Australian Government

Productivity Commission

Shifting the Dial

5-Year Productivity Review

Presented by

Ralph Lattimore

Tasmanian Economic Forum, Thursday 1 March 2018

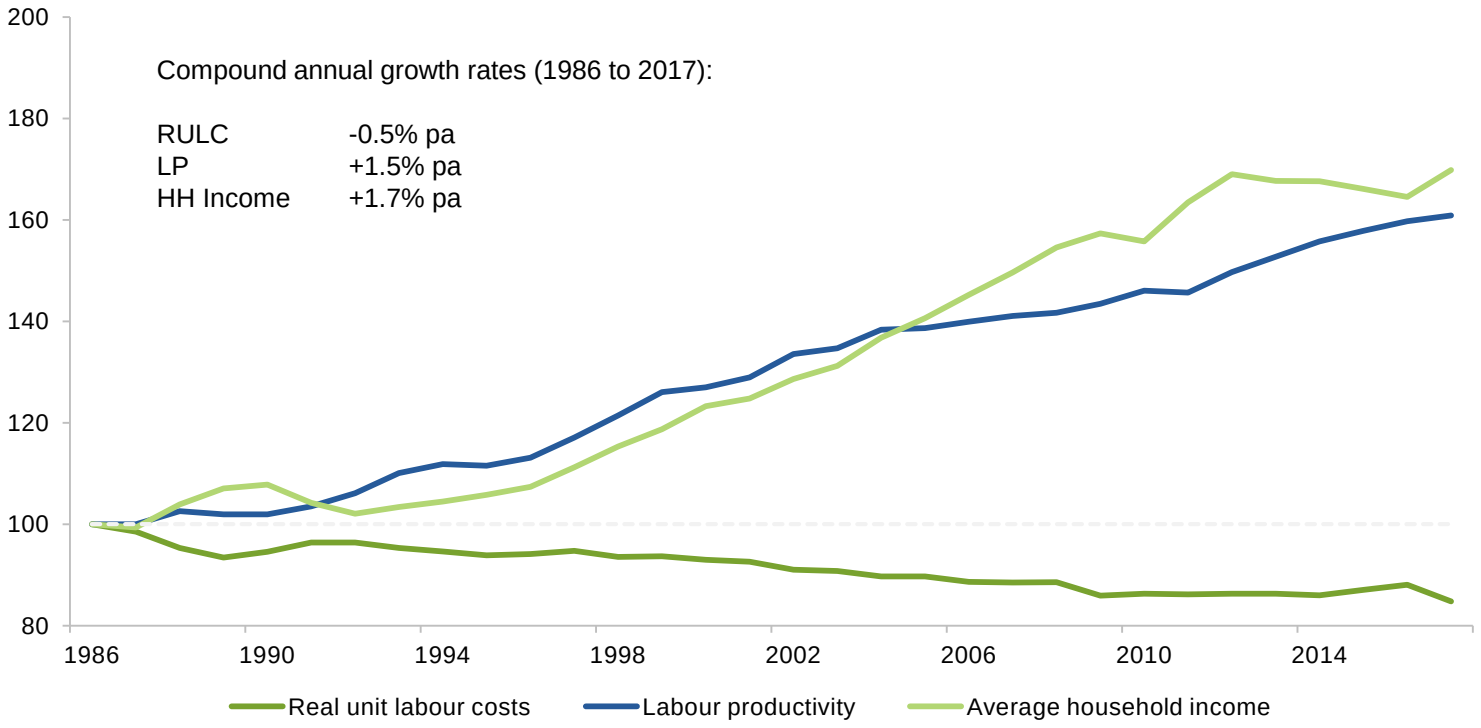
What will we cover?

- Themes and context
- Markets
- Health
- Education
- Cities

In around 40 minutes

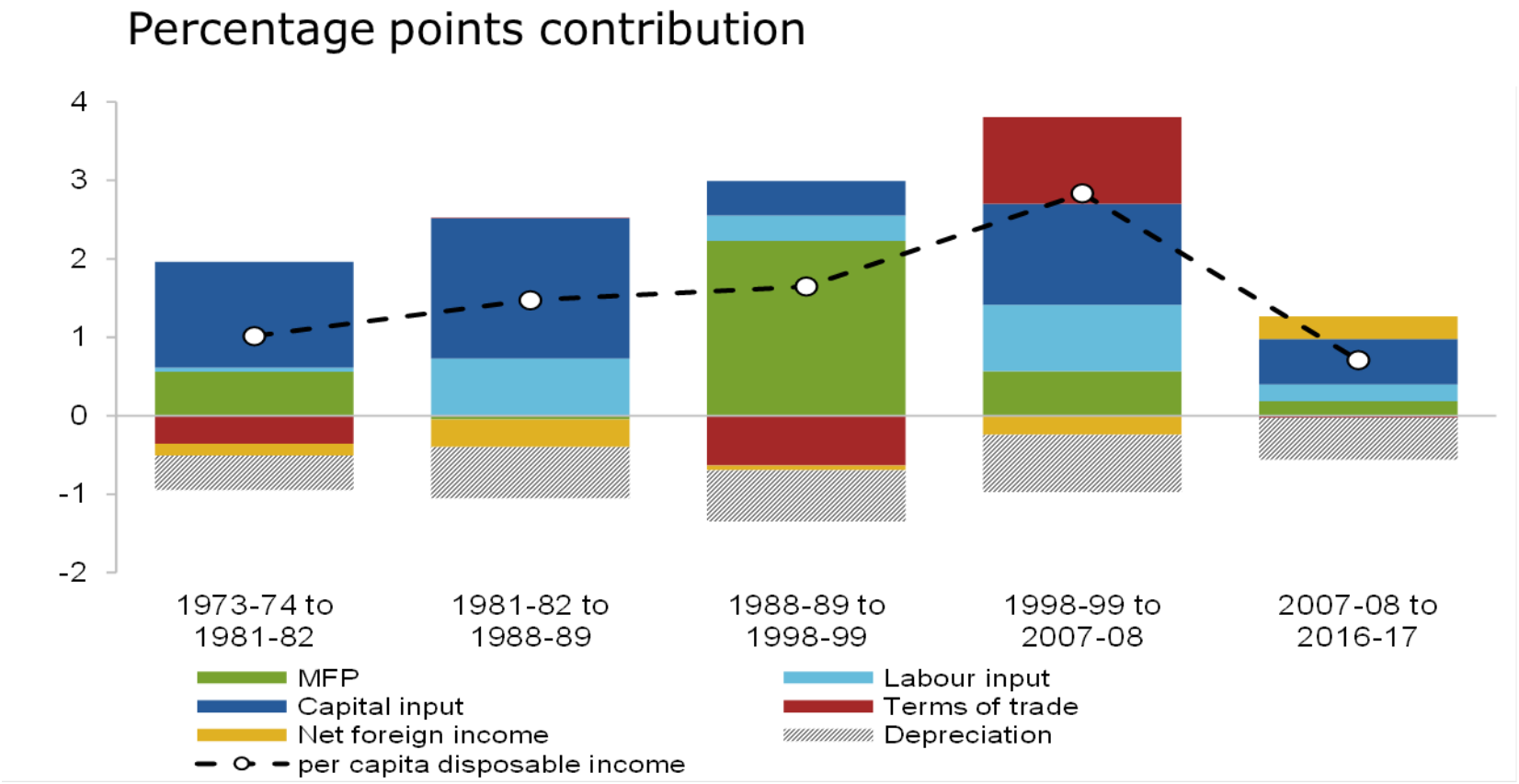
Income growth out-performance

Labour productivity and real household income[a]



[a] Labour productivity is calculated as real gross domestic product per hour worked. Real household income is expressed as real gross national income per capita, per household based on Census data on average household size.
Data source: ABS Cat. No. 5204, Table 1, 6 & 72, ABS Cat. No. 6202.0, Table 6.

Contributions to average growth income[a]

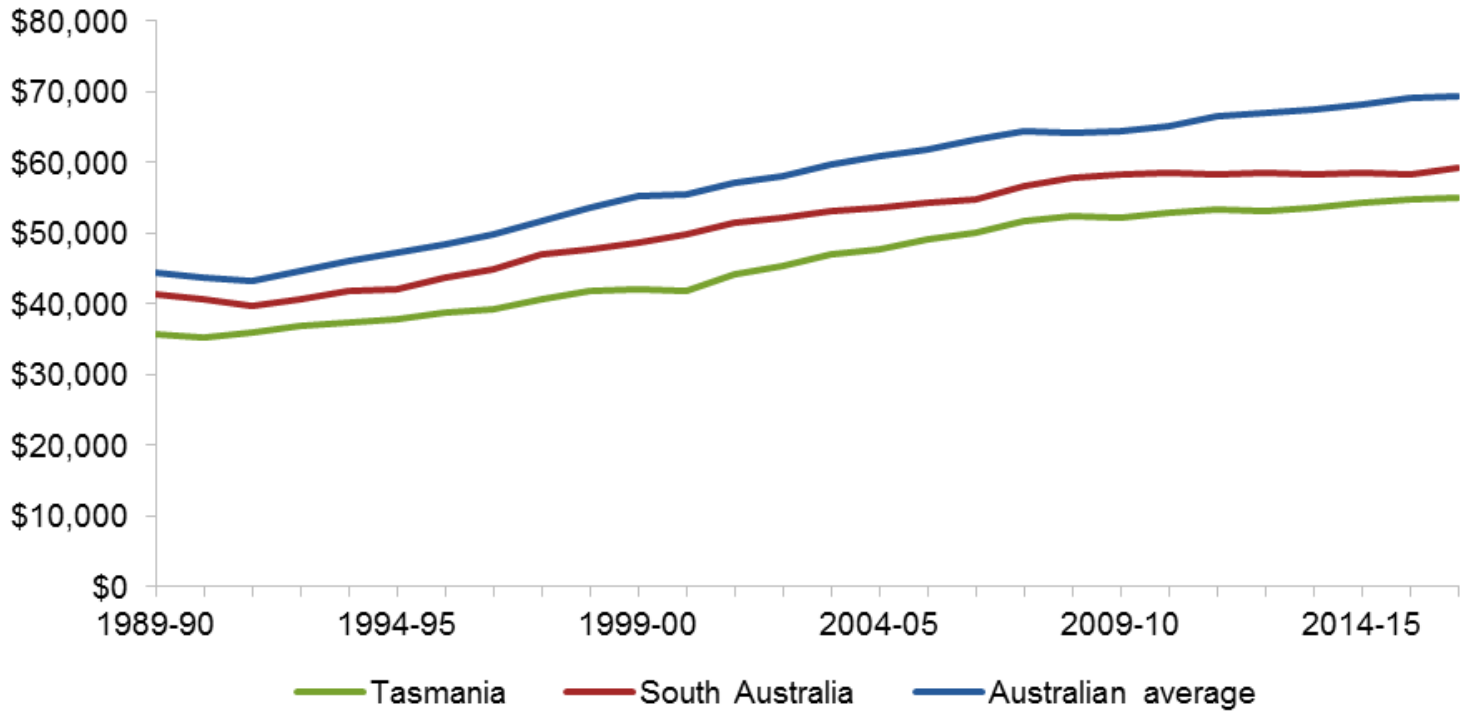


[a] Measured as average annual per capita real net national disposable income growth. MFP based on 12 selected market industries (Divisions A to K and R). The contributions of MFP have been scaled from the 12-industry to the whole economy and are therefore different from the figures above.

Data sources: ABS (2017), *Australian System of National Accounts, 2016-17*, Cat. no. 5204.0 and ABS (2018), *Estimates of Industry Multifactor Productivity, 2016-17*, Cat. no. 5260.0.55.002, January 2018.

While output per person in Tasmania is lower than the national average …

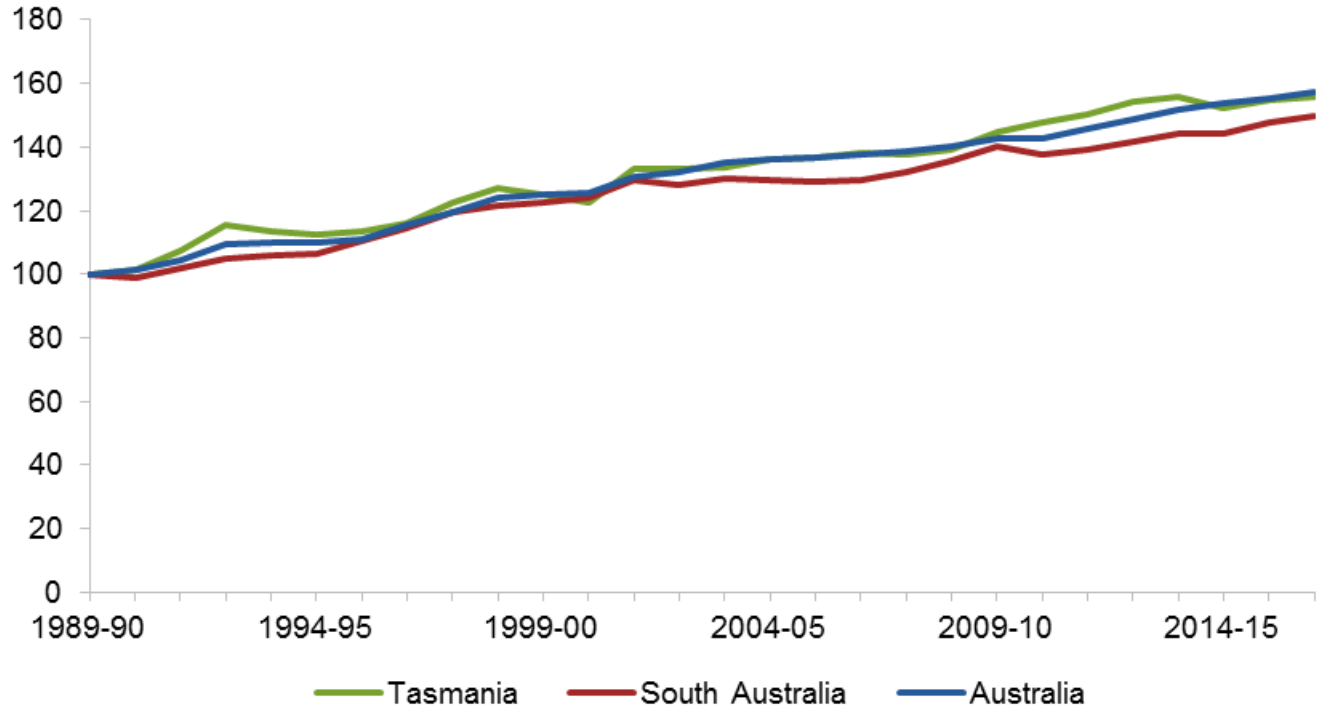
Real gross state product per capita



Data sources: ABS (2017), *Australian National Accounts: State Accounts, 2016-17*, Cat. no. 5220.0.

… its productivity growth since 1990 is on par with national average

Real gross state product per hour worked (Index: 1989-90=100)



Data sources: ABS (2017), *Australian National Accounts: State Accounts, 2016-17*, Cat. no. 5220.0 and ABS (2017), *Labour Force, Australia, Detailed, Quarterly*, Cat. no. 6291.0.55.003, November 2017.

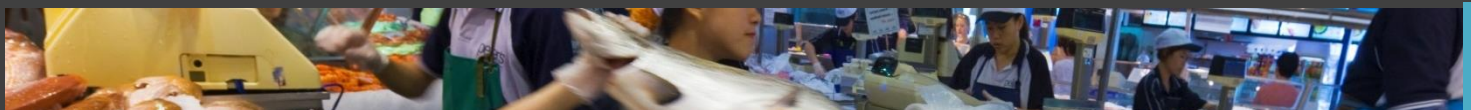
A little more on markets

- Emphasis of this report is on **non-market economy**
  - health, education, infrastructure, where so little structural change has been attempted
  - ~20% of GDP and 30% of employment

- There still remain many opportunities for traditional **market-based** productivity reforms

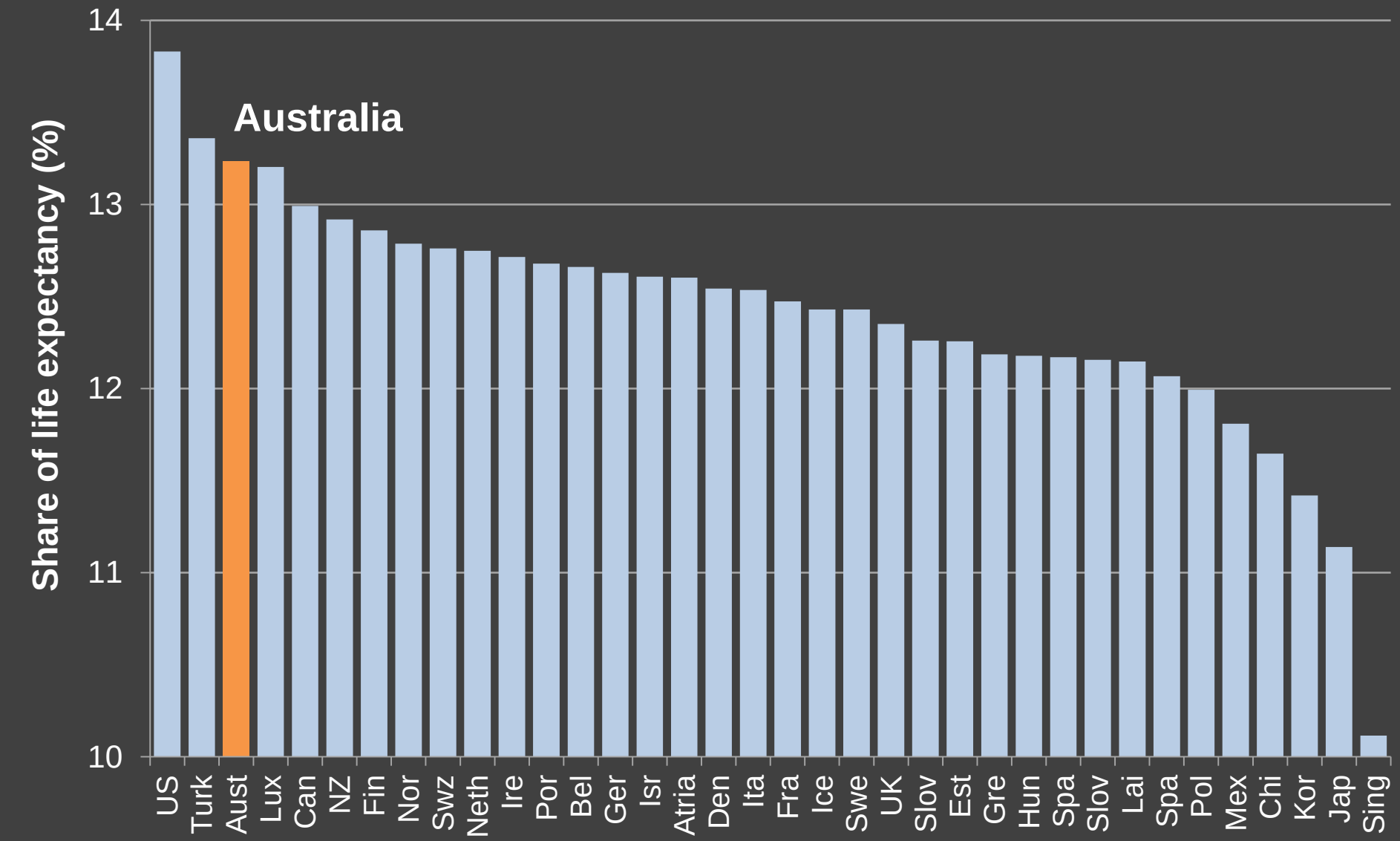
- But the Joint Agenda **could be supplemented** e.g. further trade reforms, workplace relations, fewer grants distorting resource allocation (today, $3bn pa)

- And public investment on innovation should emphasise community-wide access to Data, **the only new renewable resource** discovered this century.

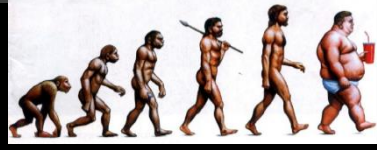


Health

Australians live more of their lives in ill-health



Nearly 2 in 3 are overweight or obese



Obese adults

4.9 million

(27.9% of 18+)

Overweight adults

6.3 million

(35.5% of 18+)

Obese children

350,000

(7.5% of 2-17)

Overweight children

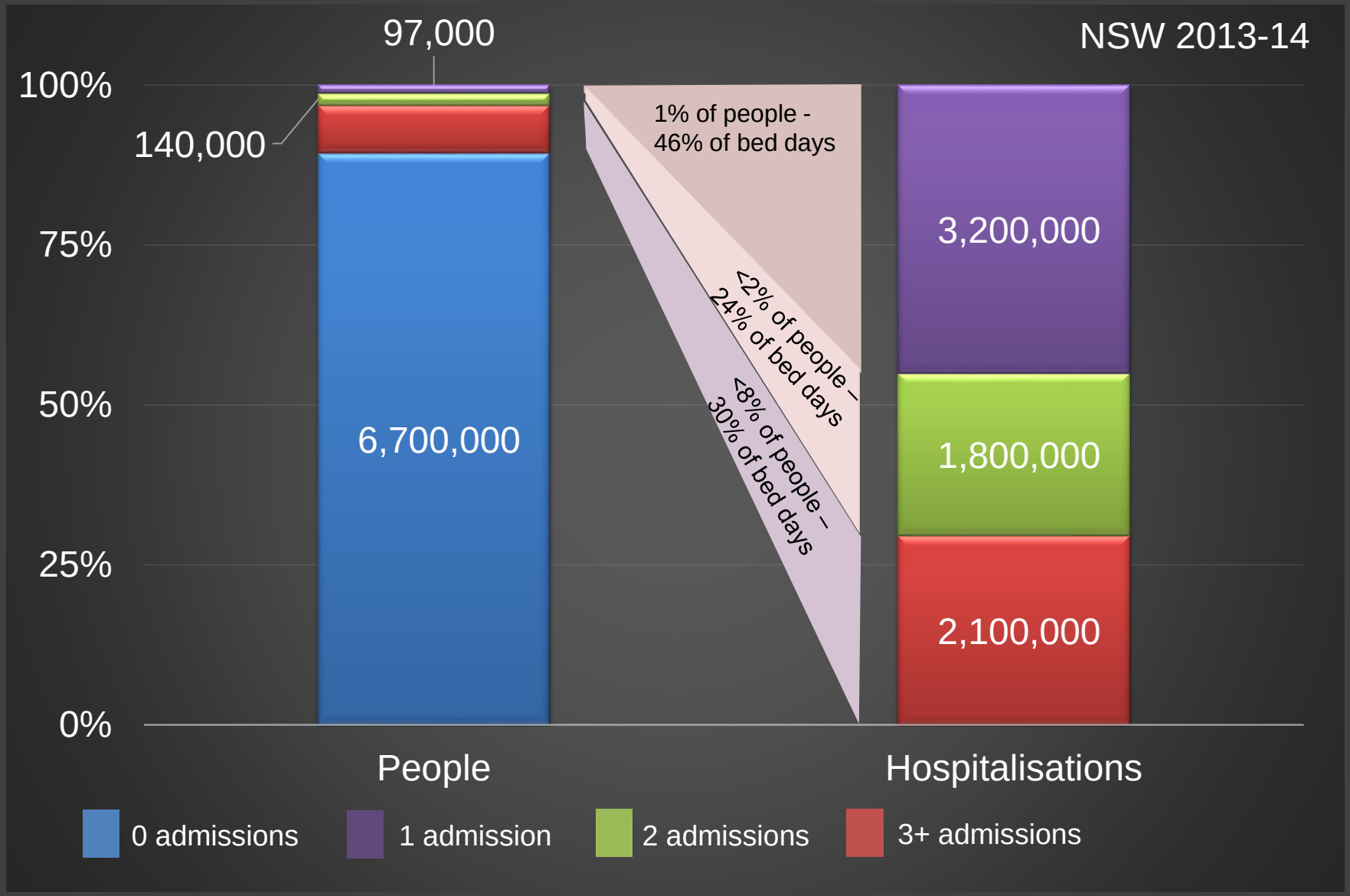
860,000

(18.4% of 2-17)

Australia's principle health challenge is managing chronic illness

Selected condition	Number of Australians	Share of Australian population
Diabetes	1.2 million	5%
Mental and behavioural problems	4.0 million	17.5%
Chronic obstructive pulmonary disease	0.6 million	2.6%
Heart, stroke and vascular disease	1.2 million	5.2%

A few people count for almost all tertiary care



Ambulance frequent flyers in NSW

2,693 people
used 64,434 ambulance trips

10 people
used 1360 ambulance trips

Ambulance Service of NSW July 2013 – July 2015

The essential ingredients of integrated care …

Person-centred

- Clinical mindsets
- Health literacy
- Knowledge
- Self-management
- Choice
- Shared decisions

Seamless lifetime care

- Thick linkages
- Clinical Team ethos
- Proper incentives
- Data
- Accountability
- Time and money

Dynamic efficiency

- Innovation
- Learning & diffusion

Outcomes

- **Lives**
- **Health**
- **Economy**
- **Power**
- **$**

Patient-centred care: “The patient will see you now”

Waiting rooms are pure waste

Excessive waiting costs
$900 million annually

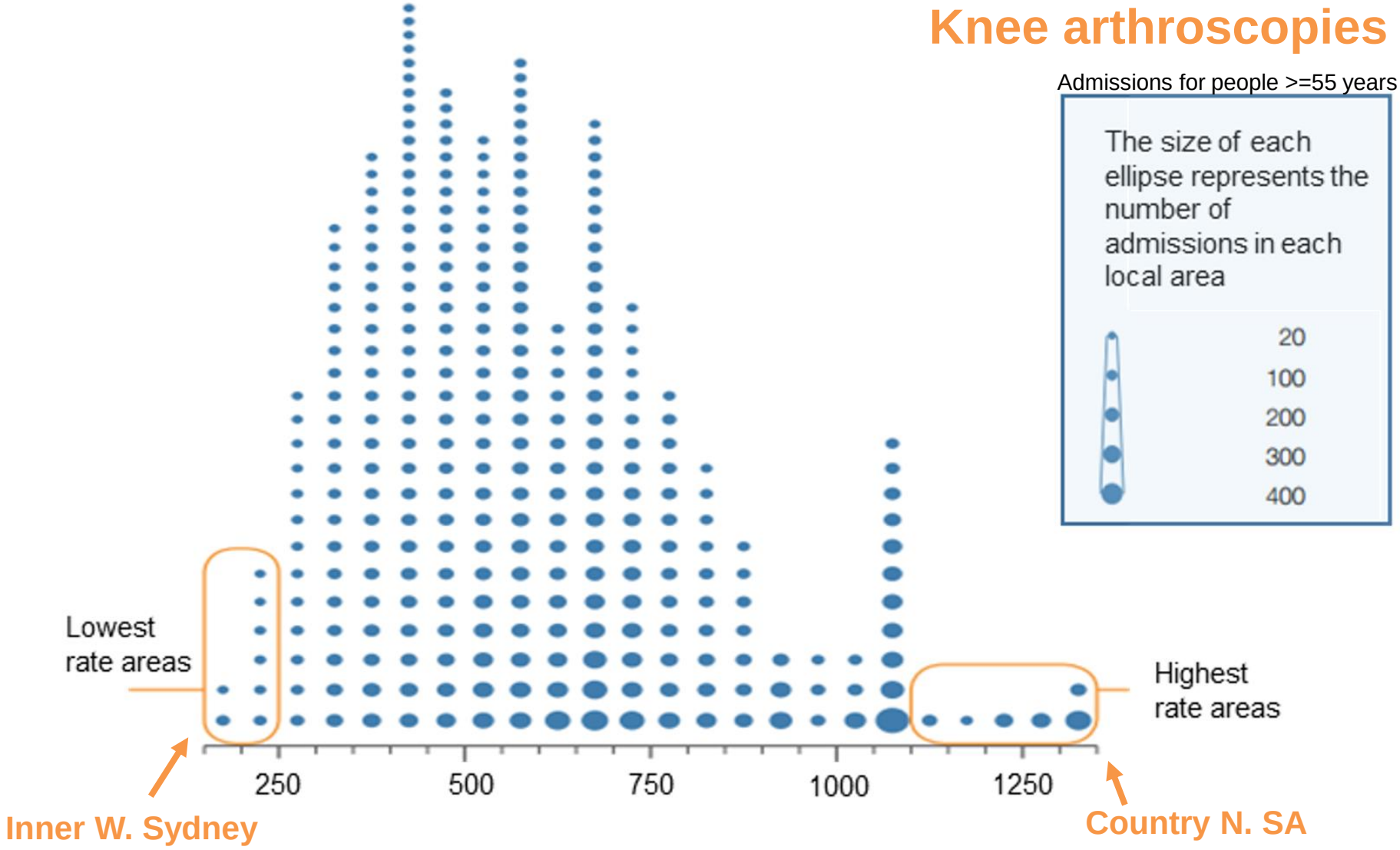
Go local and flexible with pooled funding

Current situation	PC Proposal	Features
Activity Based Funding of hospitals	Extend ABF with a Prevention and Chronic Condition Management Fund	• Outside of hospital • Pool Cth and State funding • Performance contract – retain savings • Long timeframe (5 years)
Hospitals limited engagement in primary sector	Amend s.19 of Health Insurance Act to allow hospitals to help fund primary care	• Coordinate with PHNs • Allows state funding
Health Care Homes (under development)	Allow LHNs-PHNs to introduce local variants	• Engage States • LHNs help stratify patients, • LHN can co-fund • Engagement of all key local health entities

One of many ‘do not do’ procedures

Knee arthroscopies

Admissions for people >=55 years



The paradox of technology in health

The old

The new

Human capital negatively correlated with IT use

Take up of computers

96% of GPs

37% of specialists

22% of surgeons

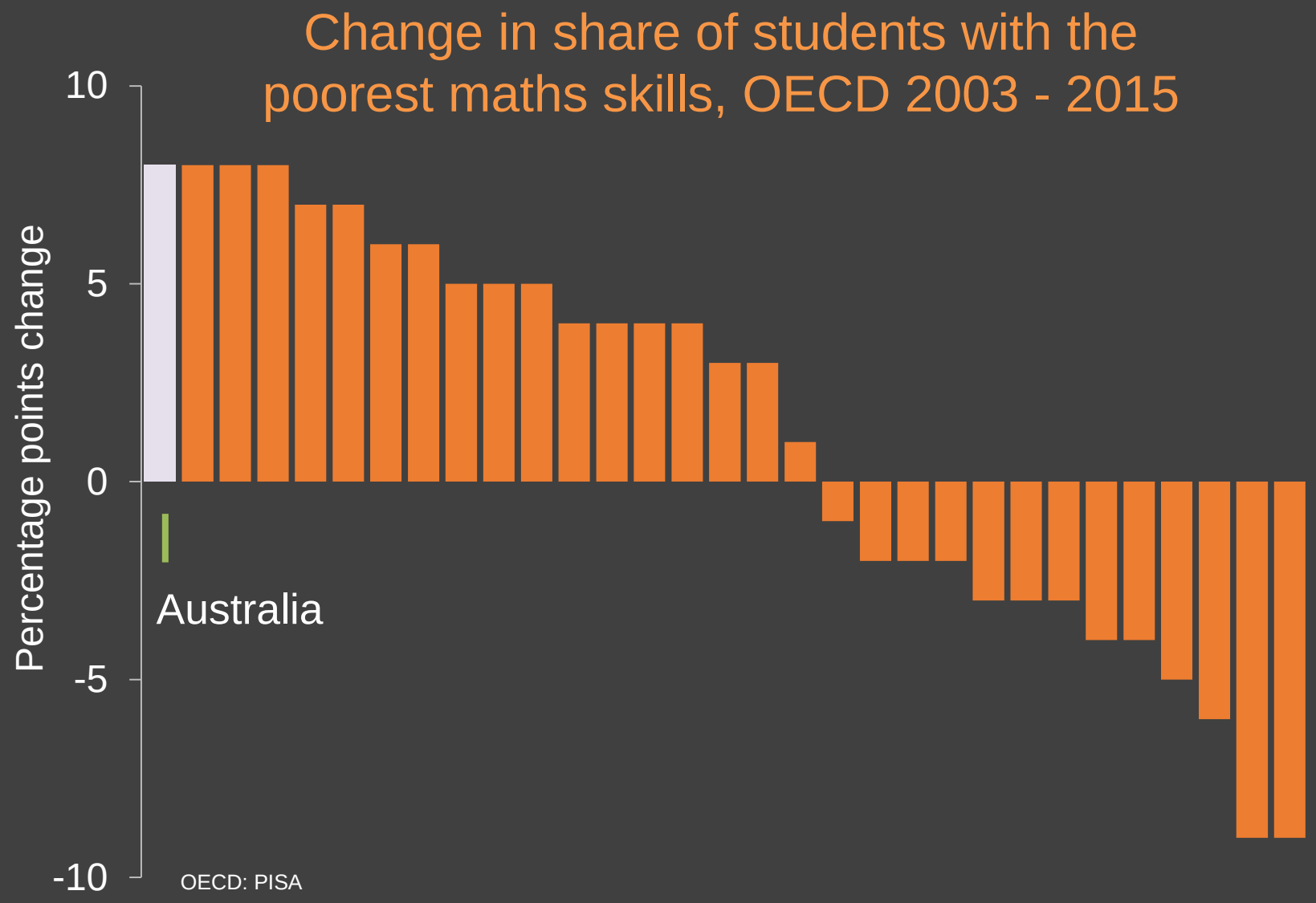
Some examples of how integrated care helps

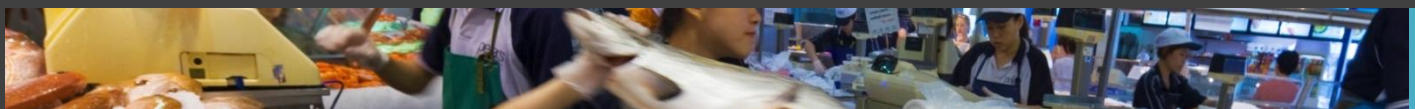
	Reduction in hospitalisation	Impact on recurrent hospital cost per patient
Inala Chronic Disease Management Service, 2007-08	46%	-$2000
Western Sydney Diabetes Initiative, 2012-16	45%	-$4000
Mt Druitt HealthOne, 2006-12	41%	-$100
The Diabetes Care Project, 2011-14	17%	+$100
HARP, 2004-05	41%	+$600

Higher degree of integration between primary & tertiary sectors

Education

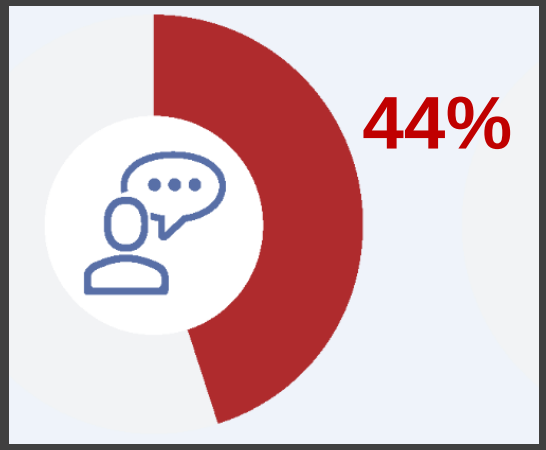
The rising group of the ‘left behind’



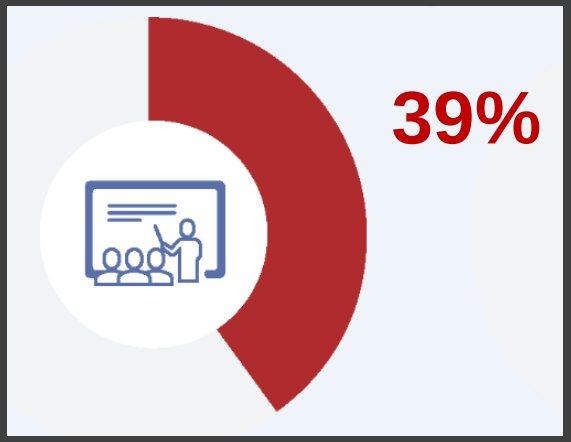


"Not satisfied" – Australian university students

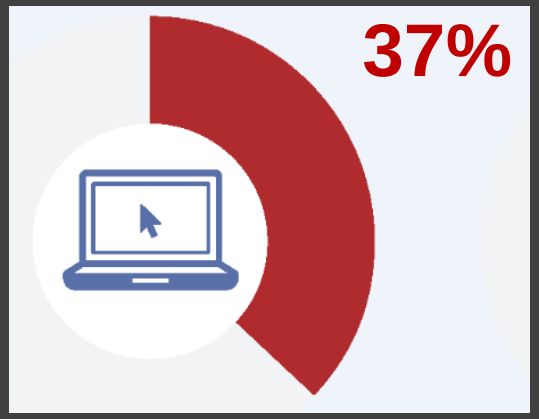
Developed spoke communication tools



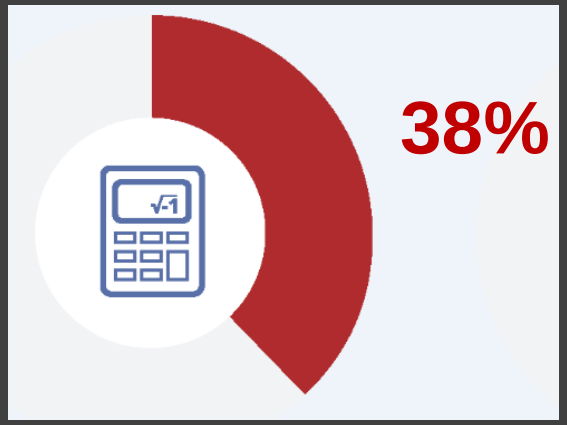
Teacher concern for student learning

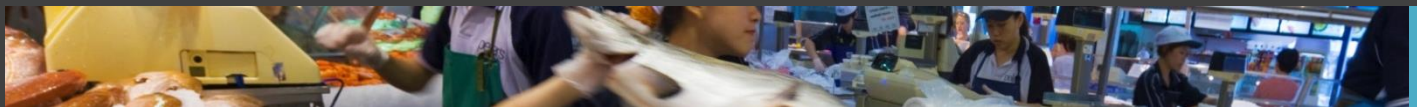


Developed work-related knowledge and skills

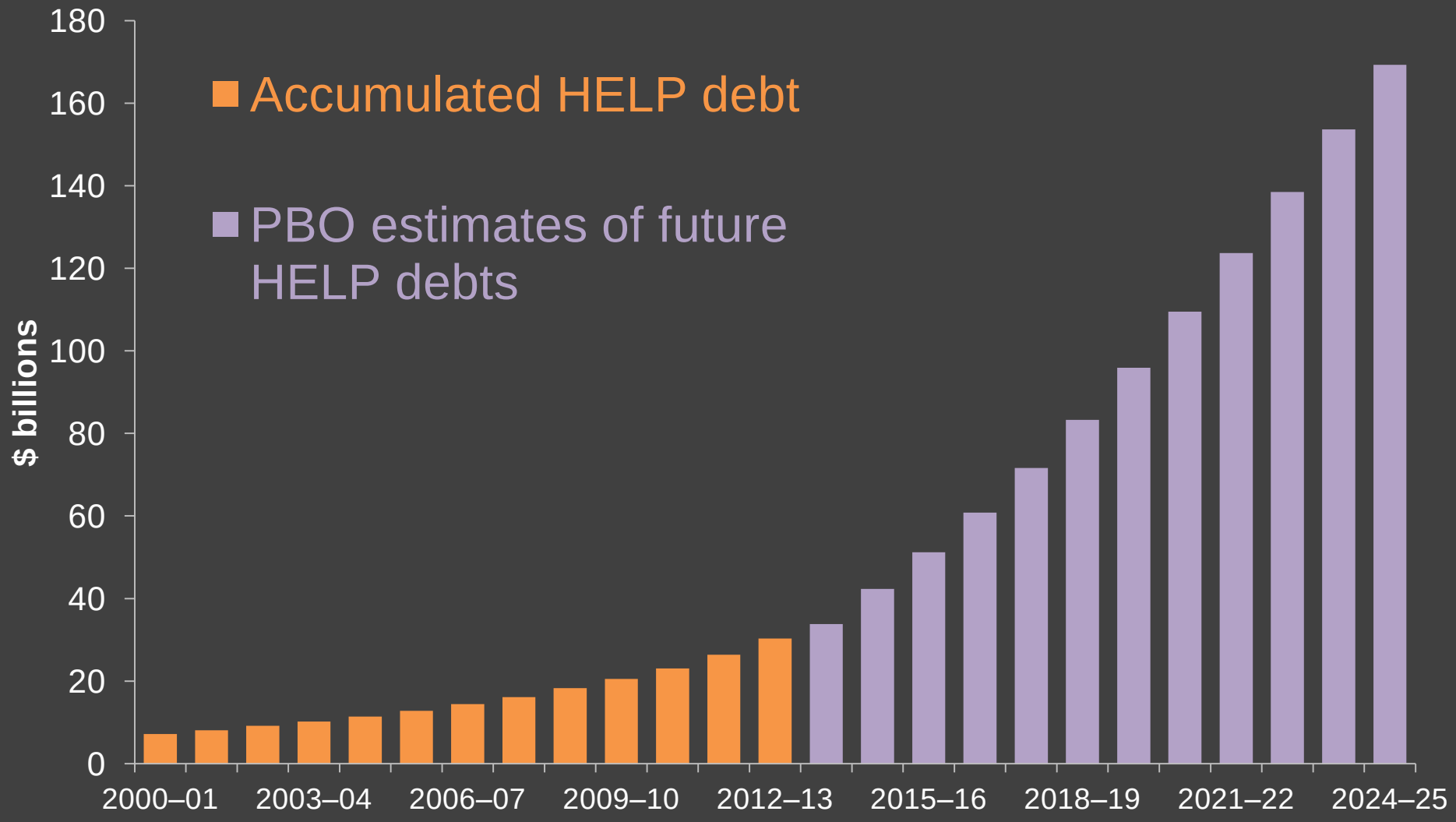


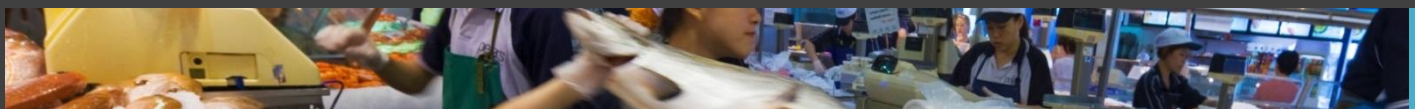
Developed ability to solve complex problems



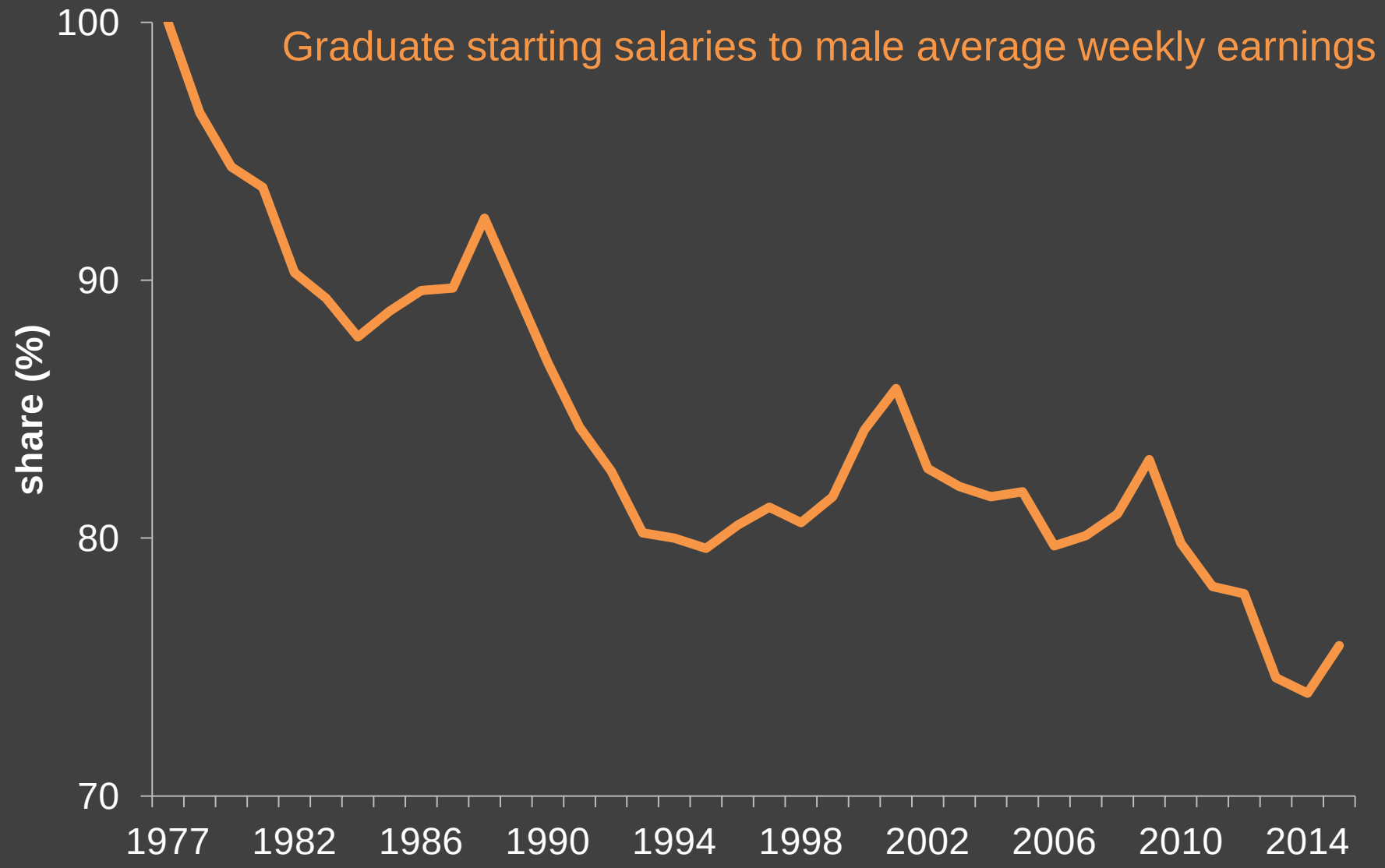


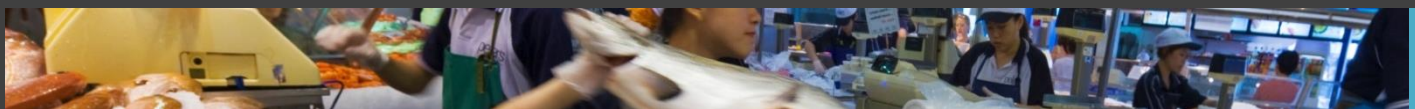
HELP! - The mountain that rises





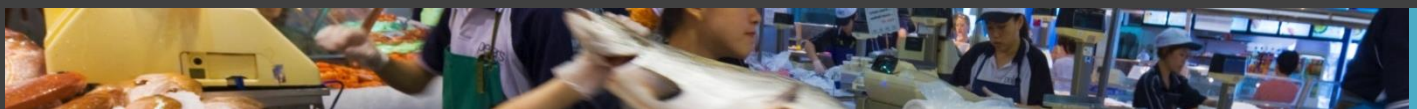
The university wage premium is on its way down





Skool is out … what can be done?

- Eliminate **teaching out of field**
- Apply **consumer law** to universities, VET – ensure a product fit for purpose, perhaps a ‘right to return’
- Improve the status of **teaching** (vs research) at university. And the way fees/debt favours research
- **Independent accreditation** to encourage flexible knowledge acquisition
- Proactive **advice** to post-secondary students of all ages on job opportunities linked to course opportunities
- **Proficiency**-based assessment for VET



Cities

Why cities?

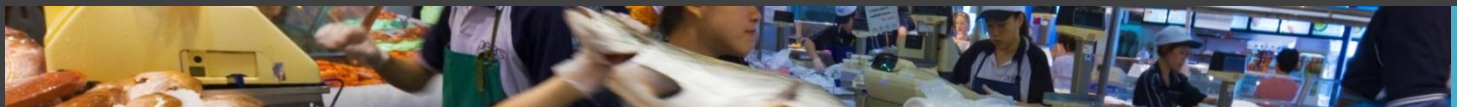
Account for **most of the nation's output and employment**

Large cities account for more

Sydney and Melbourne – 40% of output

Capital cities – 80% of employment growth

Probable cities will **increase in importance** with continuing orientation of economy towards services



Recent road projects – reported overruns

Clem7
$2.8bn loss

Airport Toll Road
Receivership with $3bn debt

WestConnex
$5.5bn over budget

East West Link
$1.1bn loss

ABC NEWS

East West Link: Tony Abbott 'ignored advice' over Victorian road project, auditor-general says

A scathing report by the federal auditor-general found that neither stage of the East West Link project had proceeded through processes to assess the merits of nationally significant investments before the money was committed.

ABC NEWS

Audit office asked to turn spotlight on Government's infrastructure spending

Updated Thu 7 Jan 2016, 2:15pm

The Commonwealth gave the former Victorian Liberal government $1.5 billion to build Melbourne's East West Link, and promised the same amount again for its second stage.

THE AUSTRALIAN BUSINESS REVIEW

BUSINESS

Toll-road sellers 'inflated' figures

DAMON KITNEY
The Australian 12:00AM May 6, 2015

Transurban has revealed for the first time the inflated traffic forecasts made by the sellers of key toll-road assets purchased over the past year by the nation's biggest toll-road operator, confirming the unrealistic assumptions that had inhibited private sector investment in road infrastructure.

The Cross City Tunnel, River City's Clem Jones Tunnel and other toll road and road tunnel assets have fallen into receivership in recent years after failing to generate enough traffic to pay back the multi-billion dollar costs of construction.

The Sydney Morning Herald

Sydney traffic: Secret WestConnex documents show worse congestion after toll road

Jacob Saulwick

Published: May 26 2015 - 12:15AM

Congestion on inner city roads around the $15 billion WestConnex motorway will continue to worsen even after the toll road is built, internal government analysis shows.

The Sydney Morning Herald

NSW Budget 2015: WestConnex motorway costs jump amid record NSW transport budget

Jacob Saulwick

Published: June 23 2015 - 5:35PM

The estimated cost of Sydney's WestConnex motorway has increased by half a billion dollars, as the state government pours record amounts of money into new road and rail projects.

ABC NEWS

Brisbane's troubled Airportlink sold for $2.8 billion less than construction cost

BY FINANCE REPORTER STEPHEN LETTS
UPDATED TUE 24 NOV 2015, 3:47 PM AEDT

The big toll road operator Transurban has bought Brisbane's troubled Airportlink roadway for $2 billion - almost 60 per cent less than the original $4.8 billion construction cost.

FINANCIAL TIMES

Receivers sue Arup for $2bn after Brisbane toll road fails

OCTOBER 4, 2017 John Reed

Arup, the London-based global engineering company, is being sued in Australia for $2bn by the receivers of a Brisbane toll road that failed because its traffic forecasts proved optimistic.

BrisConnections, the company that built a toll road linking Brisbane's central business district with its airport — which was finished in 2012 — went into administration the following year with debts worth more than $3bn.

ABC NEWS

Audit office asked to turn spotlight on Government's infrastructure spending

Updated Thu 7 Jan 2016, 2:15pm

The latest business case [for WestConnex] puts the cost of the toll road at $16.6 billion - $1.4 billion more than at the last estimate in the June budget.

The Sydney Morning Herald

$1 billion cost blowout in Westconnex gateway project to Sydney Airport

Matt O'Sullivan

Published: August 10 2017 - 5:12PM

The estimated cost of the Sydney gateway project connecting the WestConnex tollroad to the city's airport and port has more than doubled to as much as $1.8 billion, a leaked document shows.

The blowout of up to $1 billion in the expected cost of the motorway link to the airport, from $800 million, threatens to push the total bill for WestConnex to $17.8 billion.

Refer: Terril, M and Danks, L 2016, *Cost overruns in transport infrastructure*, Grattan Institute

Optimism in benefit-cost appraisal

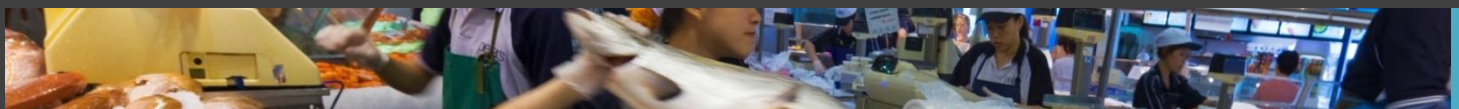
Clem7 Tunnel Freeway Project

Original estimates: NPV $638m, BCR 1.52

Actual capital cost 2.5 times higher

Actual patronage three times lower

Likely cost-benefit fail

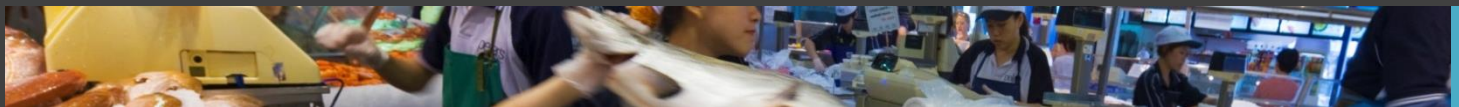


Importance of sound appraisals *before* decisions

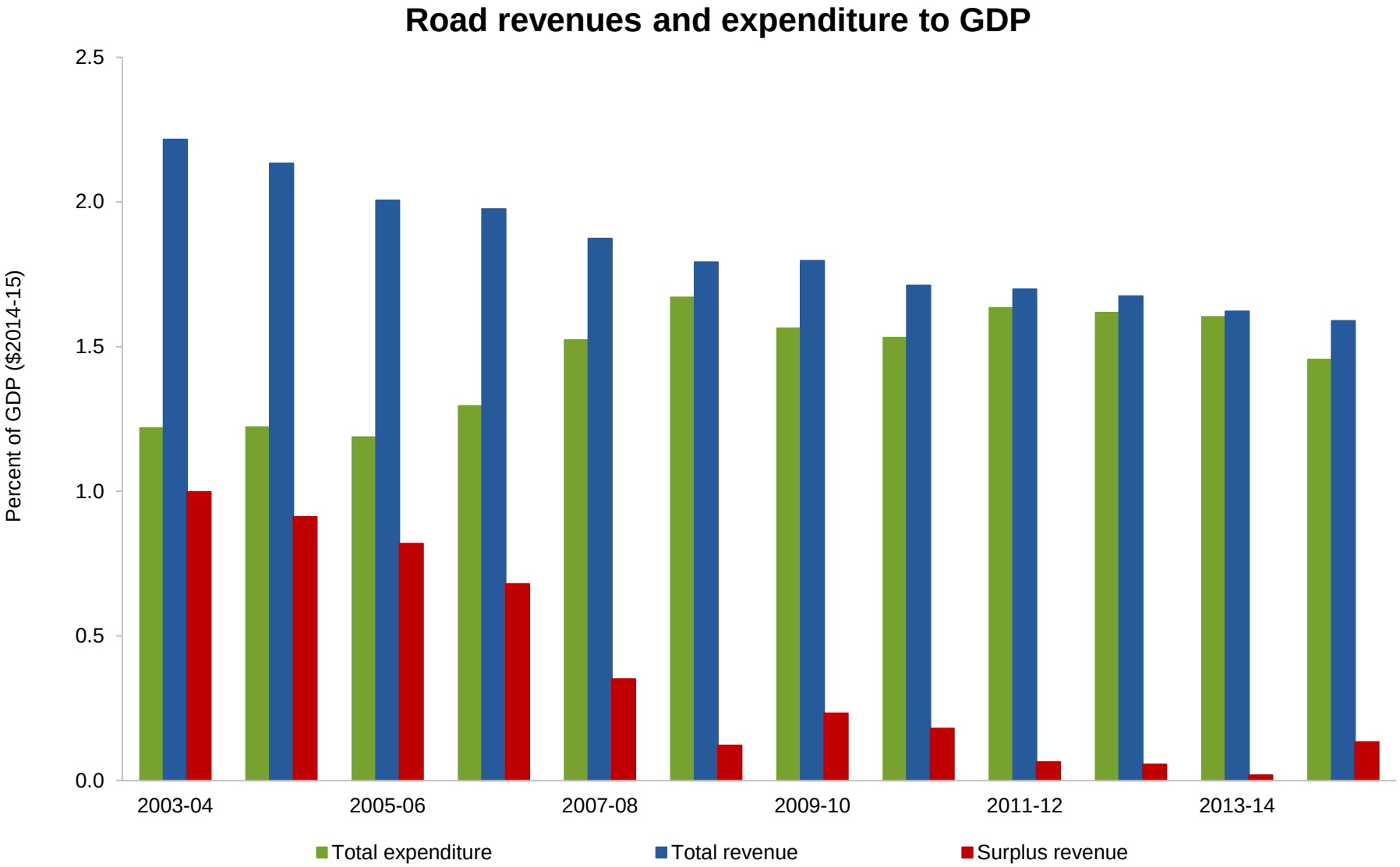
Over the past 15 years, around **a third** of transport infrastructure projects >$20m were announced **before a funding commitment.**

These projects accounted for about **three-quarters** of the total value of **cost overruns.**

Governments **spent around $30bn more** on the projects than announced



Road-related revenues are in structural decline



Questions?

INQUIRY REPORT NO. 34
SHIFTING THE DIAL
5 YEAR PRODUCTIVITY REVIEW
3 AUGUST 2017