these are genuinely effective
- continue the current reforms to improve the quality and effectiveness of new teachers, but test their value.

Recommendation 3.2 - Proficiency not just competency

The Australian Government should develop tools for proficiency-based assessment for skills where employers want to know how well an employee can perform a task, rather than whether they can perform it at all.

Recommendation 3.3 - Disruption of education through independent assessment

The Australian Government should develop a framework to facilitate the independent accreditation of skills obtained through any learning method.

Recommendation 3.4 - Covering universities under consumer law

The Australian Government should monitor consumer law developments in Australia and the United Kingdom (UK), to ensure that the Australian Consumer Law applies to the higher education sector.

Recommendation 3.5 - Make it easy to access learning options

The Australian Government should ensure that Australians of all working ages can readily access comprehensive and up-to-date information about career and education options, including how to make career changes later in life.

Better functioning towns and cities

The Commission suggests that implementing its recommendations for better functioning towns and cities will lead to an approximate \$29 billion increase in GDP in the long-term.

Recommendation 4.1 - Improve governance arrangements for public infrastructure

The institutional and governance recommendations of the Productivity Commission's 2014 Public Infrastructure Inquiry remain valid and should be implemented by all governments as a priority. The 2014 Report has a dedicated chapter on how to do it.



Recommendation 4.2 - Short-term reforms to improve road provision

Several steps can and should be undertaken by State and Territory Governments in the short term to improve the quality and value for money from road services, and as preconditions for a subsequent

Recommendation 4.3 - Establish road funds

State and Territory Governments should establish Road Funds to hypothecate road-related revenues to expenditures. Initially designing Road Funds on the basis of heavy vehicle revenues and expenditures will help to sequence heavy vehicle and broader road transport market reform objectives and facilitate compositional shifts to new road funding sources over time.

Recommendation 4.4 - Road user charging pilots

To communicate the need for road funding reform to the community, State and Territory Governments should consider the use of road user charging pilot programs, as has been successful in overseas jurisdictions.

Recommendation 4.5 - Apply competition principles to land use policies

There should be national agreement to apply competition policy principles to land use regulation and policies.

There should be a particular ban on regulation that explicitly or implicitly favours particular operators and sets proximity restrictions.

Recommendation 4.6 - Better provision for growth

- State, Territory and Local Governments genuinely engaging with the community on alternatives for meeting development goals
- State and Territory Governments providing formal guidance on how Local Government planning strategies should be developed and on the application of overarching planning policies
- State, Territory and Local Governments ensuring adequate provision in growth strategies for infrastructure and public amenities (such as 'green' space) given the difficulty of retro-fitting these features.

Recommendation 4.7 - Implement best practice in development assessment

State and Territory Governments should implement known best practice in development assessment processes, as embodied in the model developed by the Development Assessment Forum.

Recommendation 4.8 - Remove stamp duties and implement transition to land tax

State and Territory Governments should move from stamp duties on residential and commercial properties to a broad-based land tax on the unimproved value of land.



Improving the efficiency of markets

The Commission has conservatively estimated benefits of \$3.4 billion annually from its recommendations to improve the efficiency of markets.

Recommendation 5.1 - Urgent action is needed to fix Australia's energy markets

Australian governments must cooperate to reform the national electricity market as a priority.

Australian governments must work cooperatively to resolve the issues currently confronting Australian energy markets. They must:

- stop the piecemeal and stop-start approach to emission reduction, and adopt a proper vehicle for reducing carbon emissions that puts a single effective price on carbon
- clearly articulate the acceptable trade-off between reliability and cost
- achieve more efficient pricing, by ensuring that:
 - prices paid to producers reflect any additional costs they impose on the system (such as frequency management)
 - access to the grid, rather than just use, can be priced (so people using the grid as a back-up pay for this service)
 - prices to consumers reflect the nature of the demand that they require from the system
- provide clear strategic direction to the expert bodies, and a clearer accountability for outcomes
- let the market regulators and participants get on with their work, holding them to account for the outcomes
- ensure that short-term fixes are technologically neutral and move the system toward a sustainable long-run outcome.

Recommendation 5.2 - Creating an environment more conducive to innovation

Australian governments must be more responsive and willing to experiment to create a more innovative ecosystem for Australian business.

Four areas where governments can make a material difference is in:

- establishing consumer rights over their own data, including the right to transfer their data
- removing the barriers to greater use of public data, including developing secure access that still respects privacy
- adopting a copyright law with fair use exceptions
- removing the competition law exemption for intellectual property.



More effective governments

Recommendation 6.1 - Seek Commonwealth-state/territory agreement to a formal joint reform

Recommendation 6.2 - Tax reform as an integral part of the joint reform agenda

To improve confidence between levels of government, and support more efficient provision of public services, governments should adopt a commitment to tax changes that improve revenue-sharing arrangements between governments as an essential element of a Joint Reform Agenda.

Recommendation 6.3 - Improve fiscal strategy disciplines

Governments should adopt measures that will better inform and improve accountability for spending and fiscal strategy decisions.

Recommendation 6.4 - Renew intergovernmental relations

Recommendation 6.5 - Ensure accepted Public Service reforms are implemented

The Australian Public Service Commission (APSC) should evaluate what has been done over the past five years in relation to the themes arising from agency and sector-wide reviews. The APSC evaluation should be used to inform subsequent training initiatives to address any shortcomings.

Recommendation 6.6 - Strengthen internal capabilities

Australian Governments should implement a suite of changes to strengthen policy development and delivery.

Recommendation 6.7 - Support local Government performance

State and Territory Governments should draw on the experience of Victoria and require more meaningful (including comparable) performance reporting by Local Governments, providing support on this where needed.

Further Information

To read the Productivity Commission Report, click [here](#).

To read the Treasurer's Press Release, click [here](#).

To read Productivity Commission Inquiry's terms of reference, click [here](#).

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