

STATEMENT OF EXPECTATIONS – PRODUCTIVITY COMMISSION

NOVEMBER 2023

A modern, high-performing and world-class institution

This Statement sets out the Government's expectations for the Productivity Commission (PC). It is the first Statement of Expectations for the PC in its 25-year history. This reflects the Government's commitment to refresh, renew and refocus this key economic institution. It is consistent and complementary with changes made at other bodies and organisations in the Treasury portfolio.

This Statement outlines the Government's reform directions to modernise the PC, which are primarily about maximising its effectiveness when it comes to advising on and building understanding of productivity-enhancing policies. These reform directions will establish the PC as a modern, high-performing, and world-class institution that provides more rigorous, relevant, timely and practical advice. It will ensure the PC takes a broader perspective and approach to Australia's productivity challenge, and is more responsive to changing conditions and priorities.

As part of this reform agenda, the Government expects the PC to sharpen its focus on the major and emerging trends impacting Australia and the practical implications of its recommendations; diversify its skills base, data capabilities and analytical frameworks; and improve its communication, external engagement, culture and governance arrangements.

This Statement has been informed by a nine-month process that included targeted consultation with stakeholders, economists and other experts and coincides with the commencement of the new PC Chair. It is to be read alongside the laws that apply to the PC. The Government recognises and reaffirms the independence of the PC under the *Productivity Commission Act 1998*.

The PC's role

The PC is the Australian Government's pre-eminent independent research and policy advisory body. It should provide rigorous and impactful advice on a range of economic, social and environmental policy issues and in relation to different sectors of the economy.

The PC should maintain its primary focus on productivity, but also on our national prosperity and economic progress more broadly. Its advice should help reinvigorate Australia's productivity performance, in a manner that contributes to strong, sustainable and inclusive economic growth, rising living standards and making more Australians the beneficiaries of change.

The main role of the PC is to undertake inquiries and provide advice and reporting on request by the Government. The PC also has an important role in conducting its own research to inform public debate.

The Government's productivity agenda and other priorities

The Government's productivity agenda is focused on five key themes:

1. Creating a more dynamic, competitive, and resilient economy
2. Building a skilled and adaptable workforce
3. Harnessing data and digital technologies
4. Delivering quality care more efficiently
5. Getting to net zero and becoming a renewable energy superpower

The Government expects the PC to take account of the Government's productivity agenda and broader policy objectives and priorities as part of its research and work program. This includes but is not limited to objectives and priorities outlined in the Intergenerational Report, the Employment White Paper, the Economic and Fiscal Strategy, and the Measuring What Matters statement, as well as the Government's emissions reduction targets.

Responding to a changing environment

The Government expects the PC to provide advice that is focused on and takes account of how to maximise opportunities and address challenges associated with the major forces, trends and transitions that will impact the Australian economy over coming decades, including:

- Technological and digital transformation
- Climate change and the net zero transformation
- Population ageing
- Rising demand for care and support services
- Global shifts such as geopolitical risk and fragmentation

The Government expects that the PC will modernise and update its analytical and research methods, and use more diverse data sources. This is particularly but not only important in relation to analysis of service sectors, especially those with large non-market components, which will play an increasingly important role in Australia's productivity and prosperity.

As part of this, the PC should develop a data strategy, to identify new priority data assets, modelling capabilities, and information management practices. It should consider how to make better use of microdata and modernise modelling methods for policy research.

The PC should ensure its analysis and advice is well-informed by external consultation. This includes engaging with experts and the Australian community, particularly key stakeholders and those impacted by potential reforms, and governments. Consultation should be undertaken in ways that strengthens the evidence-base of the PC's conclusions and supports the successful implementation of the PC's recommendations. As part of its analysis, the PC should consider and balance the objectives of efficiency, equity, sustainability, and simplicity as appropriate.

More diverse data and frameworks and greater external input will improve how the PC applies an economic lens to major and emerging areas of focus, including the areas outlined in this Statement and those that are central to the Government's productivity agenda. The Government also expects the PC to expand its capacity to produce shorter, more timely reports on priority topics.

The Government expects the PC to complement its policy insights with appropriate and effective recommendations on how to translate them into practice. This is distinct from taking responsibility for implementing government programs, which is outside the PC's remit.

The Government will ask the PC to formally consider and report on implementation feasibility and risks as part of the Terms of Reference for future inquiries, where relevant and appropriate.

The Government will also consider opportunities for the PC to support more rigorous evaluation of program delivery, working with the Australian Centre for Evaluation.

Relationship with the Government, including Treasury and other departments and agencies

The Government expects the PC to more actively engage with the Government, including the Treasury and other departments and agencies, for the purpose of better disseminating the PC's research and ideas and ensuring the PC is exposed to a more diverse range of perspectives. This will support high quality advice and the PC's new focus on implementation.

As part of this the PC is expected to:

- Have regular engagement with the Treasurer, which may involve the participation of other Ministers, Assistant Ministers, Secretaries and departmental officials as required.
- Engage in the full range of relevant Australian Public Service boards and committees including, when appropriate, the Secretaries Board, as agreed with the Treasurer and Head of the Australian Public Service.
- Facilitate policy discussion forums and greater use of secondments and temporary transfers from and to government departments at all levels.
- Consult on draft findings and policy recommendations, as appropriate.

The Government expects that Treasury and the PC will maintain a close relationship. Treasury is expected to take into account the views and analysis of the PC when considering and advising on productivity-enhancing reforms.

In working with the Treasury, the Government expects the PC to:

- Provide the Secretary to the Treasury with a copy of all information, briefings, press releases and correspondence provided to Ministers.
- Keep the Secretary to the Treasury appropriately informed of significant meetings between the PC and Government Ministers and other Parliamentary bodies.

The Government expects Treasury and the PC to work collaboratively on the administrative procedures associated with the commissioning of inquiries and studies. This includes keeping each other informed of developments and resource limitations. The Government will work with Treasury, the PC and other Ministers, as appropriate, to streamline the timing and process for the allocation of work to the PC, and the appointment of Associate Commissioners.

The Government acknowledges the PC's broader functions in performance reporting, statutory review and investigation, and secretariat services, including in relation to the Report on Government Services, the National Agreement on Closing the Gap, the *Water Act 2007*, and the Australian Government's competitive neutrality complaints functions.

Relationship with states and territories

The PC's engagement with state and territory governments is important and should be enhanced, as states and territories have responsibility for many of the key policy levers that impact Australia's productivity performance.

The Government expects the PC to consult appropriately with state and territory governments when making recommendations that overlap with their jurisdictions.

The Government will work with the PC and the states to ensure the PC has formal and meaningful engagement with the Council on Federal Financial Relations and will consider additional ways for the PC to support knowledge exchange across governments.

The Government will also consider ways for the PC to play a bigger role in monitoring and evaluating National Reform Agreements and specific government services.

External engagement and communication

The Government expects the PC to more meaningfully engage with external stakeholders to inform its advice, build broad-based understanding of productivity-enhancing reform directions and put people, businesses and communities at the centre of its work.

The PC should modernise its external engagement practises to ensure that it is effectively engaging with a diverse range of relevant stakeholders, including experts, industry, unions, investors, service delivery entities, First Nations communities, and the broader community. This should occur across different stages of the research process, as appropriate.

As part of its external engagement, the PC should have a new focus on views around how recommendations could be implemented, ensure views of impacted communities are well-represented in its research and build understanding among key stakeholders for policy recommendations.

The PC has an important role to play in informing public policy discussions. The Government expects the PC to modernise its communication methods to reflect best practise, in order to enhance its ability to make a meaningful contribution to public discourse.

The PC should make it a priority to ensure its analysis and findings are communicated in an accessible way to broad and diverse audiences. It should consider new approaches for external and media engagement, written communication and publication formats, including but not only through more concise reports.

Appointments

To ensure the PC has access to the best available talent, appointments of Commissioners will be made by the Treasurer from an open and transparent application process with a new skills matrix. This will help ensure individual Commissioners have the appropriate mix of skills, and there is a diverse range of skills across Commissioners.

The Government will also make greater use of Associate Commissioners for specific inquiries. These Associate Commissioners will be appointed in consultation with the PC based on merit.

Culture and capabilities

The Government expects the PC to invest in a positive, collaborative internal culture and a more diverse set of skills, experiences and backgrounds across its workforce. As part of this the PC should:

- Review the skills matrix for staff and recruit for skills and expertise that allow it to provide high quality advice consistent with what is outlined in this Statement, including the need to advise on emerging trends and challenges. This should include a greater emphasis on recruiting a multidisciplinary workforce.

- Review the performance management supports for Commissioners, with increased focus on leadership capabilities, the influence of policy research and alignment with the Productivity Commission's priorities.
- Implement all the recommendations of the *Independent Review of Workplace Culture of the Productivity Commission* and report on progress after 12 months.

Organisational governance, transparency and financial management

The Government expects the PC to improve its governance arrangements. Specifically, the PC should introduce a Code of Conduct for Commissioners and Associate Commissioners, including expectations about how conflicts of interest will be managed.

The PC employs staff under the *Public Service Act 1999* (PSA). Under the PSA, agencies are required to uphold and promote the APS Values. All APS employees are required to adhere to the APS Code of Conduct. The PC is also required to comply with the APS Bargaining Framework in relation to APS employees.

The PC operates as part of the Australian Government and is accountable to the Parliament, and ultimately to the public, through the Treasury Ministers, the Parliamentary Committee process and reporting via the tabling of the PC's Annual Report.

The Government expects the PC to comply with the requirements of the whole-of-government performance management framework under the *Public Governance, Performance and Accountability Act 2013* (PGPA Act).

In particular, the Government expects that the PC will integrate performance measures into the PC Corporate Plan and subsequently report on outcomes against each measure in the PC's Annual Report. The Government will assess the PC's performance against these measures as part of its oversight function in determining whether the PC is successfully achieving its objectives.

The Government expects the PC to publish its Statement of Intent in response to this Statement of Expectations on its website, and subsequently incorporate the statements of expectations and intent in its Corporate Plan.