



**SOUTH AUSTRALIAN GOVERNMENT  
RESPONSE TO THE PRODUCTIVITY  
COMMISSION REVIEW OF NATIONAL  
COMPETITION POLICY REFORMS  
DISCUSSION DRAFT REPORT**

*December 2004*

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## **1.0 OVERVIEW**

The Government of South Australia welcomes the opportunity to respond to the Review of National Competition Policy Reforms Discussion Draft report.

As a guiding principle, South Australia acknowledges that legislation should not unnecessarily restrict competition and supports a program of ongoing reform provided it is appropriately balanced and properly assesses public benefit, taking social, environmental and economic considerations into equal account. Reform should be targeted at those areas where robust analysis shows there is the greatest potential net public benefit.

As the Discussion Draft explains, the original expectations of competition reform expressed in the latter half of the 1990s were that a reform program built on a presumption in favour of competition would enhance Australia's economic performance and living standards. The Productivity Commission (PC) acknowledges that modelling undertaken by it in 1995 and 1999 estimated potential long term GDP gains of up to 5.5 per cent. Modelling undertaken for this inquiry indicates that recent reforms in the six key infrastructure sectors have generated a permanent increase of 2.5 per cent in GDP (page 33). Whilst recognizing the imperfect nature of economic modelling, it is legitimate to ask, on what basis have past predictions of economic benefits been made and how will future benefits be predicted, not just in economic terms but more broadly? This is of critical importance if COAG is to identify reform priorities with confidence. Whilst the Discussion Draft attributes significant economy-wide productivity gains to National Competition Policy (NCP) since its introduction almost ten years ago, South Australia notes that the gains at an economy wide level have been accompanied by a degree of hardship for some individuals, regions and industries.

Before any future national reform agenda is embarked upon, Australian jurisdictions need to collectively enunciate what they expect from a renewed reform program. South Australia contends that the Discussion Draft does not present an overarching reform objective. Rather, it describes a number of discrete areas where reform could proceed, either subsequently or concurrently and at different speeds. It also urges the completion of outstanding NCP reforms.

The Discussion Draft report is therefore effectively proposing a return to a more mainstream policy reform agenda process. This is not so much a fundamental shift but is in fact consistent with the evolution of competition policy and related reform to date. There may be some remnant areas for further efficiencies that may have material public benefits, but by and large it appears that the integrated NCP reform program will soon have run its course.

The PC proposals to move into social services such as health and the flagging of areas like education, are generally more about efficiency and cost-effectiveness in service delivery rather than an extension of the NCP rationale. This would appear to lend itself to a sectoral approach for future reforms, through Ministerial Councils with COAG oversight. There are obviously advantages and disadvantages to both a sectoral approach and a more integrated approach, and there are various models that

could be explored which combine elements of each. The Discussion Draft alludes to this on page 294.

The real difference is that broad, integrated reform is relatively easy to articulate but more difficult to implement. Implementation difficulties arise for a number of reasons, not the least of which is that individual strands under a broad model are frequently not regarded as having sufficient authority. This can result in a lack of urgency in pursuing some areas of reform. Conversely, if an integrated reform agenda is done well, it can bring wider benefits. There is an obvious need for ongoing oversight by COAG, even if reform is pursued sector by sector.

In order to provide impetus at the national level, COAG could describe some broad reform principles to be universally applied. It would then be a matter for jurisdictions to collaboratively map out a detailed reform agenda on a particular area – for example ‘health’ or ‘natural resource management’ (the two priority areas identified by the Productivity Commission). Even then there would be challenges in defining reform boundaries. South Australia notes that in the area of health for example, the Discussion Draft vacillates between references to ‘health’, ‘health and aged care’ or the broader term of ‘human services’.

In the Discussion Draft, in general terms ‘reform’ interchangeably refers to measures to reduce the cost of service provision; measures to improve the coordination of policy implementation; and measures to increase competition and encourage market based outcomes. Collectively, these could best be described as ‘efficiency reforms’ rather than competition reforms per se. There is obviously much work to be done to enable COAG to firstly define what a national reform effort will seek to achieve, prioritise the reform effort and ensure that it is not unnecessarily duplicating reforms that are already being pursued.

The Discussion Draft emphasises the need to adequately assess the net public benefit of future reform efforts, including adequate consideration of social and environmental issues, as well as economic issues. South Australia wishes to stress that such assessment must be meaningful and if a case for reform is not made based on consideration of social, environmental and economic impact, then the reform should not proceed or should be remodelled and reassessed until it does meet these requirements. The assessment should be sufficiently detailed to include consideration of the impact on specific regions.

The Productivity Commission has generally not acknowledged jurisdiction led reform efforts that overlap with the various potential areas of national reform outlined in the Discussion Draft. Similarly, a number of the areas identified by the Productivity Commission are already subject to formal agreements between the Commonwealth and State Governments. Any moves to a national program of reform should be respectful of those agreements and seek to proceed based on consensus between the Commonwealth and the States and Territories. Existing intergovernmental processes may prove to be more suitable mechanisms. For example, the Discussion Draft acknowledges, that in the case of mooted education reform, this is better left to State jurisdictions to work through existing structures and forums rather than attempting to fit this into a national effort. In the case of health reform, South Australia has embarked on a major process of Generational Health Reform following a review of

the State's health system by John Menadue. Moreover, the Prime Minister recently wrote to State and Territory leaders placing the responsibility for a review of the health system on the task force working from the Department of Prime Minister and Cabinet. The Productivity Commission will also conduct a study into health workforce issues. Any effort at national health reform should acknowledge and learn from the reform efforts already underway and take care to avoid duplication of effort. South Australia seeks clarification on where the proposed COAG led review of Australia's health care system would fit in the context of the other initiatives mentioned above.

### **Structure of the SA Government response**

Further to the above introductory comments (Part 1), South Australia's specific response to selected draft proposals as detailed below is in two further parts:

Part 2, 'Process and Structure Issues' provides comment on issues related to the structure of future reforms and the processes by which the reforms might be shaped and implemented in the future.

Part 3, 'Response to Reform Priorities Identified by the Productivity Commission' responds directly to some of the priority areas for reform identified by the PC.

Each section draws on South Australia's experience with NCP to date but attempts to focus on what a revised national reform program might look like and how it could best be progressed.

## 2.0 PROCESS AND STRUCTURE ISSUES

### 2.1 Structure of future reform

Productivity Commission draft proposal:

***The general framework for future nationally coordinated reform***

*The institutional framework(s) used to progress future nationally coordinated reforms should be underpinned by:*

- *clearly enunciated objectives and reform principles;*
- *effective preparatory work detailing the benefits of reform in particular sectors and the specific changes required within jurisdictions to reap those benefits;*
- *some flexibility for jurisdictions to determine how to implement reforms, but with sufficient specification of desired outcomes to allow for effective monitoring of reform progress;*
- *transparent and independent assessment processes, incorporating a comprehensive public interest test and providing scope for consultation with, and input from, interested parties;*
- *a timetable for the implementation of the review and reform program including, as appropriate, interim targets and provision to refine targets as new information emerges, or if circumstances change;*
- *independent monitoring and public reporting on progress made in implementing the program; and*
- *robust mechanisms to lock-in the gains of past reforms and prevent backsliding.*

SA Government response:

South Australia agrees with this draft proposal. Although in some respects the need for reform to be underpinned by these elements appears self-evident, South Australia would like to stress their importance if reform is to be successful. The Discussion Draft paper acknowledges the difficulty in clearly enunciating objectives and principles that could be universally applied across disparate areas of reform.

South Australia's view is that a reform program of the type suggested by the Productivity Commission, will in many cases lend itself to a sectoral approach to reform with COAG oversight. As the Discussion Draft states on page 294:

‘COAG stewardship could occur...through: a formal successor to NCP; some other broadly-based COAG reform agenda and framework; a series of COAG sponsored sector-specific reform programs; or some combination of all three.’

To take the successful example of the National Water Initiative, this was a COAG sponsored sector-specific reform based on a set of widely shared reform objectives and a willingness from jurisdictions to work collaboratively to reach agreement.

There are several advantages of a sector by sector approach, each of which can help to address some of the other process issues identified in the Discussion Draft, advantages include:

- clearer identification of objectives
- better suited to explanation and identification of potential impacts at a community and regional level
- greater flexibility if the approach or targets need to be modified.

Such an approach would carry its own risks and COAG would need to define its role in order to address these. South Australia is not suggesting that a sectoral approach is inherently better than an integrated agenda, rather, given the present circumstances and options, reform is likely to be better suited to something less integrated than NCP. As the above draft proposal suggests, to succeed it would need to establish cogent, coherent areas of reform.

In terms of the ‘clearly enunciated objectives and reform principles’ referred to, as mentioned previously, SA strongly supports in-depth consideration of how future reforms can better predict and measure the range of outcomes arising from reform. To take the two examples of gambling and insurance, in each of these areas the SA Government considers the NCP did not adequately assess the social implications of competition based legislative reform in these areas.

### **2.1.1 Role of the regulator**

Clearly, the revised agenda will have implications for the role of the NCC or its successor.

South Australia does not wish to provide detailed comment on its view of the performance of the NCC to date. However, in order to inform comments on this draft proposal the following observations are offered.

National Competition Policy provided the NCC with significant powers to oversee and facilitate the reform agenda. In practical effect, these powers have impinged on the sovereignty of State Governments. Competition payments and the NCC’s ability to recommend the withholding or withdrawal of such payments amplified that power and provided a blunt instrument by which NCC could recommend enforcement to the Commonwealth Treasurer.

With the benefit of hindsight, the NCC made two key errors in carrying out its responsibilities:

- Firstly, it was too slow to recommend penalties for jurisdictions who failed to implement agreed reform. As a result, many jurisdictions and industry sectors began to see the NCC as ineffectual, which resulted in a predictable slowing of reform efforts in some areas. In response, the first significant penalties recommended by the NCC were seen as punitive.
- Secondly, the NCC initially did not place great enough emphasis on its role as a facilitator of reform by consistently working closely with jurisdictions to work through issues in a consensual manner. If the NCC had placed greater emphasis on facilitating reform, this would have contributed to a wider and deeper understanding of the reasoning and processes behind NCP. Unfortunately, NCP reform has now too often come to be seen as an exercise in compliance that must

be endured in order to avoid payment reductions rather than a meritorious reform process in its own right.

Therefore, South Australia strongly suggests that the NCC or its successor should focus on its role as a facilitator of reform once COAG determines the areas in which it wants to proceed.

Also, as the ultimate steward of reform, COAG should consider its preferred role.

### **2.1.2 Competition reform payments**

As the PC acknowledges, national competition payments are the States' share in the dividends flowing from making markets more efficient and competitive. The funds are used for education, health, roads and other areas determined by State and Territory Governments, and have never been tied to a purpose dictated by the Commonwealth. States have a legitimate entitlement to receive the payments and utilise them as they see fit, in the same way the Commonwealth uses increased tax revenue from an expanded economy as it sees fit.

The payments have also provided an incentive to encourage progress in agreed areas of reform. The reality is that in South Australia more reform did occur because of competition payments than otherwise would have been achieved.

Conversely however, it could be argued that in recent times in particular, the payments have become something of a distraction from the main objectives of the reform agenda, and to some extent, have perverted the reform process.

On balance, South Australia is of the view that a financial contribution should continue. Most appropriately, these would be in the form of targeted structural adjustment payments. This is appropriate given that much of the burden of reform falls to State and Territory Governments and regional areas, although the financial benefits of a more liberalised and efficient economy disproportionately falls to the Commonwealth.

If there is to be a financial component, some sort of assessment is essential and some weight should be given to the regional impact assessment in this context.

### **2.1.3 Appeal Process**

The process whereby appeals against assessments can be made to Commonwealth Treasury has proven unsatisfactory. The Commonwealth Treasury does not provide an adequate appeal process from the NCC that considers the evidence and then makes an independent decision after an objective assessment.

The process is cursory, lacks assessment, and Commonwealth Treasury is not provided with, and does not even purport to, examine the background to a legislation review and to consider the matter anew.



The appeal process should be transparent and address the other concerns outlined above. Consideration should be given to the introduction of some form of arbitration process to resolve intractable disputes.

## 2.2 Legislative Review

### Productivity Commission draft proposal:

#### ***The legislation review process***

*Governments should complete the existing legislation review program.*

*A more targeted program of legislation review should then be put in place following the completion of the current NCP. The modified mechanism should:*

- be limited in its scope to areas where reform of anti-competitive legislation is likely to be of significant net benefit to the community;*
- include provision to bring forward second-round reviews where circumstances have changed significantly, or where the external monitoring agency has assessed a previous review outcome to have been 'problematic';*
- give greater emphasis to independent reviews;*
- provide for adequate public consultation;*
- require governments to make review reports public;*
- give explicit recognition to distributional, regional adjustment and other transitional issues in the public interest test;*
- involve national reviews where legislation in individual jurisdictions has a significant impact on the scope to develop national markets; and*
- give more emphasis to monitoring whether review outcomes are within the range of those 'that could reasonably have been reached'.*

### SA Government response:

South Australia agrees that legislation review must be far better targeted and prioritised than has been the case previously. Legislative review should only focus on major issues where there is a clear potential net public benefit, taking account of long term environmental and social impacts. Only in such circumstances is the often arduous legislative review process worth undertaking. Unfortunately, reviews of legislation with an inconsequential competition impact have too often taken up a great deal of time and administrative resources only to achieve little or no real benefit. The Discussion Draft acknowledges the shortcomings of the legislative review process caused by a lack of planning and prioritisation. This should be addressed as a matter of urgency to ensure the remaining legislative review program is timely and effective.

In terms of the South Australian experience, in the case of insurance services, which cover compulsory third party (CTP) and workers' compensation, the Government sees little benefit in continuing to press for further legislative reviews in this area. In November 2000, COAG agreed that South Australia could choose from a range of outcomes in pursuing reform. Subsequently, the NCC concluded that South Australia had not met its reform obligations in this area. The SA Government contends that its reforms were within the range of outcomes determined as acceptable by COAG. Previous legislative reviews have identified a public interest case for retention of monopoly public provision of these services. For workers compensation in particular, the Productivity Commission itself has acknowledged that 'the literature does not

provide a powerful case for either public monopoly or competitive private provision of workers' compensation insurance' and that 'the quality and culture of management is another factor that has a major influence on cost-effectiveness'. (PC 2004, Inquiry Report: National Workers' Compensation and Occupational Health and Safety Frameworks, page 323). The SA Government is therefore focusing on governance, organisational and administrative improvements rather than structural reforms to increase cost-effectiveness in the provision of these services.

It has also tended to be the case that the more removed from Government the review process, the more costly it will be. A requirement for 'independence' should not lead to a necessity to engage often expensive consultants, to the ultimate cost of the public.

In summary, the SA Government supports a modified legislative review program that targets priority areas with the prospect for significant net gains.

### **2.3 South Australia's gate keeping role**

#### Productivity Commission draft proposal:

##### ***Gate-keeping arrangements for new and amended regulation***

*To guard against the unwinding of previous reforms and to help ensure that new regulatory initiatives are in the public interest, all Australian governments should ensure that they have in place effective and independent arrangements for monitoring new and amended legislation.*

*Consideration should also be given to widening the range of regulations encompassed by gate-keeping arrangements and strengthening national monitoring of the gate-keeping arrangements in place in each jurisdiction and the outcomes delivered.*

#### SA Government response:

South Australia has effective arrangements for monitoring new and amended legislation. Whilst being supportive of a continuation of current arrangements South Australia would not support any new or expanded monitoring arrangements as is suggested on page 233 of the Discussion Draft, which states:

'...there should be independent bodies with responsibilities for gate-keeping in each jurisdiction. At least in larger jurisdictions...similar to the...Office of Regulation Review.'

South Australia notes that the 1998 report of the 'Western Australia Regulation Review Strategy Project' assessed the effectiveness of regulation review initiatives in Australia and overseas over a five year period. Those initiatives included establishing offices of regulation review. The report judged the effectiveness of the initiatives to have been marginal, and specifically recommended against the establishment of a Regulation Review Unit in WA.

In South Australia, Cabinet Office within the Department of Premier and Cabinet fills the gate-keeping role. Any proposal to establish a new body would not be supported.

South Australia's process to monitor new legislation and subordinate legislation, assess regulatory impacts and guard against backsliding is as follows.

In July 2003, South Australia implemented a process of community impact assessment including regulatory impact. The process applies to all Cabinet submissions, which ensures that all legislative and regulatory proposals are subjected to this assessment.

The recently updated Department of Premier and Cabinet Circular 19, *Preparing Cabinet Submissions* requires an assessment of costs and benefits on all relevant issues throughout the State. All proposals considered by Cabinet are required to assess the potential regulatory impact, including impacts on small business, environment, regions and families or explain why a given impact is not applicable – thus demonstrating consideration of each impact. Cabinet Office is currently assessing compliance with the community impact assessment process.

Circular 19 requires adequate consultation both within government and with the community. While there is no requirement to release assessments of regulatory impact for consultation, there is a requirement for consultation on restrictions on competition that are serious or intermediate; and also where there are proposed significant changes to government services in the regions.

For regional impact, since July 2003 the SA Government has required the preparation of a Regional Impact Assessment Statement whenever a Government decision is made that will have a *significant* impact on Government service standards in a regional area.

The Office of Regional Affairs (ORA) has detailed information about the policy on its website: <http://www.ora.sa.gov.au/partnerships.shtml>. The ORA has also prepared a 'Guide to Regional Consultation' to further assist agencies. The ORA and Cabinet Office have jointly provided training to agencies on how to assess regional impact for Cabinet Submissions, and the ORA has conducted information sessions on the policy for senior officers across agencies. The Regional Impact Assessment Statements must be released publicly and this is expected to occur by the agency placing the statement(s) on its website.

A further gate keeping mechanism is South Australia's rolling sunset program for regulations. Since 1987, the *Subordinate Legislation Act 1978* (the Act) has provided that new regulations will expire on 1 September one year after the tenth anniversary of the year they were made. The Act sets out a timetable for the review and replacement of regulations or for their expiry. The objective of the Act, as with all sunset programs, is to ensure that regulations remain relevant and are being properly administered. It is one strategy in reducing the regulatory burden on small business.

In reviewing those regulations that are due to expire, agencies are expected to conduct a review incorporating the RIS requirements. Clause 5 of the Competition Principles Agreement (CPA) requires a review of the legislation restricting competition within ten years of having completed the initial review.

The COAG Principles and Guidelines for National Standard Setting and Regulatory Action by Ministers Councils and Standard-Setting Bodies, which were endorsed by

COAG in April 1995 and last amended in June 2004, state that regulations should be reviewed periodically and this may be achieved through sunset programs.

The sunset program is coordinated by Cabinet Office in DPC to lessen the administrative burden on agencies and make more efficient use of Cabinet's time.

## **2.4 Competitive Neutrality**

### Productivity Commission Draft Proposal:

*The competitive neutrality regime should be retained beyond the life of the current NCP.*

### SA Government response:

The SA Government supports the retention of the competitive neutrality (CN) regime that is applicable to significant government business activities where it is appropriate to do so, and where the benefits to be realized outweigh the costs associated with implementation<sup>1</sup>. However, a convincing case is yet to be made for applying CN to small business activities of Government agencies that are otherwise predominantly appropriation-funded and culturally non-commercial.

It is unfortunate that CN has now penetrated into activities that are essentially of a community service nature, where there is some element of charging, co-payment or contribution but no intent by government to act commercially.

The South Australian experience has been that the majority of CN complaints have been in relation to small business activities rather than the large public utilities that were the original focus of the micro-economic reform agenda for significant government businesses.

Even if an objective dividing line can be developed between government commercial businesses on the one hand, and government activities of a community service nature on the other, the justification in terms of cost / benefit analysis of applying CN to small government businesses is extremely doubtful.

The Government also recognizes that structural reform and competitive neutrality are only two elements to be addressed in improving the performance of government business enterprises. Governance, organisational and administrative reforms are other important actions being taken to improve performance, in addition to improved oversight and transparency arrangements, such as the SA Water pricing Transparency Statements, see for example <http://www.treasury.sa.gov.au/water/pdf/wastewater.pdf>.

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<sup>1</sup> Consistent with 2002 CN policy statement p13 at  
<http://www.premcab.sa.gov.au/pdf/competition/CNPolicyJuly2002.pdf>

### **3.0 RESPONSE TO REFORM PRIORITIES IDENTIFIED BY THE PRODUCTIVITY COMMISSION**

#### **3.1 Energy**

##### Productivity Commission Draft Proposal:

*Governments should complete all outstanding NCP electricity and gas reforms. In addition to its current work program, the Ministerial Council on Energy should give priority to:*

- *resolving whether generator market power in particular regions is still excessive and if there is a need for further disaggregation of government owned generation businesses;*
- *assessing whether processes for screening the competition implications of any reintegration in the electricity industry need strengthening;*
- *contributing to the development by CoAG of a more effective process for achieving a national approach to greenhouse gas abatement;*
- *improving the efficiency of retail price and access regulation, with particular emphasis on achieving nationally consistent principles and ensuring there are appropriate incentives for investment; and*
- *establishing a process for independent monitoring of the implementation and outcomes of the energy reform program and a stock take of progress in 2009.*

##### SA Government response:

##### Outstanding National Competition Policy reforms

As tables 2.3 and 2.4 of the Discussion Draft acknowledge, South Australia has met all NCP energy (electricity and gas) market requirements.

##### Generator market power and reintegration screening (dot points 1 and 2 above)

South Australia considers the issue of generator market power and market re-aggregation, as previously raised by the ACCC, as largely a matter for the Commonwealth to address. South Australia has previously expressed this position in the Ministerial Council on Energy Standing Committee of Officials forums.

South Australia is of the view that if re-aggregation of energy market players is leading to market power issues within the NEM, the Commonwealth should address any deficiencies in the *Trade Practices Act 1974 (C'th)*. South Australia has previously written to the Chair of the ACCC on this issue.

South Australia therefore does not support this element of the above draft proposal as it inappropriately places these responsibilities on the MCE, rather than the Commonwealth.

### Greenhouse gas abatement (dot point 3 above)

South Australia agrees there is a need for a more effective national process to achieve a national approach to greenhouse gas abatement. See the below response to the Natural Resource Management draft proposal for further detail.

### Distribution and retail (dot point 4 above)

The draft proposal with respect to nationally consistent regulation of the distribution and retailing of energy and access arrangements is effectively already being implemented under the MCE energy market reform work program. An issues paper on retail and distribution reform has been released for public comment and an options paper will be prepared early in 2005. The goal of the work stream is to achieve a more streamlined and nationally consistent distribution and retail framework for energy supply. The SA Government therefore considers this draft proposal to be effectively redundant.

### Independent monitoring (dot point 5 above)

The suggested establishment of an independent body to assess progress in energy market reforms against an agreed set of objectives is considered superfluous. The MCE fills the role as an energy market policy-making and oversight body, responsible for the current reform program, and which is accountable to COAG and to Commonwealth, State and Territory Governments for these outcomes.

## **3.2 Water**

### Productivity Commission Draft Proposal:

*All governments should complete outstanding NCP water requirements and give high priority to resolving the current uncertainty about the future of the National Water Initiative by recommitting to its reforms.*

*In addition, the CoAG water reform process should give close attention to:*

- *developing ways to achieve more effective management of environmental externalities;*
- *exploring new opportunities for cost-effective water recycling; and*
- *ensuring that monitoring arrangements post-NCP provide a discipline on all governments to progress agreed water reforms.*

### SA Government response:

### NCP water reforms

In relation to outstanding NCP water requirements, South Australia is committed to meeting its remaining commitments and other agreed reforms. To the greatest possible extent, the commitments will be met through the forthcoming 2005-06 water and wastewater pricing decision for metropolitan and regional SA. As has been agreed with the NCC, a Transparency Statement pertaining to the pricing decisions

will be prepared and the process reviewed by the Essential Services Commission of South Australia.

### National Water Initiative

With regard to the National Water Initiative (NWI), the South Australian Government remains committed to working cooperatively at a state level to progress national water reforms. South Australia is seeking to work cooperatively with other jurisdictions to progress national water reform.

### Management of environmental externalities (dot point 1 above)

The South Australian Government supports this proposal. The NWI (Clause 73) requires that all participating jurisdictions will 'implement pricing that includes externalities where found to be feasible'. Further, under the NWI (Clause 67) participating jurisdictions have agreed to adopt consistent approaches to pricing and attributing of water planning and management costs by the end of 2006.

### Water recycling (dot point 2)

The Productivity Commission notes that recycling has both costs and benefits and is not intrinsically desirable in its own right. The South Australian Government agrees there is merit in exploring new opportunities for cost-effective water recycling.

### Post NCP monitoring (dot point 3)

The South Australian Government has no objections to this proposal.

## **3.3 Natural Resource Management**

### Productivity Commission Draft Proposal:

*CoAG should immediately take a greater role in addressing fragmentation and uncertainty in relation to greenhouse gas abatement policies. It should also initiate a review to identify other areas of natural resource management — beyond its current and foreshadowed responsibilities — where the pay-offs from nationally coordinated reform are likely to be high.*

### SA Government response:

### Greenhouse gas abatement policies

South Australia supports the draft proposal for COAG to take a greater role in greenhouse gas abatement policies. The SA Government has consistently called for urgent coordinated action to address Australia's record as a high emitter. South Australia has previously identified the need for the Commonwealth, State and Territory Governments to reach joint agreement on tackling the climate change threat. Indeed, South Australia has sought a special COAG meeting on climate change to determine a strategy and set hard targets and timelines for emission reductions. South Australia continues to urge the Commonwealth to ratify the Kyoto Protocol.

As the Discussion Draft states, Australian greenhouse gas abatement measures have been poorly targeted, uncoordinated and compete with each other. Further, many of the existing Federal and State greenhouse schemes could be replaced with an economy-wide emissions trading system.

A stronger COAG role will also assist economic development by providing business with greater certainty for investment decisions as well as introducing a cost-effective market mechanism for greenhouse gas abatement.

State and Territory Governments, through an Inter-jurisdictional Emissions Trading Working Group, are currently working together independent of the Commonwealth to identify issues and options for establishing an Emissions Trading Scheme that will provide both national coverage and a consistent approach to greenhouse gas abatement across jurisdictions. It would be highly beneficial for the Commonwealth to become involved in this work, with COAG providing a coordinating role.

#### Review of other areas of natural resource management to identify areas for potential national reform initiatives

South Australia suggests further discussion should occur between jurisdictions before any such review is considered. Whilst being in favour of reform, South Australia would not be comfortable with any review that may lead to a slowing of current reform efforts.

South Australia acknowledges the role of competition or market-based initiatives in promoting environmental goals. However, this is just one of a number of approaches and measures that can be appropriate in this area.

In the area of NRM, it is difficult to accurately quantify and assess costs and benefits due to imperfect scientific knowledge. Any pursuit of market based reforms should proceed cautiously.

Again, a sectoral approach with COAG oversight is likely to be appropriate for the development of any future NRM reform.

### **3.4 Health**

#### Productivity Commission Draft Proposal

*CoAG should initiate an independent public review of Australia's health care system as a whole. This should be the first step in the development of an integrated reform program to address structural problems of long standing that are preventing the health care system from performing to its potential. The review should include consideration of the determinants of future demand for and supply of health services; health financing issues (including Federal/State responsibilities and their implications); coordination of care (including with aged care); the interaction between private and public services; and information management. It could also incorporate the proposed CoAG review of medical workforce issues.*



*SA Government response:*

South Australia does not oppose the principle of national health system reform. However, the SA Government seeks clarification as to how the suggested COAG led review would fit with other reform efforts already underway or being implemented. There is a need to proceed with caution to ensure that any such review would not duplicate other proposed review processes.

The Prime Minister's recent letter to heads of Government advises he has established a task force in the Department of Prime Minister and Cabinet to 'examine the interface of our respective responsibilities for health care and how...(they) interact, with a view to making improvements'. The Prime Minister has asked the task force to report in the 'early part of next year'. This task force should be allowed to complete its work before any consideration is given to the need for a COAG led review.

In general, South Australia is inclined towards an incremental approach to health reform rather than radical change. An incremental approach is more likely to allow better management and stakeholder support, as well as greater potential for building on existing reforms and structures. It is also more likely to allow for better control and monitoring of the impact of reforms.

Large scale reform processes run the risk of not being successful because the scope may be too challenging for key stakeholders, who may in turn undermine or simply not support the reforms.

There must be consensus between the States and Territories for these reforms to succeed, rather than simply becoming a list of proposals from the Australian Government. State and Territories should be actively engaged on the need for and focus of any review and for a genuine commitment to implementing structural reforms.

Along with State and Territory agreement, significant additional Commonwealth investment in health would be needed to embed reforms over the long term. Without this investment guarantee, reforms are unlikely to develop. In addition, reforms must have positive health impacts at the State and local levels and not be considered and assessed solely from the national perspective, which may disguise specific local issues.

Similarly, a funds pooling mechanism supported by all parties would be required to ensure adequate funding support for the incremental reform process. However, the Australian Government previously opposed pooling arrangements in the July meeting of the Australian Health Ministers' Conference.

The Productivity Commission view of health reform requirements is primarily focused on efficiency issues. Broader consideration of co-ordination of health services and policy considerations would be preferred.

The Discussion Draft is focussed on hospitals and general practitioner services. The SA Government is committed to improving primary health care, a focus which is lacking in the Discussion Draft. This was one of the key recommendations for reform of the South

Australian health system resulting from the South Australian Generational Health Review.

The Discussion Draft focuses on health financing, cost shifting and fee for service proposals. Lacking are equity and access considerations. South Australia contends that any future health reform should address inequalities in health outcomes.

### **3.5 Freight Transport**

#### Productivity Commission Draft Proposal

*Governments should complete all outstanding freight transport matters under the NCP legislation review program. CoAG should sponsor the development of a longer-term strategy for achieving a national freight system that is neutral across transport modes. As an immediate priority, CoAG should sponsor the development of a national reform agenda for the rail sector that integrates current work in this area and establishes clear timelines for the implementation of reform.*

#### SA Government response:

South Australia considers that these matters are most appropriately progressed through the National Transport Commission (NTC). Jurisdictions have agreed that the NTC framework should extend into rail and a regulatory reform program has been developed for road and rail and intermodal transport with a view to developing national efficiencies.

The Discussion Draft has not assessed the effectiveness and continued usefulness of this arrangement in achieving the PC's recommended reform agenda.

### **3.6 Education and Training**

Table 11.1, 'the Productivity Commission's preliminary future reform agenda', does not include a specific draft proposal for education and training. However, there is relatively detailed discussion of this sector elsewhere in the Discussion Draft and the SA Government wishes to respond to some of the issues raised.

Under 'other key reform areas' on page XLIII of the Discussion Draft, the Productivity Commission identifies, 'improving the quality and responsiveness of education and training systems at primary, secondary and post-secondary levels'.

However, on page 275, after considerable discussion of the potential for reform in this area, the Productivity Commission concludes that, *inter alia*:

- the need for COAG sponsored national reform is less pressing in the education and training sector than the health sector;
- there is merit in monitoring and evaluating outcomes from changes in the university sector before pursuing further reform;
- jurisdictions are better placed to secure further performance improvement in primary and secondary education; and
- where inter-jurisdictional issues arise, there are already mechanisms for handling them.

In relation to Vocational Education and Training (VET) reform, in summary the PC concluded:

- ‘many of the policies required to move forward in the VET area are already in place or recently announced...put simply, what seems to be needed is effective implementation of agreed reforms, not a major new reform framework and agenda.’

South Australia agrees with the conclusions reached on page 275 of the Discussion Draft, as summarised above. The following additional comments are provided in response to the Discussion Draft’s commentary on potential future education and training reform.

### Skill Shortages

Although the Productivity Commission correctly notes that ‘periodic skill shortages characterise virtually all labour markets’ (page 273), skill shortages tend to have a harsh impact in South Australia as a relatively small regional economy.

South Australia is responding through the development of a State ‘Workforce Development Strategy’ which will increase workforce capability and provide a framework to expand the State’s skill base. This is due for release in the near future.

In addition, South Australia is participating in a pilot project jointly funded by the Commonwealth to address identified shortages in trade areas. A Traineeship and Apprenticeship Futures Project is also underway to evaluate the policy, funding and operational arrangements of the State’s apprenticeship and traineeship system. The project will identify future directions to ensure that VET funds are targeted to the State’s skill needs and priorities.

The SA Government is currently assessing future models for funding and delivery of apprenticeship pathways. Successful negotiation with the Commonwealth and other stakeholders will be crucial to achieving progress in this area.

The South Australian Government is keen to work with the Commonwealth Government to ensure that any new funding initiatives, such as Australian Technical Colleges, build on the State’s policy directions. This Government is committed to the provision of new funding initiatives which:

- succeed in engaging young people who are not currently involved in school or VET activities
- complement rather than duplicate existing programs and facilities
- achieve a net increase in resources for education and training in the State
- produce a real increase in participation and effort.

### Interface between TAFE and Universities

With respect to the differences in user charging arrangements and the interface between VET and university sectors referred to on page 274, South Australia does not support the introduction of HECS into TAFE.

The SA Government considers that the current level of TAFE fees in SA appropriately reflect the differential costs of providing training in TAFE compared to universities. The SA Government is working to improve articulation between the vocational education and training and higher education sectors.

The assertion in the Discussion Draft that different user charging arrangements may distort student choices requires further supporting evidence.

#### Implementation of User Choice policies

Over the last six years the number of apprentices and trainees in-training in South Australia has increased dramatically (from some 12,000 in 1997 to 32,000 in 2004). This increase has been largely attributable to the implementation of User Choice.

The increase has been driven by a number of factors including the conversion of existing workers to apprentices and trainees, Commonwealth incentive payments to employers and the introduction of Training Packages which have increased occupations offering apprenticeships in South Australia from 200 in 1998 to almost 1300 currently.

To ensure consistency of outcomes with policy objectives, the guidelines under which the program operates have been refined each year. Irrespective of these changes, the Government has fully implemented the nine User Choice Principles in South Australia. In addition, the planned commitment to the National User Choice Resourcing arrangements is included in the annual State VET Plan, in line with the ANTA Agreement.

#### Training for government employees

Box 10.13 of the Discussion Draft refers to the submission from Business SA on the topic of training for government trainees being subject to tender. In the past, the delivery of training to government apprentices and trainees was restricted to TAFE, however this limitation no longer exists. As of 2003/04 the delivery of training to public sector employees is open to all Registered Training Organisations who have signed a current User Choice Funding Agreement with the SA Government.

The SA Government asks that the final Productivity Commission report reflect the fact that this statement from Business SA is no longer current.

## School Education

Page 261 of the report states that while in some areas reform will best be pursued on a jurisdictional basis, there may be value in adopting a national approach to reform where an activity is of national significance or where responsibilities are shared.

South Australia considers the Ministerial Council on Education, Employment, Training and Youth Affairs (MCEETYA) to be an effective forum for coordinating reforms in education on a national level. For example, MCEETYA is introducing national consistency in school starting ages, curriculum and testing standards and standard definitions. MCEETYA and other Ministerial Councils are most effective when all parties are committed to the process. In recent times there have been instances where the Commonwealth has acted unilaterally, or has pre-empted the findings of MCEETYA.

MCEETYA is also addressing the challenges for school education referred to on page 271-272. These challenges include teacher shortages and lack of incentives; differences across jurisdictions in school entry ages and curriculum design; and resourcing variances between government and non-government schools. For example, at the 2003 meeting MCEETYA members agreed to explore the development of a common school starting age with a 2010 target commencement date.

South Australia supports the statement on page 275 that 'securing further performance improvement in primary and secondary education, focusing in particular on the quality of teaching and teacher shortages in some areas, is seemingly more amenable to action on a jurisdictional basis...'. South Australia is directing significant emphasis toward ongoing improvement in this area.

## School retention

The Year 12 retention rates data cited in the table 10.1 are misleading. It appears that the data are actually the 2002 Year 12 estimated completion rates, which relates to attainment rather than retention, as per table 3.12 in the *Report of Government Services 2004, Volume 1* p 3.49.

Pending the insertion of the correct data, any table depicting retention rates should contain the normal caveats that should appear when comparing data across jurisdictions. For example, South Australia has a high proportion of students that choose to study part time. In 2002, when these students were included, the Year 10-12 apparent retention rate becomes 87.9 percent, compared with 70.6 percent from full time students only (source Productivity Commission *Report on Government Services 2004* p 3.22).