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The Productivity Commission

The Productivity Commission is the Australian Government's independent research and advisory body on a range of economic, social and environmental issues affecting the welfare of Australians. Its role, expressed most simply, is to help governments make better policies, in the long term interest of the Australian community.

The Commission's independence is underpinned by an Act of Parliament. Its processes and outputs are open to public scrutiny and are driven by concern for the wellbeing of the community as a whole.

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18 October 2012

The Assistant Treasurer
Parliament House
CANBERRA ACT 2600

Dear Assistant Treasurer

We submit to you the Productivity Commission's annual report for 2011-12. The report is prepared in accordance with section 10 of the *Productivity Commission Act 1998*. The Commission's Act requires that a copy of this report be tabled within 15 sitting days of each House of Parliament after the day of receipt of the report.

Yours sincerely

Gary Banks
Chairman

Angela MacRae
Commissioner

Michael Woods
Deputy Chairman

Alison McClelland
Commissioner

Jonathan Coppel
Commissioner

Warren Mundy
Commissioner

Wendy Craik
Commissioner

Patricia Scott
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Robert Fitzgerald
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Philip Weickhardt
Commissioner

Chairman and Commissioners



Philip Weickhardt, Gary Banks (Chairman) & Patricia Scott



Alison McClelland & Robert Fitzgerald



Mike Woods (Deputy Chairman) & Wendy Craik



Angela MacRae, Warren Mundy & Jonathan Coppel

Acknowledgments

The Commission wishes to thank its staff for their continued efforts, commitment and support during the past year.

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Abbreviations

ABS	Australian Bureau of Statistics
ACCC	Australian Competition and Consumer Commission
ACCI	Australian Chamber of Commerce and Industry
AGCNCO	Australian Government Competitive Neutrality Complaints Office
AIHW	Australian Institute of Health and Welfare
ALGA	Australian Local Government Association
ANAO	Australian National Audit Office
ANU	Australian National University
ANZSIC	Australian and New Zealand Standard Industrial Classification
ANZSOG	Australia and New Zealand School of Government
APEC	Asia-Pacific Economic Cooperation
APRA	Australian Prudential Regulation Authority
APS	Australian Public Service
BRCWG	Business Regulation and Competition Working Group (COAG)
CEDA	Committee for Economic Development of Australia
COAG	Council of Australian Governments
CRC	COAG Reform Council
EFIC	Export Finance and Investment Corporation
EGWW	Electricity, gas, water & waste services
GS	Gas supply
GDP	Gross Domestic Product
GTAP	Global Trade Analysis Project
GTEs	Government trading enterprises
ICTs	Information and communication technologies
IMF	International Monetary Fund
LP	labour productivity
MFP	multifactor productivity
NAPLAN	National Assessment Program for Literacy and Numeracy

NATSEM	National Centre for Social and Economic Modelling
NBN	National Broadband Network
NCP	National Competition Policy
NRA	National Reform Agenda
OECD	Organisation for Economic Cooperation and Development
OHS	Occupation health and safety
OID	Overcoming Indigenous Disadvantage report
PC	Productivity Commission
RBA	Reserve Bank of Australia
R&D	Research and development
ROGS	Report on Government Services
SES	Senior Executive Service
SLA	Statistical Local Areas
TCF	Textiles, clothing and footwear
WSSD	Water supply sewerage & drainage services

1 Structural adjustment in a ‘multi-speed’ economy

Structural change is a pervasive and continuous process. Changes in the structure of an economy, and the adjustments needed to bring them about, are essential to economic development and progress. As an economy grows, its composition is altered, because output and employment growth vary among firms and industries. Some structural trends, such as the relative decline in manufacturing and growth of services, are of long standing, and are common to all developed countries.

The recent terms of trade boom, associated mainly with mining exports, has been clearly beneficial for Australia, accounting for a substantial increase in national income and a general rise in household purchasing power. At the same time, it has added to the range of pressures for change facing the economy. However, the adjustment challenges the boom and ensuing currency appreciation have created for some industries and their workforces are not unprecedented. Moreover, improvements in the flexibility and adaptability of the Australian economy due to policy reforms have reduced adjustment costs, relative to past booms.

Over the past few years, there has been an intensifying debate about the mining boom, structural change and appropriate policy responses. Some key issues in contention are:

- the extent to which the mining boom brings benefits to the wider Australian economy and community
- whether the structural pressures and changes have been unprecedented
- whether these will leave the Australian economy vulnerable in the event of a pronounced terms of trade reversal, and therefore
- whether governments should intervene to reduce or offset the pressures and limit future vulnerability.

Concerns about recent developments are understandable. Structural change involves losers as well as winners. Job shedding and business closures affect many individuals, families and communities. The adjustment pressures created by such

events can be felt more heavily by segments of society that are relatively less adaptable — for a range of reasons such as age, language background, skills, and marital status.

At the same time, it is important that a focus on the costs of structural change to some does not overlook the benefits of such change to the community as a whole. Though accompanied by capital and labour movements that can give rise to transition costs, structural change ultimately enhances society's welfare, by ensuring that scarce resources are allocated where they can be most productive. For this reason, policy responses that seek to address transitional problems need to avoid compromising the timely adjustments on which rising living standards depend.

Sectoral pressures from the mining boom

While the pressures being felt by some industries have multiple causes (including lower consumer confidence in the aftermath of the Global Financial Crisis and the impact of online competition), the mining boom has been a pervasive driver of change across the economy. It is important to understand how this has been playing out.

As is well known, the rapid industrialisation and urbanisation of China has led to a surge in its demand for raw materials, resulting in a sharp rise in the prices of some of Australia's major commodity exports — mainly coal and iron ore. These price rises marked the beginning of the first phase of the boom (box 1.1). At the same time, China's development, and that of East Asia generally, have reduced the prices of many manufactured goods (electronic goods, machinery) that figure prominently in Australia's imports.

The net result has been a rise in Australia's terms of trade on a scale not witnessed since the Korean War boom, driven at the time by the price of wool (figure 1.1). (While currently waning, the terms of trade remain well above the historical average.) Unlike that earlier, short-lived boom, this one has now lasted almost ten years,¹ has linkages with many non-mining industries and has extended across many regions.

¹ There is no consensus regarding the start of the boom. Most analysts, however, place it around 2002-03, when the terms of trade began to rise above their twentieth-century average.

Box 1.1 The three phases of the mining boom

The mining boom has its origins in an escalation of export demand from China. It is widely accepted that the boom has three distinct phases:

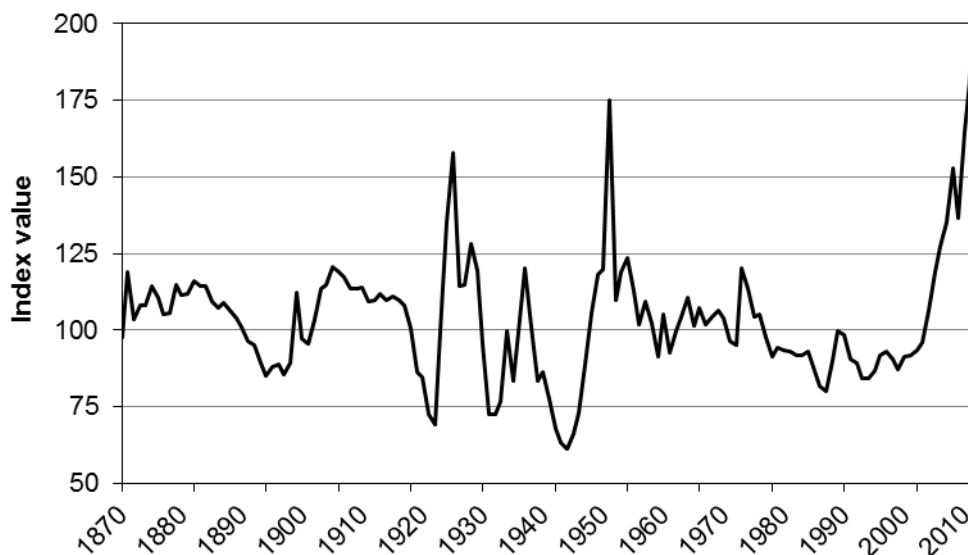
- Phase I: the rapid increase in commodity prices, and hence the terms of trade, as demand exceeds supply, and the subsequent appreciation of the exchange rate
- Phase II: the sharp rise in mining investment to increase supply
- Phase III: increased volume of mining production and exports.

These phases are consecutive, though overlapping. The first phase is now waning. The second phase is well underway. However, the peak in investment is predicted for 2013-14, and may end up being lower than expected, as some projects 'on the books' get reassessed. The third phase is only just beginning in earnest, with resource exports estimated to at least double in volume between 2010-11 and 2020-21.

For a detailed theoretical and empirical treatment of the successive phases of the mining boom, refer to the publications below.

Sources: Plumb, Kent and Bishop (2012); Sheehan and Gregory (2012); Stevens (2012a).

Figure 1.1 Terms of trade reached an all-time peak in 2011^a
Index values, 1870–2012, year ended June (1901–2000 average = 100)



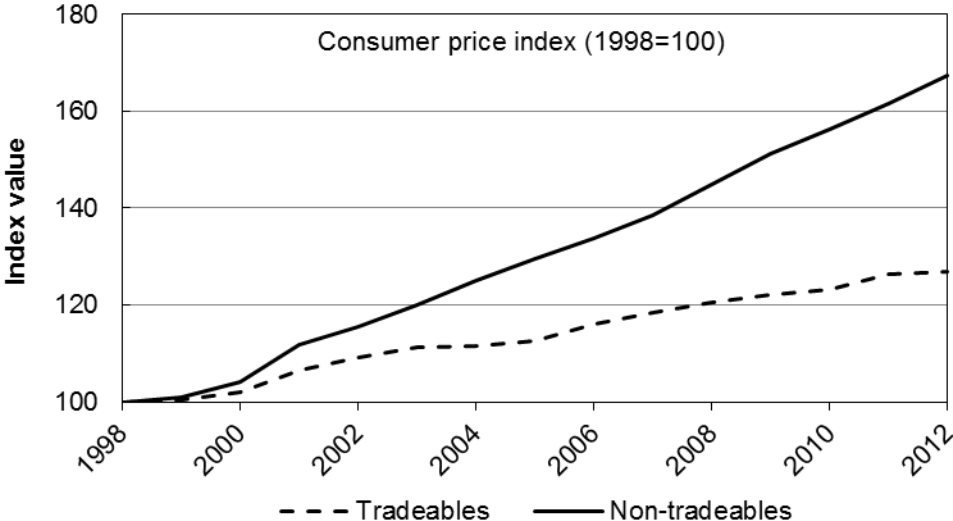
^a Based on annual data to 1959, and quarterly data thereafter (dates refer to the June quarter, except the figure for 2012, which refers to the March 2012 quarter).

Data sources: RBA (data supplied on request); RBA (2012), *Terms of Trade*.

The additional national income generated by the higher terms of trade has been estimated at 15 per cent or more of Gross Domestic Product (Stevens 2011). It stimulated demand for goods and particularly services. Because many services are not traded internationally, and with the economy at close to full employment, growth in non-traded activities has been accommodated through the relative contraction of other parts of the economy. This has primarily affected exporting ‘non-booming’ industries (traditional exporters, but also providers of inbound tourism services) and import-competing industries.

These sectoral shifts result from the ‘real’ appreciation of our currency, which has seen the prices of domestically-produced, non-traded products rise faster than those of tradeable products (figure 1.2). However, because domestic production of the latter incorporates many non-traded inputs, Australian traded goods have become more expensive, reducing demand for them both at home and abroad.

Figure 1.2 The relative price of ‘non-tradeables’ has risen^a



^a Year ended June, annual averages of quarterly data.

Data source: ABS (2012d).

This adjustment process is often referred to as the ‘Dutch Disease’, a term coined in the 1970s to characterise similar pressures in the Netherlands economy following the discovery and exploitation of North Sea gas reserves. A ‘disease’ suggests harmful effects, but this was not the long-term experience of the Netherlands and nor should it be for Australia. A better description is ‘multi-speed’ economy, which more accurately conveys that the various parts of an economy rarely move in unison. Leading and lagging sectors have always been a reality in Australia, and recent developments are, in many cases, merely an accentuation of longer-term trends.

Recent changes in perspective

The rate of structural change is not unprecedented

The importance of particular industries in the economy typically changes over time, in response to a range of influences affecting supply and demand in those industries (box 1.2). Some effects are gradual, such as those arising from demographic change, while others are much more rapid, such as when significant technological advances take place.

To illustrate how a single technological breakthrough can have a transformational impact on a range of industries, consider how the worldwide web and electronic commerce have revolutionised the market for books. Thirty years ago, the selection and purchase of a new-release overseas novel by Australians would typically have involved: reading a book review on newsprint; waiting for up to thirty days after the release of the overseas edition; withdrawing cash via a (non-automatic) bank teller, during banking hours on a weekday; and visiting the local bookstore, during business hours. Today, web-based instruments such as Google, Amazon, PayPal and iTunes have compressed and simplified this process greatly, with consequences for industries such as book and newspaper publishing and printing, traditional banking and ‘bricks and mortar’ retail.

In addition to technological ‘shocks’, the Australian economy has experienced a number of external trade shocks throughout its history, including a series of booms in export commodities. Both domestic and external pressures for change have tended to set in train economic adjustments resulting in changes in the composition of output and employment.

The extent of these changes over the course of the past four decades can be illustrated by employing a synthetic measure of structural change called a ‘Structural Change Index’. This commonly-used indicator measures the rate at which sectoral (or state and territory) shares of employment (or output or investment) are changing over time (figure 1.3). For example, in the third panel of figure 1.3, the employment index reflects the percentage of jobs that have notionally relocated between sectors over time. The higher the index, the larger the proportion of total jobs that has ‘changed’ sectors. (Jobs do not have to be lost in one sector and gained in another for the index to be above zero. If different sectors create net jobs at different rates, the index will show this as structural change.)

Box 1.2 Drivers of structural change

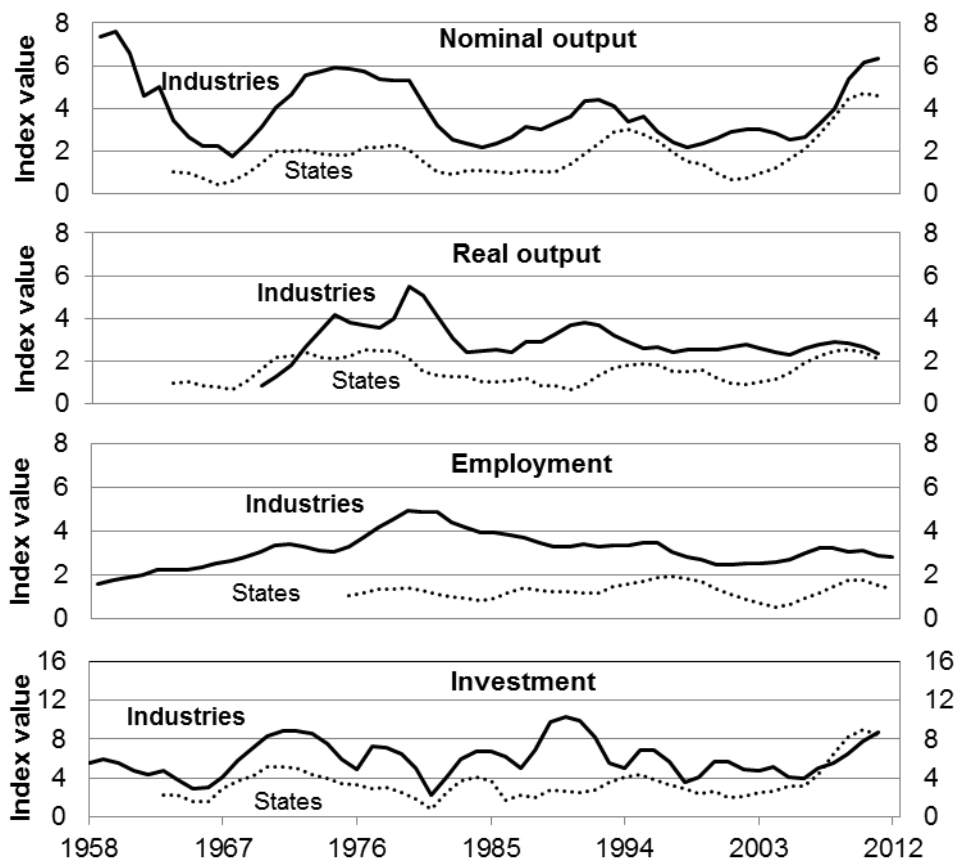
The forces exerting pressure for structural change are diverse. They arise on both the supply and the demand sides of markets. The key drivers of structural change in developed countries include:

- Technological change — for example, the Information and Communication Technology revolution has affected most economies, with profound consequences for production and distribution processes, as well as the consumption patterns, in industries such as banking, communication and retail.
- Consumer behaviour — consumption and saving decisions by households are capable of influencing the fortunes of whole industries and occupations. A case in point is the early 2000s turnaround in the Australian household saving rate, following decades-long decline. This change in behaviour and the subsequent deleveraging that followed the Global Financial Crisis — regarded as permanent by some (Stevens 2012b) — has had adverse implications for such industries as financial, retail and real estate services.
- Demography — the gradual move into retirement of the ‘baby boomer’ cohort is projected to add considerably to the demand for aged and health care services. Demand for these services was already on an upward trajectory due to consumers’ propensity to spend an increasing proportion of rising incomes on these services.
- Global shocks and transformations — as already mentioned in this chapter, recurring trade booms and busts can have ramifications for Australian producers in general, and exporters and importers in particular. Even without such abrupt shocks, the development process in emerging-market economies, marked by urbanisation and industrialisation, has the capacity to alter demand and supply conditions for Australian output.
- Natural resources discoveries — the discovery of commodities such as minerals or oil has, at times, significantly modified the industrial landscape, through the relative price effects and factor movements that such discoveries can trigger. These effects are encapsulated in the related ‘Gregory thesis’, ‘Dutch Disease’ and ‘resource curse’ constructs.
- Government policy — reforms undertaken by governments have the capacity to create pressures for change within and between industries. Certain industries may be the direct target of policy initiatives or reform, or may be indirectly affected by policy changes to aspects of their regulatory or commercial environment. In Australia, there have been examples of both types of change-inducing reform, reversing earlier policy stances, such as the deregulation of the dairy industry and across-the-board tariff cuts, respectively.

Source: PC (2012c).

The indexes included in figure 1.3 — which update those provided in Connolly and Orsmond (2011) — reveal that there have been several periods of rapid structural change at the industry level since the late 1950s. While the change in nominal output and investment has been rapid in the last decade, this has not been unprecedented. Moreover, recent industry-level changes in real output and employment shares have remained below the peaks recorded in the 1970s.

Figure 1.3 **Structural change indexes^a reveal precedents**



^a Calculated as half the sum of the (absolute) five-year change in the five-year moving average of industry or State shares, with the final year indicated. See Connolly and Lewis (2010), footnote 8, for industry and state and territory aggregations, and for variable definitions.

Data sources: ABS (2012a, 2012b, 2011a); Connolly and Orsmond (2011); Connolly (2012), pers. comm. (data for years prior to available ABS data).

At the state and territory level, index values reveal the size and geographic concentration of the mining boom of the past decade. Real output and employment have been high, but broadly in line with earlier periods. The nominal output and investment indexes, on the other hand, are at their highest since at least the late 1950s, reflecting the effect of high commodity prices on the output of selected states, and the magnitude of the associated mining investment effort in those jurisdictions. This effort underpins the second, ‘construction phase’ of the boom which, unlike the first ‘price phase’, has yet to reach its peak (Sheehan and

Gregory 2012). The large investment pipeline currently projected for the resources sector should, therefore, continue to foster structural change in investment.² This investment phase will be followed by a third, ‘production’ phase, during which additional mining productive capacity will come on stream, and raise the pace of structural change in real output.

Unemployment and inflation have remained low throughout this mining boom

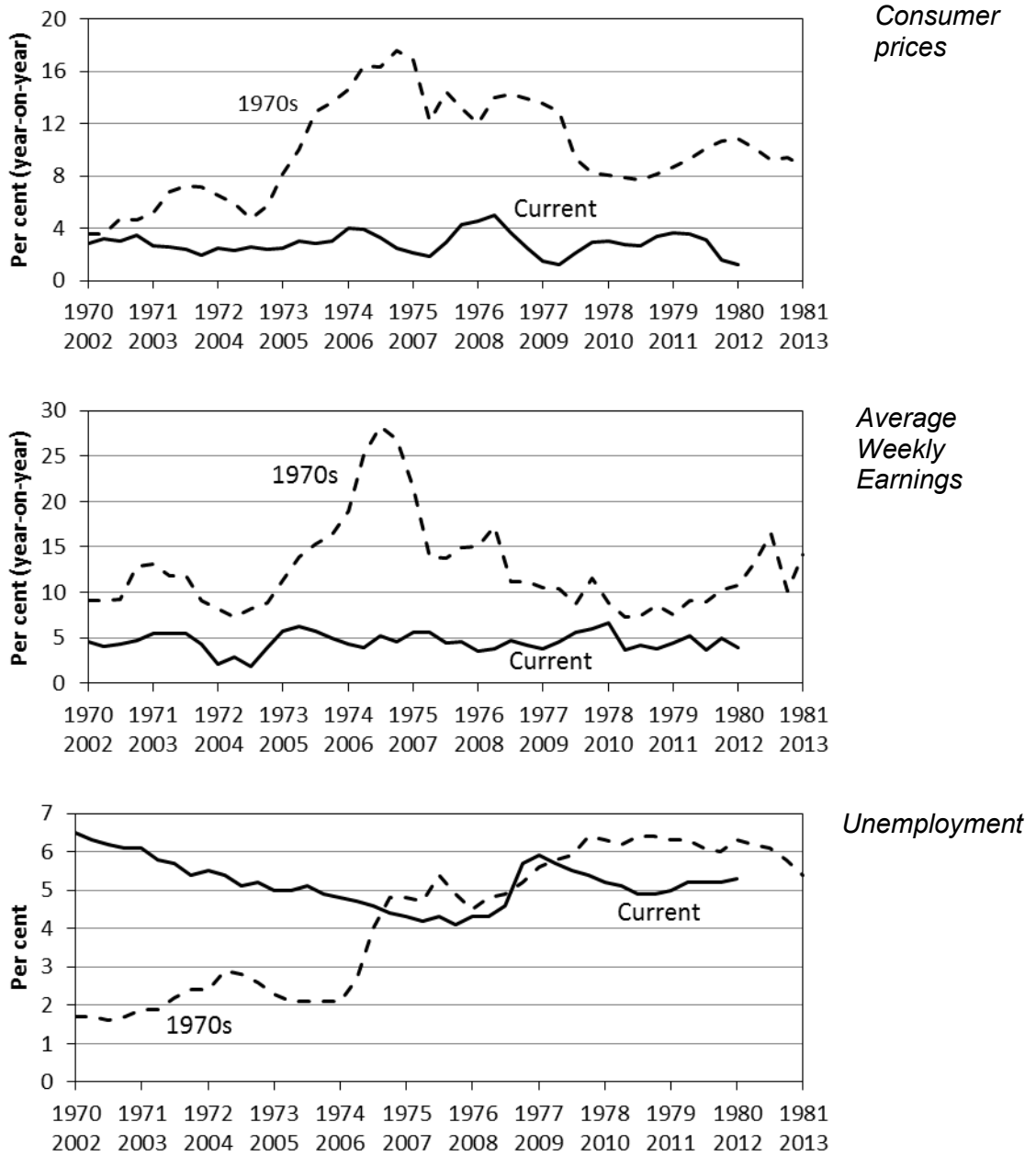
As mentioned, Australia has experienced many commodities booms throughout its history. However, the current mining boom has taken place in very different domestic circumstances to earlier booms, both institutionally and economically. The outcomes have differed significantly, as a result. For example, Gruen (2011) contrasted the current boom with the one that began in 1971-72 with a rise in the price of rural commodities. He found that inflation, wages and unemployment remained subdued during the latest boom, in contrast to the sharp rises recorded during the earlier episode, even allowing for one-off factors. Figure 1.4 traces out the time path of these indicators separately throughout the 1970s and the 2000s (beginning a year or so before rising commodity prices signalled the beginning of each boom).

The contrast between the outcomes from the two booms is the more noteworthy because this terms of trade boom has been much larger and more enduring than its predecessor.³ That it has been accompanied by far less economic turmoil is a matter of continuing interest for policy makers and researchers.

² At April 2012, a total \$260 billion of capital expenditure in the resources sector was ‘under construction’ or ‘committed’, according to the Bureau of Resources and Energy Economics (BREE 2012). Projects described as ‘less advanced’ (for example, awaiting approval) amounted to potential additional total expenditure of \$243 billion. The next update from the BREE, due in November 2012, is likely to reveal a reduction in the mining investment pipeline, due to decreases in the export price of a number of resources since September 2012.

³ While the 1971-72 rural commodities boom was followed by other booms in the 1970s, most notably the trebling of the price of coal exports between 1974 and 1976 that followed the oil price shocks, these subsequent booms were not accompanied by a rise in Australia’s terms of trade.

Figure 1.4 A tale of two booms: inflation, wages and unemployment^a
 Annual CPI and wages growth, and unemployment during the 1970s and current booms



^a See Gruen (2011) for details of time-series construction. Time series begin at June 1970 (1970s boom) and = June 2002 (current boom). These dates are chosen to begin a year or so *before* commodity prices started to increase.

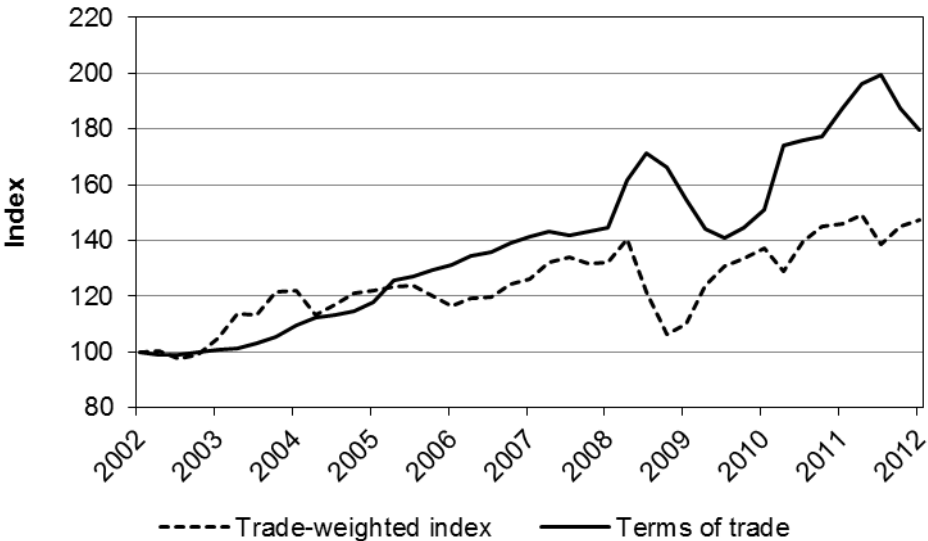
Data sources: Adapted from Gruen (2011), using ABS (2012c, 2012d, 2012e).

The more benign macroeconomic outcomes accompanying this recent boom may, in part, be a reflection of the ‘great moderation’ — a decline in the volatility of output, employment and inflation in most advanced economies, lasting from the early 1980s until recent global downturns. Explanations for the ‘great moderation’ include improved monetary policy, increased global integration, and better inventory control methods. Structural change favouring the (more stable) production of services is also thought to have played a role, at least for some countries (Davis and Kahn 2008), as have reforms to enhance the flexibility of product and labour markets (Kent et al. 2005). Reforms of this nature — such as the move away from centralised wage-fixing to enterprise-level bargaining in Australia — have facilitated the reallocation of factors and resources in response to sector- and firm-specific shocks, thus reducing overall instability. Notwithstanding the advent of the Global Financial Crisis and subsequent international economic turmoil, Australia has continued to reap the benefits of these reforms.

Assisted by a floating exchange rate

A key difference, in Australia’s case, is that the recent boom has been the first to occur under a floating exchange rate. The value of the \$A relative to the basket of currencies in the Trade-Weighted Index has generally mirrored the rise in Australia’s terms of trade (figure 1.5).

Figure 1.5 A ‘commodity currency’: the rising dollar and the terms of trade^a



^a Terms of trade: seasonally adjusted quarterly data. Trade-Weighted Index: end of quarter data. Both indexes have been rebased to March 2002.

Data sources: ABS (2012f, 2012g).

The flexibility of the Australian dollar has served to insulate the macroeconomy from the possible downsides of recent external shocks. For example, the exchange rate acted as a ‘shock absorber’ during the Global Financial Crisis. Conversely, when the terms of trade increased, and national income expanded, the exchange rate was instrumental in spreading the benefits of the boom. This allowed consumers and producers to enjoy cheaper prices for imported goods, services and inputs, which limited the inflationary impact of the extra household income. In addition, as illustrated in figure 1.2, the increase in the \$A brought about changes in the relative prices of traded and non-traded products, prompting production shifts. Those shifts, in turn, eased pressures on domestic prices.

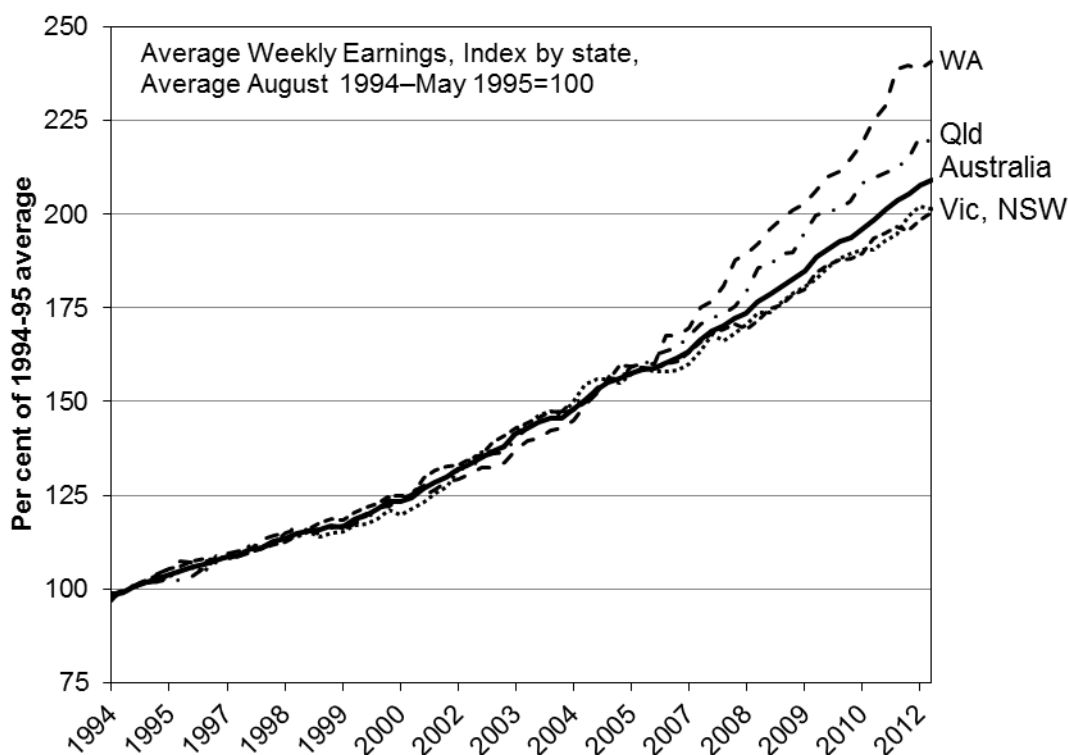
By the same token, the floating dollar could be expected to cushion the economy on the ‘way down’ if the terms of trade continue to unwind. (They are currently around 10 per cent below their peak of September 2011.) This would, in turn, favour trade-exposed industries. The importance of a floating exchange rate was underscored during the 1997–98 Asian Financial Crisis, when exposure to East Asia led to a significant decline in Australia’s terms of trade. As a result of the ensuing depreciation in the Australian dollar, Australia’s exports were able to be re-directed towards Europe and North America (Anderson 2000).

Labour market adjustments have been taking place relatively smoothly

When Australia’s terms of trade last peaked in 1973-74, demand pressures translated into high nominal wages, with rising inflation and unemployment to follow (figure 1.4). The large real wage ‘overhang’ from the disparity between average nominal wages and labour productivity took several years to unwind.

Decentralised wage-setting in more recent years has made it possible for relative wages to change across jurisdictions, industries and firms in response to differential labour market pressures (figure 1.6). Further, as seen in figure 1.4, decentralised wage-setting has avoided demand pressures being transmitted from expanding parts of the economy into aggregate nominal wage outcomes.

Figure 1.6 Wage movements have reflected local conditions^a



^a Productivity Commission calculations using full-time adult total earnings, seasonally adjusted series.

Data source: ABS (2012e).

Additional benefits have been fewer job losses from cyclical fluctuations and structural shocks than in the past, as hours worked have been a preferred source of adjustment, limiting the number of layoffs. Moreover, displaced workers have tended to spend less time unemployed than they used to, including in jurisdictions where there is little or no mining activity. For example, average unemployment duration decreased in all jurisdictions apart from the Northern Territory between 2001–03 and 2010–12 (table 1.1).

This is also true for a particular demographic group that is traditionally vulnerable to lengthy unemployment spells. The average unemployment duration for males aged 55 years and over was around 72 weeks in 2010–2012, down from 111 weeks in 2001–03. A note of caution is injected by Gregory (2012), who observes that, in the 2000s, older, unemployed unskilled males have continued the previous trend of moving from long-term unemployment to the disability support pension. He also notes that the mining boom does not appear to have durably altered the long-term decline in the full-time employment-to-population ratio for males aged 15–64, even in the mining states of Western Australia and Queensland.

Table 1.1 Average unemployment duration has fallen^a

<i>State or Territory</i>	<i>Average duration 2001–03</i>	<i>Average duration 2010–12</i>
	Weeks	Weeks
New South Wales	53.6	43.8
Victoria	44.0	35.2
Queensland	42.4	30.9
South Australia	60.0	44.2
Western Australia	37.9	26.8
Tasmania	77.6	44.8
Northern Territory	23.7	28.0
Australian Capital Territory	36.7	25.2
Australia ^b	48.0	36.9

^a Each column contains duration data on the two years to August. Note that *average* duration is considerably longer than *median* duration, due to the weight of the long-term unemployed in the former indicator.

^b Average duration for Australia calculated by summing state components.

Source: ABS (2012a).

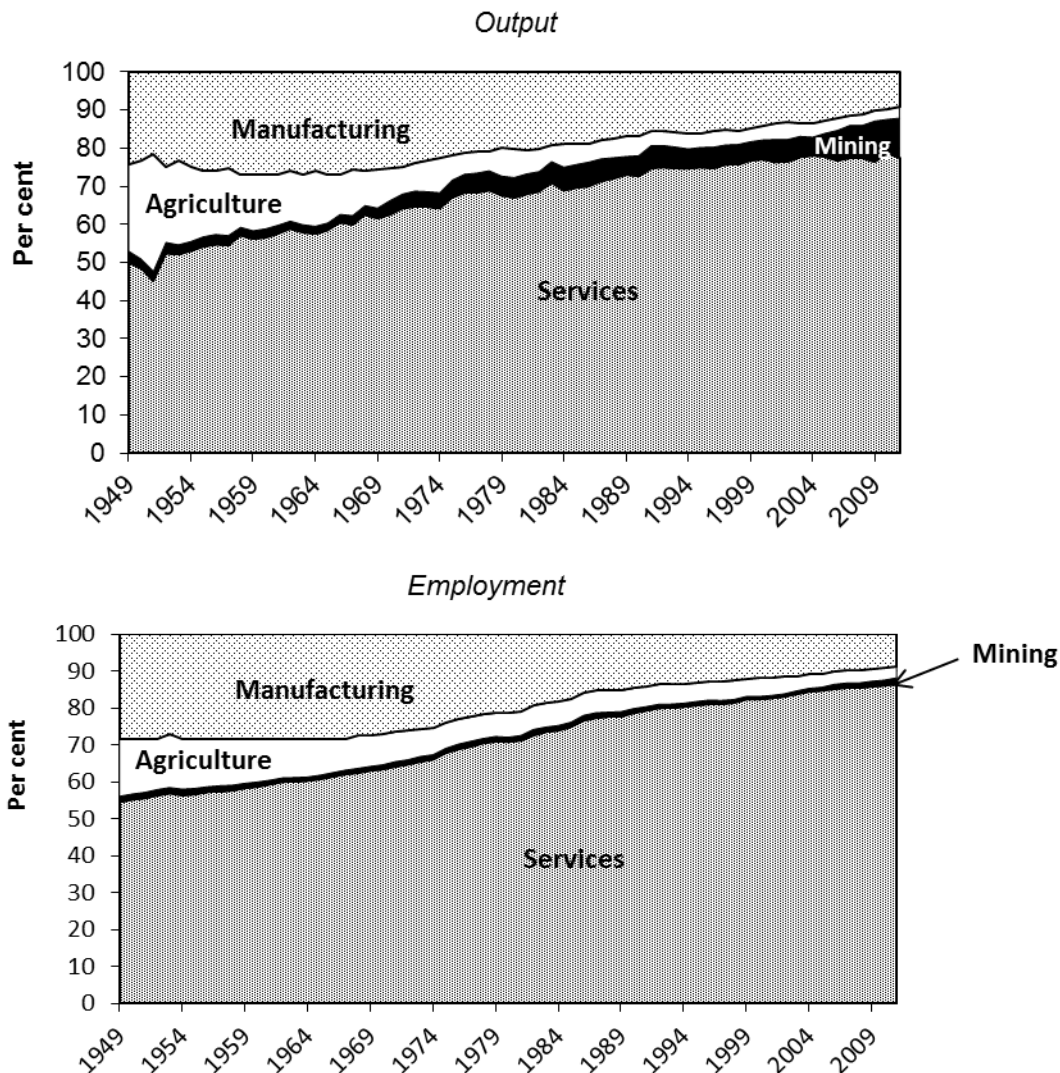
Nonetheless, older males are now remaining in the labour market for longer, on average, than they used to, including by working part-time. Borland partly attributes the significant increase in the labour force participation rate of males aged 55 and over, during the 2000s (following a long decline), to the ‘growth in services jobs which are less physically demanding’ (2011, p. 179).

A closer look at sectoral changes

As in previous decades, sectoral shares of value added and employment have changed over the last ten years. In the case of agriculture and manufacturing, these changes have reinforced long-standing trends (figure 1.7). Mining, by contrast, increased its share of both output and employment. Finally, while services continued to increase their share of employment, their weight in nominal output terms appears have been plateauing in the last ten years or so. This trend is an artefact of the growth in the share of mining output, and of the way in which the output of some services is measured.⁴

⁴ National accounts value the output of ‘non-market sector’ services (education and training; public administration and safety; and health care and social assistance) at cost. Given the weight of wages and salaries in those activities’ costs, the slow growth of Average Weekly Earnings over the last decade (figure 1.4) would have inhibited growth in their measured output.

Figure 1.7 Secular trends in sectoral shares since WWII
 Gross value added and employment by broad industry, year ended June^a



^a Current price data used for gross value added, due to data availability.

Data sources: ABS (2012a, 2012b); Connolly (2012), pers. comm. (data for years prior to available ABS data); Withers, Endres and Perry (1985).

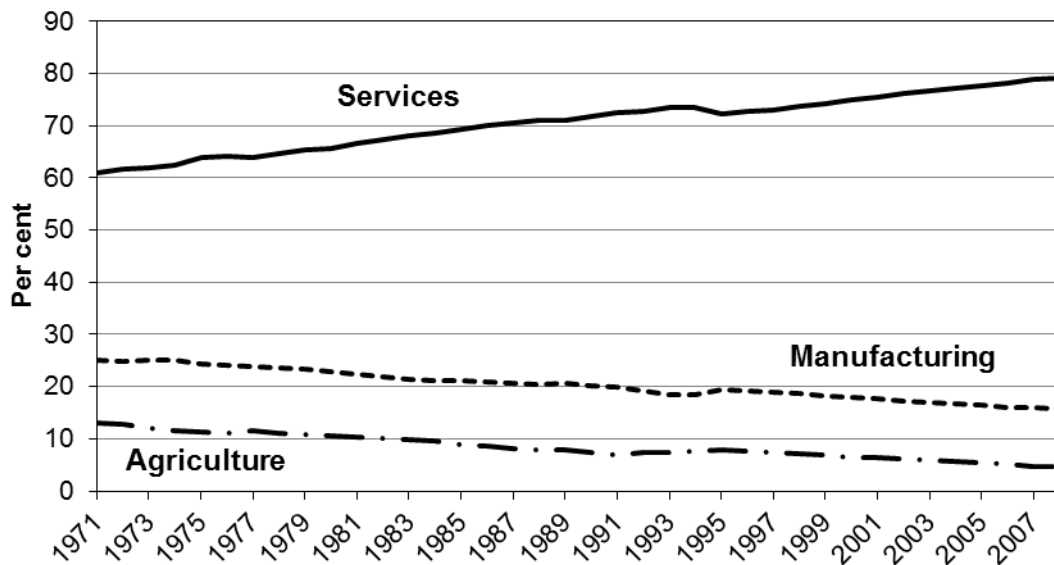
The value-added share of mining is now approximately back to where it was at the turn of the twentieth century. However, mining’s share of total employment is much smaller than it was then, because of the much greater capital intensity of production. Nevertheless, between 2002-03 and 2011-12, mining added 160 000 workers, more than doubling the size of its workforce (an annual growth rate of 12 per cent). In WA alone, mining added 65 000 workers over that period, amounting to almost a quarter of all employment growth in that jurisdiction.

The employment gains of the mining sector outweighed the 117 000 reduction in manufacturing employment over the same period. However, only a small proportion of the additional mining employees appear to have previously worked in domestic manufacturing. More significantly, employment changes in both sectors have been swamped by the 2 million jobs created in the services sector since 2002, with that sector now accounting for nearly nine jobs in ten.

Continuing growth in services

Mining aside, the long-term pattern of structural change at the sectoral level in Australia — a growing services share and declining agriculture and manufacturing shares — is replicated in most other advanced economies (figure 1.8). This phenomenon has had several causes, some of which are more relevant to Australia:

Figure 1.8 **Sectoral shares of employment in the OECD^a**



^a Productivity Commission calculations of yearly OECD average. New entrants to the OECD in 1993–1997 affected calculation of the mean shares.

Data source: OECD (2010), *STAN Database for Structural Analysis*.

- As mentioned in box 1.2, it is widely observed that, as incomes have grown in developed countries, the proportion of consumption devoted to services has tended to rise. This is particularly apparent of expenditure on so-called ‘superior goods’, such as health, education, recreational and financial services.
 - Rapid increases in health spending are even more evident in countries where population ageing is occurring, and where it is accompanied by the rapid adoption of advanced medical technologies.

-
- Outsourcing has also made a difference to the classification of activities. Some that were previously carried out in-house by manufacturers, such as accounting, computing and cleaning, have been progressively contracted out to external providers and are now classified as part of the services sector. Similarly, with rising female labour force participation, many services that had been provided as unpaid work from within the family or household, such as childcare and property maintenance, are being outsourced. Again, this results in increased market services employment.
 - For example, it is estimated that the number of young children attending either Long Day Care or Outside School Hours Care increased from around 390 000 in 1996-97 to about 755 000 in 2010. This rapid growth rate was mirrored by the number of workers providing early childhood education and care services, which almost doubled over the same period (PC 2011h).
 - With China and East Asia increasingly specialising in the provision of low-cost manufactured goods, Australia and others have moved to exploit their comparative advantage in ‘knowledge-intensive’ activities, most of which are in services.
 - Competition reforms also played a key role in Australia, including through the reduction in previously high levels of protection afforded to manufacturing and the removal or loosening of regulatory constraints on firm performance. These reforms enabled consumers to enjoy lower-priced imported goods (clothing, cars, household appliances), but also domestic services (real estate, finance). Competition reforms also saw reform to government enterprises, for example, in rail transport and utilities. This led to efficiency gains, at least initially, which saw output of these services expand, despite workforce reductions.

Given its size, the heterogeneity of the services sector is to be expected. It comprises a multitude of activities, which are more or less closely related and can be difficult to categorise (box 1.3).

The diversity of the services sector is also apparent in the differential growth of its constituent activities. Figure 1.9 charts employment in aggregated services industries from 1985 to 2012. The growth of social services and business services employment from the beginning of the 2000s stands out, as does the rise in construction employment, linked in part to the mining boom. These trends are an indication that structural change is also occurring *within* the services sector, in response to the various pressures mentioned previously (box 1.2).

Box 1.3 The services sector: a study in diversity

The services sector may be defined by what it is not: agriculture, mining, or manufacturing. In this sense, it is the *residual* sector. A more informative definition relates to some common features that set services apart from other forms of economic activity, namely their: (i) intangible or immaterial nature; (ii) non-storability and non-transferability; and (iii) provision through the direct interaction of the producer and the consumer.

There are, however, services that do not possess all of these features (for example, a restaurant meal is clearly tangible, storable and transferable). Moreover, there can be some overlap between sectors (for example, between the activities of an automobile manufacturing plant and those of a car servicing garage).

The diversity of the services sector is reflected in the large number of industry divisions it comprises, as well as in the relative sizes of these (table 1.2).

Table 1.2 Service industries shares of sectoral value added and employment^a
Average, 2011-12

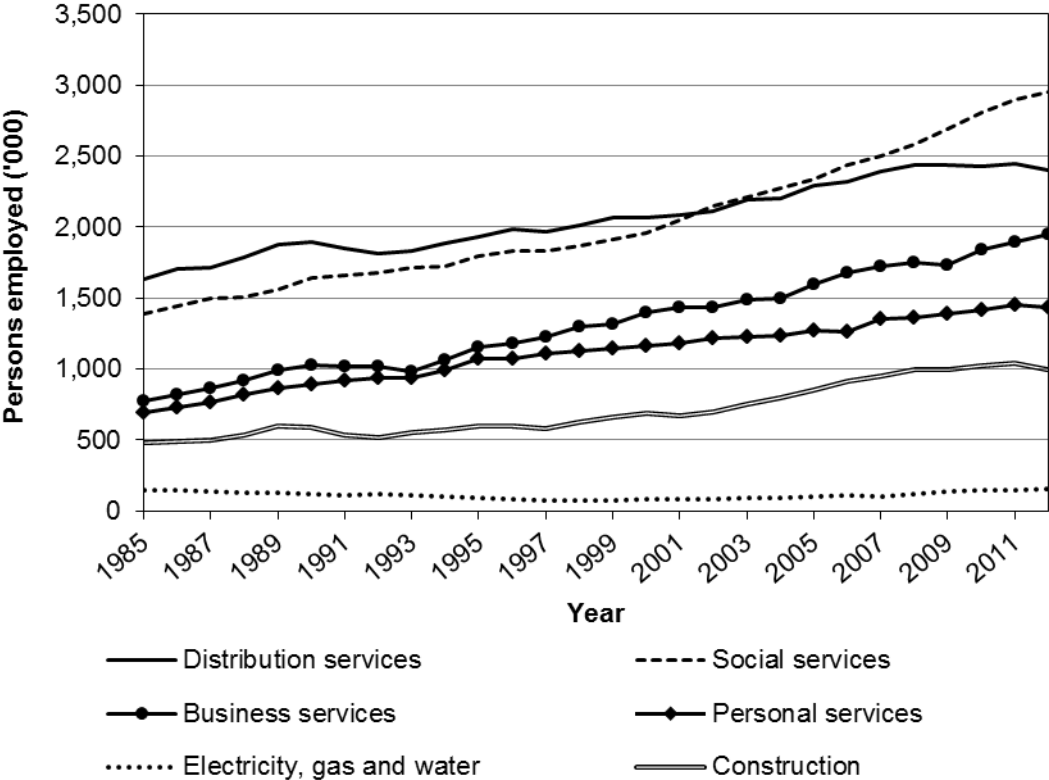
<i>Industry divisions and groupings</i>	<i>Value added^b</i>	<i>Employment^c</i>
	%	%
Electricity, gas, water and waste services	3.1	1.6
Construction	11.5	10.3
Distribution services		
Wholesale trade	6.3	4.2
Retail trade	6.5	12.3
Transport, postal and warehousing	7.6	5.7
Information media and telecommunications	4.6	2.2
Business services		
Financial and insurance services	14.4	4.3
Rental, hiring and real estate services	3.0	2.1
Professional, scientific and technical services	9.8	9.0
Administrative and support services	3.4	4.1
Social services		
Public administration and safety	7.3	7.4
Education and training	6.5	8.8
Health care and social assistance	8.8	13.6
Personal services		
Accommodation and food services	3.3	7.7
Arts and recreation services	1.2	2.1
Other services	2.5	4.6
Total services sector	100.0	100.0

^a Row headings in bold characters refer to industry groupings based on the primary economic function of industries. ^b Value added = gross value added in chain volume terms (reference year 2009-10), quarterly data, seasonally adjusted. Excludes ownership of dwellings. ^c Employment = total persons employed, quarterly data.

Sources: McLachlan, Clark and Monday (2002); ABS (2012a, 2012g).

The changing employment balance of industries within the services sector is increasing the overall skill intensity of that sector. In those service industry groupings that have grown the fastest over the last ten years (figure 1.9), a majority of workers is employed in relatively skilled occupations (with the exception of some segments of the business services group).⁵ By contrast, slowing industry groupings, such as distribution services, have a relatively higher proportion of lower-skilled employees. As a result of these trends, 60 per cent of the overall services workforce is now employed in skilled occupations. The common view of services jobs as ‘menial’ is not correct.

Figure 1.9 Structural changes within services^{a,b}



^a Service industry groupings as defined in box 1.3, except for Electricity, gas and water, and Construction, which are single industry divisions. ^b Annual average of seasonally-adjusted quarterly data (except for 2012 which uses February, May and August quarters only).

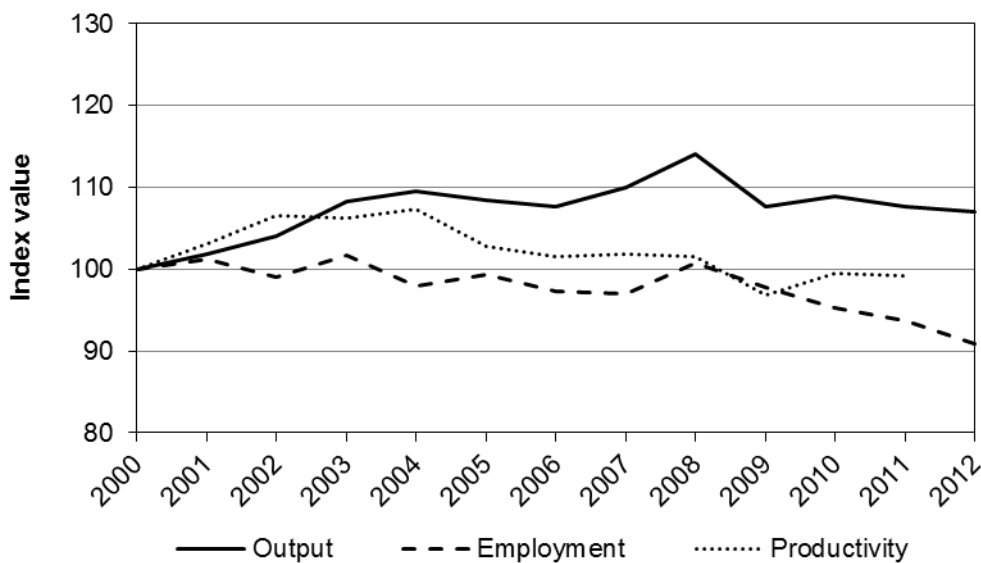
Data source: ABS (2012a).

⁵ Namely, Administrative and support services, and Rental, hiring and real estate services.

What about manufacturing?

In common with patterns observed internationally, manufacturing's share of value added in Australia has been steadily decreasing since the early 1960s (figure 1.7). That said, this sector's output has grown in absolute terms, although it has not yet recovered from its slump during the Global Financial Crisis (figure 1.10). By contrast, employment has contracted in the 2000s, particularly since 2008.

Figure 1.10 **Manufacturing output,^a employment^b and multi-factor productivity^{c,d}**



^a Real gross value added. ^b Annual averages of quarterly trend data from August 1999 to June 2012. ^c Gross value added based multifactor productivity index. ^d All data series have been transformed into indexes with base year 2000 = 100.

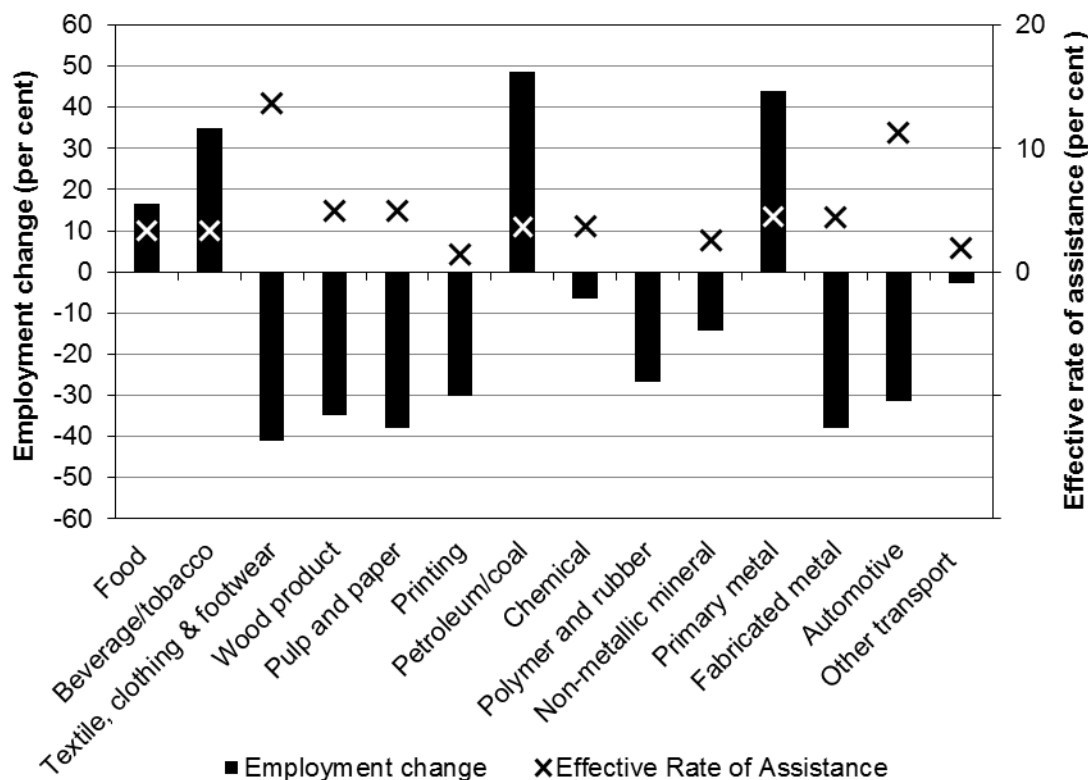
Data sources: ABS (2012a, 2012g, 2011b).

Multifactor productivity in manufacturing rose over the 2000–04 period, but has generally declined since then (figure 1.10). Preliminary indications are that the sector's use of capital grew rapidly in the last complete productivity cycle, without a commensurate growth in output, thus depressing productivity (Barnes, Soames and Li forthcoming).

Job-shedding has affected many manufacturing industries, with some of the largest proportionate falls in employment occurring in Textile, clothing and footwear and Automotive (figure 1.11). This has occurred despite the relatively high effective rates of assistance these industries have received over a long period. Some manufacturing industries, however, have bucked the declining trend in recent times.

Figure 1.11 **Manufacturing employment changes and industry assistance^{a,b}**

Per cent change over the period 2003-04 to 2011-12 (left axis) and Effective Rate of Assistance (right axis)



^a 2011-2012 figures are an average of August 2011, November 2011 and February 2012 quarters. All other years' figures were obtained as annual averages from quarterly data. Only selected manufacturing sub-divisions are shown. ^b Effective Rate of Assistance figures adapted from PC (2012b).

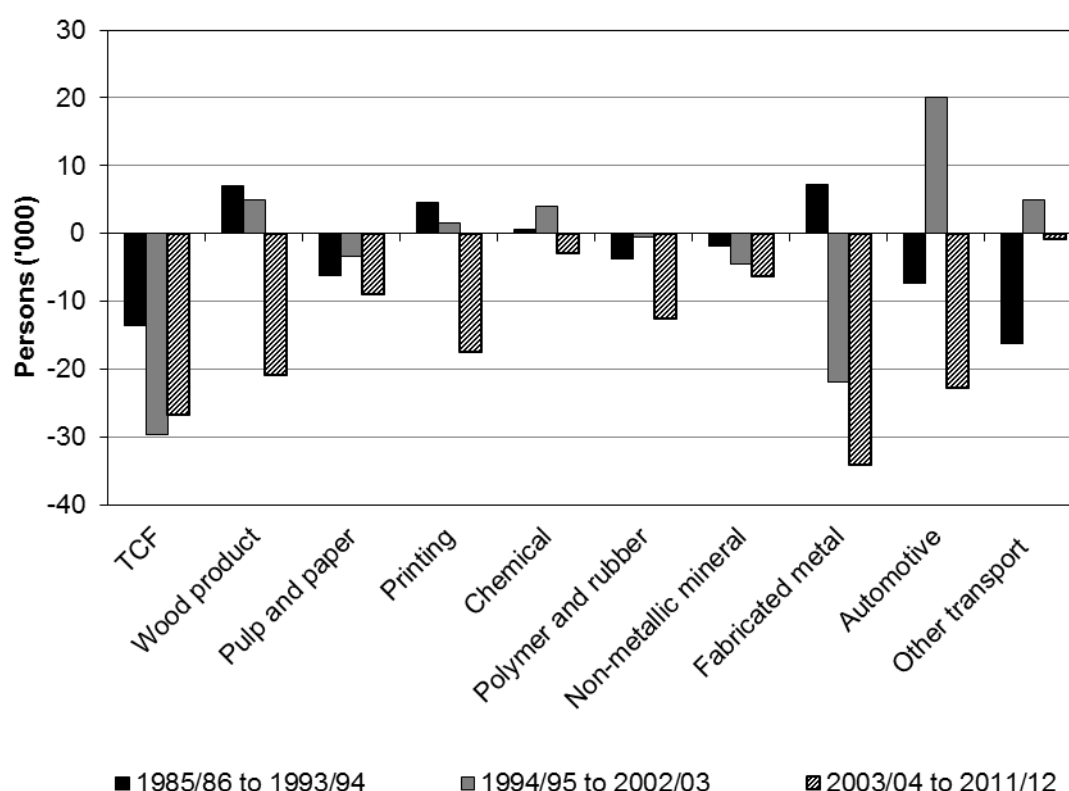
Data sources: ABS (2012a); PC (2012b).

Of those industries recording employment growth, a number have links to the mining sector. For example, it is likely that rising employment in the Primary metal industry is partly mining-induced, particularly in Queensland and Western Australia. This industry's employment growth has been rapid in these jurisdictions (79 per cent and 73 per cent, respectively, between 2001 and 2012), and may have been related to the resources projects in these states. (That Primary metal stands out from the remainder of the manufacturing industry is reflected in the finding that it is the only manufacturing industry to have gained workers in net terms from outside the manufacturing industry between 2001 and 2007 [Li 2011].)

Where employment has been declining in recent years, this has usually involved an accentuation of longer-term trends (figure 1.12). For manufacturing as a whole, the Commission estimates that the combined effect of the rising dollar and the Global Financial Crisis served to bring forward the structural decline of its employment share by between 1.7 and 3.5 years, relative to the pre-existing trend.

This decline notwithstanding, recent modelling by the Commission also suggests that manufacturing will remain a significant part of the Australian economy, given baseline projections about the terms of trade and other economic drivers. While its output and employment shares are projected to decline further, the sector's value added and employment levels are projected to grow in absolute terms by close to 2 per cent and 1 per cent annually, respectively, from now until the middle of this century (PC 2012a). These projected outcomes are, in part, conditional on the assumption that the terms of trade will progressively revert to their 2004-05 level by 2017-18 and remain there thereafter. Nonetheless, taking everything into account, concerns about the 'hollowing out' of the manufacturing sector and the associated loss of key manufacturing skills appear unfounded, as they have proved to be in the Netherlands.

Figure 1.12 Manufacturing industries with declining employment
Change in persons employed over each eight-year period, 1985-86 to 2011-12^a



^a 2011-2012 figures are an average of August 2011, November 2011 and February 2012 quarters. All other years' figures were obtained as annual averages from quarterly data. Only selected manufacturing subdivisions are shown.

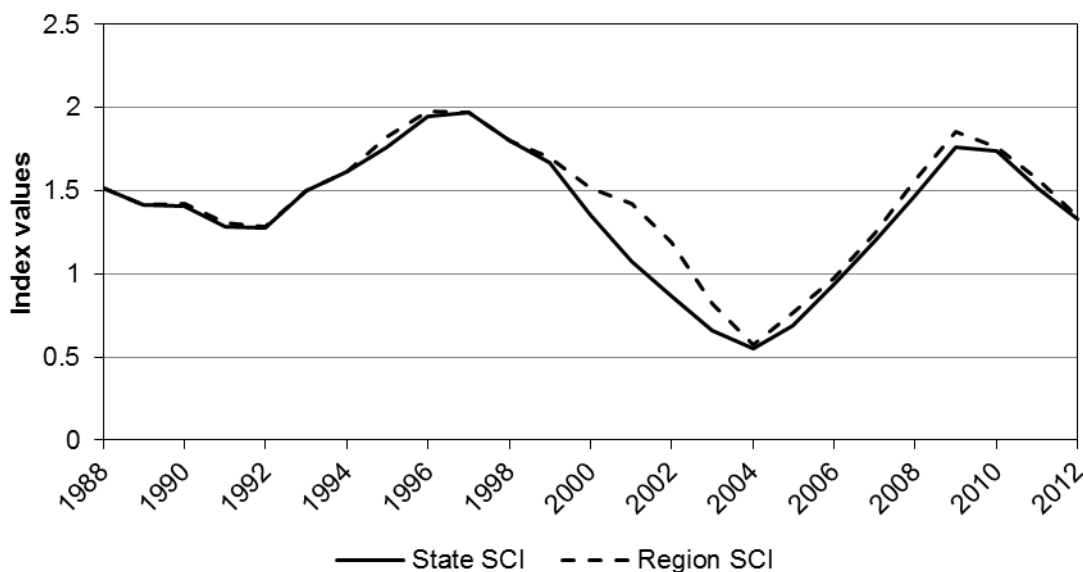
Data source: ABS (2012a).

Regions have also benefited

Regions differ in their resource endowments, population and labour force profile and industrial composition, and thus can be expected to respond differently to market pressures.

In figure 1.13, two structural change indexes illustrate changing employment shares across states and territories, on the one hand, and between capital cities and regions, on the other. Where a region index exceeds the state/territory index, structural change is occurring *within* each jurisdiction, between the capital city and the balance of that jurisdiction.⁶ It is apparent from figure 1.13 that, at certain times during the 1990s and 2000s, employment movements have altered the capital city/regional balance within states and territories.

Figure 1.13 **Employment Structural Change Indexes, by state and territory and region^a**



^a 'State SCI' is based on the respective employment shares of all individual states and territories. 'Region SCI' is calculated on the same basis, except that each jurisdiction is divided into two components: state or territory capital city; and balance of the state or territory.

Data source: Productivity Commission calculations using ABS (2012a).

⁶ The direction of urban/regional change is indeterminate from the region index.

On occasions, a changing urban-regional balance can be a reflection that some regions are facing an exodus of jobs or businesses, or both, for reasons related to structural change. In past decades, there have been many examples of regions or cities that have suffered from the closure of a major regional employer or activity. Workers displaced are able to access the social safety net, and other generally available measures such as retraining and career counselling. At times, however, governments have intervened with the aim of mitigating the adverse effects of, and facilitating adjustment to, rapid and profound changes (box 1.4).

That said, it appears that recent structural changes have been mainly beneficial for Australia's regions. Treasury (2011c) has calculated that, as the aggregate unemployment rate declined from 1998 to 2010, so did the dispersion of unemployment rates across the 1400 Statistical Local Areas (SLAs). In September 2010, around half of the areas had unemployment rates of less than 5 per cent, compared with fewer than 15 per cent of SLAs in 1998.

Unsurprisingly, the benefits of the mining boom have been felt most strongly in some well-publicised regional areas. For example, resident employment in the Pilbara and Kimberley regions of WA has been projected to double between 2005 and 2012, as a result of the boom (ALGA 2012). On the Eastern seaboard, a detailed survey undertaken by Rolfe et al. (2011) showed that, in 2009-10, direct salary payments by the resources sector in Queensland were largest in the Isaac and Central Highlands regions of that state.

While such payments are to the overall benefit of the regions that receive them, they can also involve some transitory costs. For example, substantial increases in mining employment can put pressure on rents, at least until the supply of land and housing catches up with demand.

The impact of the boom has been uneven across Australia. The Commission estimates that, while all SLAs in Australia recorded increases in average wages and salaries between 2004 and 2009, around two thirds of those SLAs that were in the lowest decile for average wages and salaries in 2004 remained in that decile in 2009. Nonetheless, even those lagging SLAs may be expected to have benefitted from the lower import prices and increased government revenue the boom generated.

Box 1.4 **Adjustment assistance by governments**

The general social safety net offers a set of universally-available government services that can mitigate adjustment costs and facilitate transitions of workers experiencing job losses. However, some changes or adjustments may be considered 'beyond normal' in terms of their scope, speed or severity, and give rise to calls for governments to provide 'tailor-made' financial assistance.

Governments have been more likely to accede to such requests when: (i) the changes have been policy-induced, such as in the course of industry reform; or (ii) a region is facing the loss of a major employer or activity. Events of this nature can impose concentrated transitional costs on producers, consumers or workers in a given industry or region.

Industry and regional assistance can take several forms: (i) compensation for the loss of income or of well-defined property rights; (ii) assistance conditional on businesses undertaking new investment, restructuring, amalgamation or exits; and (iii) assistance to build the future capacity and resilience of recipients through diversification.

Total adjustment assistance to industry in 2010-11 by the Australian Government was estimated at around \$1 billion. Assistance packages for the automotive and TCF industries were the largest, with other major beneficiaries including rural industries such as dairy, sugar, fisheries and forestry.

Since 1997, fifteen 'regional structural adjustment funds' have also been established by the Australian Government. These funds are typically provided with the stated aim of helping a particular region preserve jobs when confronted with the loss or downsizing of a major local employer, as was the case with the closure of BHP in Newcastle in 1999. Through competitive grants for investing in plants or equipment, it is hoped that new or expanding businesses will be attracted to the region at risk of job losses.

The scope, eligibility criteria and duration of regional funds vary, but all funds share, to some extent, a lack of detailed pre- and post-evaluation, and monitoring. Their effectiveness in retaining or creating employment has generally been limited, with regions receiving assistance not appearing to adjust better to structural change than their unassisted counterparts.

Source: Productivity Commission (2012b).

Benefits and costs of recent structural change

Structural change — and the countless cumulative adjustments that underpin it — is the economy's response to the changing wants of consumers at home and overseas, shaped by price signals and evolving technologies. While structural change imposes costs on some individuals and groups, it is an indication that goods and services are being produced in quantities and with characteristics that match people's demands

more closely than previously. Moreover, because the additional output tends to be more highly valued by consumers at home or abroad, and is produced more efficiently, incomes rise accordingly.

As discussed in this chapter, structural change during the 2000s has been fostered in large measure by the dramatic rises in the terms of trade and exchange rate, linked to the mining boom. This is not to suggest that all of the changes observed have been mining-induced. Many drivers of change pre-date the boom and will inevitably outlast it. Nonetheless, modelling undertaken for the OECD suggests that the mining boom is in large part responsible for the positive income and consumption effects observed in the last decade (Thompson et al. 2012).

A number of indicators confirm that the Australian community has benefited significantly in this period. For example:

- Gregory and Sheehan (2011) estimate that the direct income effects associated with the mining boom and currency appreciation contributed 60 per cent of the growth in real per capita income from 2003 to 2011 (equivalent to an additional \$7,500 per year at 2011 prices).
- Although the mining industry is up to 80 per cent foreign-owned, it has been estimated that around one-half of the direct mining income accrues to Australian residents, and about the same from the industry's massive investment spending (box 1.5).
- Employee compensation per hour worked rose by 3.5 per cent per annum in real terms between 2003 and 2008, reflecting both higher wages and falling import prices (Gregory and Sheehan 2011).
- The average annual increase in real household disposable income was 2.8 per cent between 2002 and 2011, compared to 1.0 per cent in the preceding decade (Gregory and Sheehan 2011).

The higher incomes accruing to most Australians have been spread widely:

- Between 2003-04 and 2009-10, households in all income quintiles experienced income gains, after living cost changes (AMP and NATSEM 2012).
- A survey of low-socioeconomic status people between 2007 and 2010 found that they had experienced 'a general (if modest) improvement in living standards' (Saunders and Wong 2011).

That said, the disposable incomes of higher-earning households have grown more rapidly, on average, than those of households at the lower end of the distribution (although this trend pre-dates the mining boom) (OECD 2011a).

Box 1.5 Mining income benefits to Australians

Connolly and Orsmond (2011) suggest that ‘a little over half’ of mining industry revenue — equivalent to around \$98 billion in 2010-11 — accrues *directly* to Australian residents, as the sum of:

- direct labour costs (around 10 per cent of total mining revenue)
- payments to domestically sourced inputs (around 25 per cent)
- taxes and royalties (nearly 15 per cent)
- after-tax profits paid to Australian resident owners of mining equities (between 5 and 10 per cent).

These authors also venture that half of the total cost of mining investment is spent acquiring domestically supplied labour and other inputs, further adding to the incomes of Australian residents.

As averages, these estimates inevitably obscure the diversity of mining projects. The local content of mining expenditure can vary significantly, depending on the mineral being mined, and the stage a project has reached. For example, some Liquefied Natural Gas projects under construction are thought to have minimal domestic impact, aside from the tax take.

The above estimates reflect only *direct* payments made by mining companies to Australian residents. These payments will produce indirect and flow-on effects, further adding to the income of Australians. To the Commission’s knowledge, no rigorous estimate exists of the Australia-wide magnitude of this indirect income. Rolfe et al. (2011) estimated that the upper-bound indirect and induced value added effects of the Queensland resources sector’s operation and investment were 25 per cent larger than its direct income effects. However, this ratio is unlikely to hold at a national level, where overall resources are limited and one industry’s expansion usually results in another’s contraction.

Sources: Connolly and Orsmond (2011); Rolfe et al. (2011); Sheehan and Gregory (2012).

The additional income accruing to households has had positive consequences for the range of goods and services that they are able to consume. Based on ABS Household Expenditure Survey data, AMP and NATSEM (2012) estimate that, between 2003 and 2009:

- the proportion of discretionary expenditure — including restaurant meals and household services — in the total expenditure of ‘working families’ (those with a mortgage and children, and where at least one of the parents works full-time) increased from 40 per cent to 41.2 per cent
- discretionary spending by households in the lowest income quintile increased from 31.9 per cent to 33.5 per cent of their total expenditure.

A factor likely to have contributed to the increased expenditure on discretionary items is the fall in the price of many basic consumer items. For example, over the 2003–09 period, the average price of clothing and footwear fell by almost four per cent, and that of audio, visual and computing equipment by 75 per cent (ABS 2012d).

At an aggregate level, therefore, income, expenditure and labour market outcomes have been robust by historical standards, including across regions. This is not to suggest that there has not been dislocation or adverse outcomes for certain individuals and households, as in the past (PC 2012c). Nor does it rule out scope to enhance the benefits, while reducing the costs, of structural change.

Enhancing flexibility and adaptability is the key

The structural pressures associated with the mining boom have created significant difficulties for some Australian industries selling on world markets, but these have been integral to the benefits that Australians have reaped from our favourable terms of trade. A key challenge for future policy, therefore, is to ensure that the necessary adjustments can proceed as smoothly as possible. Attempting to forestall structural adjustment — whether prompted by a mining boom or forces such as demographic change or global competition — is unlikely to succeed, and may simply divert pressures onto other parts of the economy.

As the Prime Minister has emphasised, it is important that we make our economy ‘more adaptive, flexible and better able to seize new opportunities’ (Gillard 2012). At the microeconomic level, key areas for policy attention include any impediments to: productivity-enhancing changes within individual enterprises and organisations; the reallocation of capital via the creation of new firms, expansion of established businesses or exit of unprofitable firms; and the mobility of labour across economic activities and regions.

Many such impediments are regulatory in nature. For example, the geographic mobility of labour is hindered by continuing mismatches in occupational licensing across jurisdictions. It is important that all regulations be periodically tested to ensure that their objectives remain appropriate and that they cannot be achieved more cost-effectively.

Similarly, assistance measures directed at firms or regions in competitive difficulty need to be screened for their effects on the wider economy, including on the ability of expanding industries to attract the skilled workers and other resources they need. Adjustment assistance has a role to play but, in most cases, it is best directed at

displaced or vulnerable employees — for example, through retraining or relocation allowances — rather than at their employers. The experience in Australia and other OECD countries is that selective industry support often inhibits or delays necessary adjustment, and is rarely effective in preserving jobs in the beneficiary firms.

The greater flexibility that has been engendered in the Australian economy through policy reforms has meant that this mining boom has had fewer downsides than those of an earlier era. Regardless of how long the current boom lasts, maintaining — and, where appropriate, extending — this flexibility will be crucial to getting the best out of our economy, for the benefit of the community as a whole.

2 Review of Commission activities and performance

Some highlights from 2011-12

- published reports on a range of important policy topics, including the schools and early childhood development workforces, the economic regulation of airports, aged care, disability care and support, urban water, Australia's retail industry, the economic impacts and benefits of COAG's reform agenda, and export credit arrangements
- requested to undertake a joint study (with the New Zealand Productivity Commission) on furthering economic relations between the two countries
- completed further stages of the review of regulatory burdens on business and the benchmarking study on business regulation
- governments accepted many of the Commission's findings and recommendations on aged care, disability care and support, drought assistance and airport regulation
- released the seventeenth edition of the annual Report on Government Services, the fifth edition of the Overcoming Indigenous Disadvantage report, and a range of National Agreement performance reports
- completed a variety of supporting research, including papers on productivity in the electricity, gas and water industries, multifactor productivity growth cycles and Indigenous labour market outcomes

Some areas of focus for 2012-13

- complete current inquiries and government-commissioned research on climate change adaptation, default superannuation funds, electricity network regulation, the benchmarking of regulatory impact assessments, and Australia's patent system
- host visits by partner organisations in other APEC economies to share structural reform experiences and policy analysis approaches
- provide ongoing secretariat assistance to the Steering Committee for the Review of Government Services, including further implementation of recommendations from the COAG reviews of the Report on Government Services
- undertake industry reviews, associated research and other functions as part of the Government's Clean Energy Future Plan
- supporting research on topics including structural change and productivity
- host conferences on productivity perspectives (with the ABS) and Indigenous policy evaluation

Overview

The Productivity Commission is the Australian Government's independent research and advisory body on a range of economic, social and environmental issues affecting the welfare of Australians. Consistent with the objective of raising national productivity and living standards, its remit covers all sectors of the economy. The Commission's work extends to the private and public sectors, including areas of state, territory and local government, as well as federal responsibility.

The Productivity Commission was formed in 1998 from an amalgamation of the Industry Commission, Bureau of Industry Economics and the Economic Planning Advisory Commission. Details of its role, functions and policy guidelines were outlined in the Productivity Commission's first annual report (PC 1998a).

The Commission is expected to contribute to well-informed policy making and public understanding on matters related to Australia's productivity and living standards. Its work is based on transparent analysis that takes a community-wide perspective, beyond the interests of particular industries or groups. It often deals with contentious and complex issues where the potential long-term pay-off for the nation from better informed policy making is high.

The outcome objective designated for the Productivity Commission is:

Well-informed policy decision making and public understanding on matters relating to Australia's productivity and living standards, based on independent and transparent analysis from a community-wide perspective.

The Commission, in pursuing this objective, is active in four broad work streams:

- government-commissioned projects
- performance reporting and other services to government bodies
- competitive neutrality complaints activities
- supporting research activities and statutory annual reporting.

The breadth and volume of the Commission's work are indicated by the reports published in 2011-12 (box 2.1). They included government-commissioned inquiries and studies on export credit arrangements, the retail industry, COAG's reform agenda, disability care and support, airport regulation, urban water, the education and training workforce, local government and regulation reform.

Box 2.1 **Commission publications in 2011-12**

Public inquiries (draft reports)

Australia's Export Credit Arrangements	Economic Structure and Performance of the Australian Retail Industry
Economic Regulation of Airport Services	

Public inquiries (final reports)

Economic Structure and Performance of the Australian Retail Industry	Economic Regulation of Airport Services
Australia's Urban Water Sector	Disability Care and Support

Government-commissioned research studies (draft reports)

Impacts and Benefits of COAG Reforms: Business Regulation, VET and Youth Transitions	Business Regulation Benchmarking: Role of Local Government
Annual Review of regulatory Burdens on Business: Identifying and Evaluating Regulation Reforms	Education and Training Workforce: Schools

Government-commissioned research studies (final reports)

Impacts and Benefits of COAG Reforms: Business Regulation, VET and Youth Transitions	Education and Training Workforce: Schools
Annual Review of regulatory Burdens on Business: Identifying and Evaluating Regulation Reforms	Education and Training Workforce: Early Childhood Development

Chairman's published speeches

Australia's Mining Boom: What's the Problem?	Economics, Economists and Public Policy in Australia
Independent Policy Advice and the Productivity Commission	Industry Assistance in a 'Patchwork Economy'

Annual report suite of publications

Annual Report 2010-11	Trade & Assistance Review 2010-11
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Conference/workshop proceedings

A 'Sustainable' Population? — Key Policy Issues

2011 Richard Snape Lecture

The Political Economy of Reform in Mexico (Dr Roberto Newell)

(continued next page)

Box 2.1 (continued)

Performance reporting

Report on Government Services 2012: education, justice, emergency management, health, community services and housing

Report on Government Services 2012: Indigenous compendium

National Agreement performance information 2010-11: National Healthcare Agreement

National Agreement performance information 2010-11: National Affordable Housing Agreement

National Agreement performance information 2010-11: National Disability Agreement

National Agreement performance information 2010-11: National Indigenous Reform Agreement

National Agreement performance information 2011: National Agreement for Skills and Workforce Development

National Agreement performance information 2011: National Education Agreement

National Partnership Agreement on Essential Vaccines: 1 April 2011–31 March 2012 performance report

2010 Indigenous Expenditure Report Supplement

Overcoming Indigenous Disadvantage: Key Indicators 2011

Competitive neutrality reports

NBN Co.

PETNET Australia

Staff working papers

Multifactor Productivity Growth Cycles at the Industry Level

Influences on Indigenous Labour Market Outcomes

Productivity in Electricity, Gas and Water: Measurement and Interpretation

The diversity of topics in the Commission's work program is also apparent in the range of its ongoing work. This includes inquiries and studies on electricity network regulation, climate change, default superannuation funds, the economic relationship between Australia and New Zealand, and aspects of Australia's patent system.

The Commission continues to assist all Australian governments and COAG through a mix of standing research responsibilities and specific projects. In the current year, it continued to provide secretariat, research and report preparation services to the Steering Committee for the Review of Government Service Provision.

Specific projects undertaken to assist policy development across jurisdictions in 2011-12 included a study on the next stage of COAG's regulation and competition reform agenda, and a benchmarking study on the regulatory role of local government to assist the work of the COAG Business Regulation and Competition Working Group (BRCWG). In February 2012, the Australian Government, with the

agreement of the BRCWG, also requested that the Commission undertake a benchmarking study into regulatory impact analysis (RIA) processes. In undertaking this study, the Commission has been requested to benchmark the efficiency and quality of Commonwealth, state and territory, and COAG RIA processes.

Year in review

The Productivity Commission's role in informing public policy development and community understanding on key issues influencing Australia's productivity and living standards is pursued through four main work streams. The principal developments in these activities during 2011-12 are outlined below.

Public inquiries and commissioned studies

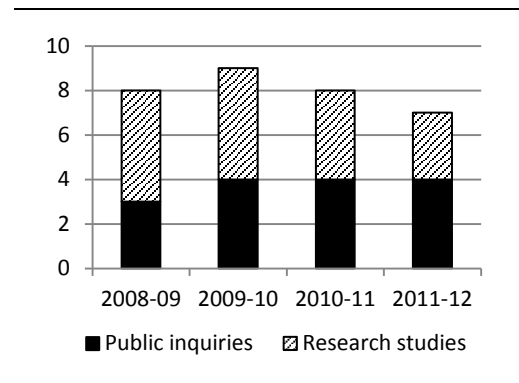
The Commission had nine public inquiries and eight commissioned research studies underway at some time during 2011-12. In addition to completing seven references from the previous year, it received ten new projects on a broad range of topics (figure 2.1 and table B.3).

The Commission completed four inquiries commenced in the previous financial year: on disability care and support, urban water, the retail industry and the economic regulation of airport services.

Five new inquiries commenced in 2011-12.

- In September 2011, the Commission was asked to consider arrangements for the provision of export credit through the Export Finance and Insurance Corporation (EFIC). In undertaking the inquiry, the Commission was asked to review government involvement in the provision of export credit and assess current arrangements against the requirements of the *Export Finance and Insurance Corporation Act 1991*. The inquiry was also asked to: review EFIC's exemption from competitive neutrality legislation, its funding, pricing and service arrangements, and assess their impact on private sector provision of financial products and services which support Australian export trade; and to assess the interactions between EFIC and other government programs and consider alternatives that would achieve EFIC's objectives.

Figure 2.1 **References on hand**
Number as at 30 June



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- An inquiry into barriers to effective climate change adaptation also commenced in September 2011. The twelve month inquiry covers regulatory and policy barriers that inhibit the ability of the community to adapt effectively to climate change. In undertaking the inquiry, the Commission has been asked to identify any specific barriers to effective adaptation, and high priority options for addressing those barriers. In doing so it is required to examine the costs and benefits of the options to address those barriers where it is feasible to do so, including a 'no change' (maintaining the status quo) option; and assess the role of markets (including insurance markets) and non-market mechanisms in facilitating adaptation, and the appropriateness of government intervention.
 - The Commission was asked to conduct a fifteen month inquiry into electricity networks in January 2012. The purpose of the inquiry is to examine if efficient levels of transmission interconnectors are being delivered, to inform the Australian Government about whether the regulatory regime is delivering efficient levels of interconnection to support the market. In addition, a second stream of the inquiry will consider whether there are any practical or empirical constraints on the use of benchmarking of network businesses and provide advice on how benchmarking could deliver efficient outcomes, consistent with the National Electricity Objective (NEO).
 - In February 2012, the Assistant Treasurer asked the Commission to undertake a nine month inquiry into default superannuation funds in modern awards. The purpose of the inquiry is to design transparent and objective criteria for the selection and ongoing assessment of superannuation funds eligible for nomination as default funds in modern awards.
 - In June 2012 a nine month inquiry into the compulsory licensing provisions in the *Patents Act 1990* commenced. The main purpose of the inquiry is to assess, advise and recommend on the impacts and mechanisms of compulsory licensing invoked by the Patent Act's public interest and anti-competitive safeguard.

Research studies commissioned by the Government were a further significant component of the Commission's workload in 2011-12. During the year the Commission finalised three research studies commenced in the previous year:

- a further stage of its annual regulatory burdens studies, on identifying and evaluating regulatory reforms
- the second and third in a series of studies on the education and training workforce, looking at the workforces in early childhood development and schools.

It also received requests to undertake new research studies on the role of local government as a regulator; the benchmarking of regulatory impact assessments; and

economic relations between Australia and New Zealand. (The latter project is being jointly conducted with the New Zealand Productivity Commission, which was created in April 2011.)

The Commission also received requests for, and completed, two research studies on COAG's reform agenda.

Further information on public inquiries and commissioned research studies undertaken during 2011-12 and government responses to the Commission's reports is provided in appendices B and D.

Performance reporting and other services to government bodies

The Commission has provided secretariat services to the Steering Committee for the Review of Government Service Provision since the Review's commencement in 1993. The collaborative efforts of more than 80 Commonwealth, State and Territory government agencies contribute to the Steering Committee's four major outputs: the Report on Government Services; the Overcoming Indigenous Disadvantage: Key Indicators report; the Indigenous Expenditure Report; and collating performance data for the COAG Reform Council under the Intergovernmental Agreement on Federal Financial Relations.

Report on Government Services

The *Report on Government Services 2012* was the seventeenth in this series. The Report provides comparative information on the performance of 14 government service delivery areas that contribute to the wellbeing of Australians — spanning early childhood, education and training, health, justice, community services, emergency management, housing and homelessness. The services covered in the 2012 Report collectively account for \$165 billion of government recurrent expenditure, equivalent to over 12 per cent of gross domestic product. A separate *Indigenous Compendium* was also published, providing a more accessible collation of data from the Report relating to the delivery of services to Indigenous Australians.

The Review has a focus on improved reporting over time. The 2012 Report included new indicators for mental health management, aged care services, and services for people with disability, and improved reporting aspects of children's services, school education, vocational education and training, police services, emergency management, public hospitals, primary and community health, mental health management, aged care services, services for people with disability,

protection and support services and housing. There was also some streamlining of the Report, including the consolidation of many indicators with similar characteristics as separate measures under new high level indicators, and removal of indicators that are either no longer policy relevant or where associated data are not expected to become available.

At its meeting on 7 December 2009, COAG agreed to the recommendations of a review of the RoGS by a Senior Officials and Heads of Treasuries Working Group. The review examined the ongoing usefulness of the RoGS to its government, non-government and community stakeholders. Most developments arising from the review have been implemented and ongoing developments arising from the Review are now included in the annual work program.

Overcoming Indigenous Disadvantage: Key Indicators

The *Overcoming Indigenous Disadvantage: Key Indicators* series of reports was commissioned by COAG in April 2002, as part of COAG's reconciliation commitment. COAG set two core objectives for this reporting:

- to inform Australian governments about whether policy, programs and interventions are achieving improved outcomes for Indigenous people
- to be meaningful to Indigenous people themselves.

Five editions of the report have been released, in November 2003, July 2005, June 2007, July 2009 and August 2011. The then Prime Minister acknowledged the importance of the report when issuing revised terms of reference in March 2009:

Since it was first established in 2003, the OID report has established itself as a source of high quality information on the progress being made in addressing Indigenous disadvantage across a range of key indicators. The OID report has been used by Governments and the broader community to understand the nature of Indigenous disadvantage and as a result has helped inform the development of policies to address Indigenous disadvantage.

The latest edition was released in August 2011. It showed that many Indigenous people have shared in Australia's economic prosperity, with increases in incomes and home ownership. There have also been reductions in avoidable mortality and improvements in some education and health outcomes for Indigenous children. However, even where improvements have occurred, Indigenous people continue to have worse outcomes than other Australians, and many indicators have shown little or no change. In some key areas, particularly criminal justice, outcomes for Indigenous people have been deteriorating.

National Agreement reporting

In November 2008, COAG endorsed a new Intergovernmental Agreement on Federal Financial Relations (IGA). Under the reforms, six National Agreements clarify the respective roles and responsibilities of the Commonwealth and the states and territories in the delivery of services. Each Agreement contains the objectives, outcomes, outputs and performance indicators for each sector. The performance of all governments in achieving mutually agreed outcomes and benchmarks specified in each National Agreement will be monitored and assessed by the COAG Reform Council (CRC).

COAG has requested that the Steering Committee provide the CRC with performance information needed to undertake its assessment, analytical and reporting responsibilities. The IGA states that the Steering Committee's role is 'overall responsibility for collating the necessary performance data' for National Agreements. The IGA further specifies that 'the Steering Committee will comment on the quality of the performance indicator data using quality statements prepared by collection agencies'. The Steering Committee has also collated data for selected National Partnership Agreements to assist the CRC.

Two 'tranches' of reports from the Steering Committee to the CRC are required:

- by end-June on the education and training sector (National Education Agreement and National Agreement for Skills and Workforce Development)
- by end-December on the healthcare, affordable housing, disability and Indigenous reform sectors (remaining four National Agreements).

The fourth cycle of the first tranche of reporting, delivered to the CRC on 30 June 2012, included:

- specifications for all performance indicators in the National Education Agreement and the National Agreement for Skills and Workforce Development
- specifications for education and training performance indicators in the National Indigenous Reform Agreement
- data for the 2011 calendar year (or most recent reporting year available).

The second cycle of the second tranche of reporting, delivered to the CRC on 23 December 2010, included:

- specifications for all performance indicators in the National Healthcare Agreement, National Affordable Housing Agreement, National Disability Agreement and the National Indigenous Reform Agreement

-
- data for the reporting period of the 2010-11 financial year (or most recent reporting year available).

Data collation for selected NPs draws on the specifications of those agreements and the CRC's associated performance matrices. The two Steering Committee reports covered two NPs, Essential Vaccines and Youth Attainment and Transitions.

Indigenous Expenditure Report

In 2007, COAG agreed to the reporting of Indigenous expenditure, and the Productivity Commission assumed secretariat responsibilities from November 2008. The Indigenous Expenditure Report contributes to governments' understanding of the levels and patterns of expenditure on services that relate to Indigenous Australians, and provides policy makers with an additional tool for targeting policies to Close the Gap in Indigenous disadvantage.

The inaugural Indigenous Expenditure Report (released on 28 February 2011) provided, for the first time, comprehensive and comparable information on expenditure by the Australian, State and Territory Governments on Indigenous specific services as well as the estimated Indigenous share of mainstream services. A supplement to the 2010 Indigenous Expenditure Report (released on 15 September 2011) complemented 2010 Report by providing estimates of Australian Government expenditure by state and territory. This enabled the estimation of the total government resources committed in each state and territory.

The 2012 Indigenous Expenditure Report, which is the second in the series, was released on 4 September 2012. It provides estimates of expenditure on services provided to Aboriginal and Torres Strait Islander people by the Australian Government, and State and Territory governments. Estimates are provided for each level of government, Australia as a whole, and by state and territory geographical basis, for 2008-09 and 2010-11.

The estimates show that, on average, expenditure per head of population was \$44 128 for Indigenous Australians, compared with \$19 589 for other Australians (a ratio of 2.25 to 1). The \$24 538 per person difference reflected the combined effects of:

- *greater intensity of service use (\$16 109 or 66 per cent)* — Indigenous Australians use more services per capita because of greater need, and because of population characteristics such as the younger age profile of the Indigenous population

-
- *additional cost of providing services (\$8429 or 34 per cent)* — it can cost more to provide services to Indigenous Australians if mainstream services are more expensive to provide (for example, because of location), or if Indigenous Australians receive targeted services (for example, Indigenous liaison officers in hospitals) in addition to mainstream services.

The next Indigenous Expenditure Report is planned for release in 2014.

Competitive neutrality complaints activities

The Productivity Commission administers the Australian Government's competitive neutrality complaints mechanism. Competitive neutrality seeks to ensure that government businesses do not have advantages (or disadvantages) over private sector counterparts simply by virtue of their public ownership.

The Australian Government Competitive Neutrality Complaints Office (AGCNCO) operates as a separate unit within the Commission. Its function is to receive and investigate complaints and provide advice to the Treasurer on the application of competitive neutrality arrangements. The Office received four formal written complaints in 2011-12. Details of the complaints and actions taken by the AGCNCO are detailed in appendix C.

The Office also provides informal advice on, and assists agencies in, implementing competitive neutrality requirements. During 2011-12, the Office provided advice twice a week, on average, to government agencies or in response to private sector queries.

Details of the advisory and research activities of the AGCNCO are reported in appendix B.

Supporting research activities and annual reporting

The Commission is required under its Act to undertake research to complement its other activities. It must also report annually on these matters, including on the effects of assistance and regulation, and has a wider information role in promoting public understanding of the trade-offs involved in different policy approaches, and how productivity and the living standards of Australians can be enhanced.

The development of themes and projects for the Commission's program of supporting research is guided by government statements on policy priorities, including potential commissioned work; parliamentary debate and committee work;

and consultations with Australian Government departments, business, community and environmental groups, union bodies and academics.

In 2011-12 the Commission's supporting research program covered a number of important economic and social topics. It included work on productivity growth cycles, productivity performance in electricity, gas and water, and Indigenous labour market outcomes (box 2.1). Several papers connected to the Commission's statutory annual reporting requirements were also published.

Further information on the Commission's supporting research activities and publications in 2011-12 is provided in appendix E. This also details the 75 presentations given by the Chairman, Commissioners and staff during the year to ministerial councils, industry and community groups, and conferences. These presentations covered the gamut of the Commission's inquiry, research and performance reporting work (table E.1).

The Commission also briefed 25 international delegations and visitors during 2011-12, with a focus on the Commission's role and activities and related policy matters (table E.2). In 2012-13, the Commission will continue to strengthen linkages with policy agencies in other countries, with a focus on APEC member economies.

Transparency and public consultation

A central feature of the Commission is the scope its processes provide for people to participate in and scrutinise its work. These open and consultative processes are integral to its operation. They ensure that the Commission's research and policy advice draw on public input and are tested publicly in advance.

Open inquiry procedures

The Commission's public hearing process, public access to the submissions made to its inquiries and the publication of draft and final inquiry reports are among the better known aspects of its operations. During the course of its public inquiry activities in 2011-12, the Commission met with more than 150 organisations or groups, held 16 days of public hearings, and received around 560 submissions.

The Commission has adapted its processes to suit the variety of research studies commissioned by the Government. These studies require less formal public interaction than inquiries, but the Commission nevertheless provides opportunities for participants or experts to comment on its analytic frameworks and preliminary findings and, where applicable, draft recommendations. For example, the Commission received around 590 submissions to these studies in 2011-12, with

many visit programs and targeted roundtable discussions to engage with key participant groups on the issues of concern to them.

The nature of the Commission's consultative and transparent processes in the past year is illustrated in box 2.2. These included some innovations to ensure that the views and experiences of a diverse range of stakeholders could be taken into account.

Box 2.2 Participative and transparent processes: two examples

The Commission seeks to maximise public participation in, and transparency of, its inquiries and commissioned research studies. For example:

- In conducting its inquiry into Australia's retail industry, the Commission advertised the inquiry widely in print and electronic media. It visited a wide range of external stakeholders, attended a workshop organised by the Department of Customs, organised a Roundtable prior to the release of the draft report, and held public hearings following the release of the draft report. The Commission's roundtable brought together representatives from Customs, express couriers and Australia Post, and was valuable in clarifying issues. The Commission also consulted with overseas experts and with postal services such as the Royal Mail in the UK. Further consultations were also held with investment analysts and financial institutions with expertise in the retail sector. Public hearings were attended by unions, business representatives, government officials and consumers. They were also invaluable in clarifying issues.
- In undertaking its study on the role of local government as a regulator, the Commission liaised with an advisory panel, consisting of representatives from the Australian Local Government Association and central departments in all states and territories and the Commonwealth government. Extensive surveys were undertaken of state and local governments which also raised awareness of the study generally and to core issues in the terms of reference more specifically. To consult widely with local governments at the grass roots, the Commission visited all of the local government associations in all jurisdictions. In addition, over the course of the study, presentations were made at conferences directed at local government issues. The Commission also visited many of the state and territory peak industry bodies and some select individual businesses in all jurisdictions. Based on the suggestion in the terms of reference that the Commission could draw on good overseas regulatory practices by local government, the Commission also visited key agencies in the United Kingdom and New Zealand.

Enhancing its own research capabilities

The Commission continues to involve outside policy advisers and researchers in its work. Roundtables, workshops and other forums provide valuable opportunities to

access wider sources of expertise in its inquiries and research. From time to time the Commission also utilises specialist external expertise.

The Commission held a joint roundtable with the Forum of Federations on Benchmarking in Federal Systems in Melbourne on 19-20 December 2010. Participants included government officials, academics, consultants and representatives of non-government organisations. The Roundtable provided the opportunity to compare Australian approaches to ‘benchmarking’ with those followed in the United States, Canada, the United Kingdom and Germany, as well as at the European Union level. Papers were initially made available on the Commission’s website and the proceedings were subsequently published.

The Commission also has an active seminar program involving external experts on a range of policy issues relevant to its work. These seminars are intended to bring new ideas and stimulate debate within the Commission, as well as to foster networks with academic and other experts of relevance to the Commission’s work.

The Commission’s Visiting Researcher Program seeks to attract established researchers with an outstanding research record in areas related to its priority research themes and activities. Visiting Researchers contribute to both the work and intellectual life of the Commission. In 2011-12 Dean Parham, Dr Larry Cook and Richard Clarke were Visiting Researchers at the Commission.

Research collaboration

The Commission continued to participate in collaborative research projects with academic institutions and other organisations in 2011-12. The projects involved:

- the University of Queensland, Australian Bureau of Statistics, the Department of Planning and Commercial Development (Victoria), and several government departments in Queensland to examine the utilisation of social science research in policy development and program review
- the University of New South Wales and the University of British Columbia (Vancouver) on tackling problems in productivity measurement in infrastructure, services and research and development (other partner organisations were the ABS and the Reserve Bank of Australia).

The Commission is also a member of the Global Trade Analysis Project (GTAP) Consortium based at Purdue University in the United States. Membership gives the Commission early access to database updates needed in its research, as well as priority access to model training and input to the future direction of model and database development. The Commission is represented on the GTAP advisory

board, providing direction to the project along with 24 other international institutions.

Research networks and linkages

The Commission has linkages, domestically and internationally, to research and other organisations through the involvement of Commissioners and staff in research alliances and participation in working groups and forums. For example:

- The Commission's Chairman, Gary Banks, chairs the Regulatory Policy Committee of the OECD. He is a member of the Advisory Board of the Melbourne Institute of Applied Economic and Social Research and serves on the Board of Advisory Fellows for the Regulatory Institutions Network (RegNet) at the Australian National University. He is a National Fellow of the Institute of Public Administration Australia (IPAA), a Fellow of Monash University and in 2012 was made a Public Policy Fellow at ANU. In 2010 he was elected a Fellow of the Academy of Social Sciences in Australia (ASSA). He is on the judging panel for the BHP Billiton/Reconciliation Australia 'Indigenous Governance Awards'. He also is a member of the speaker faculty for the Melbourne Business School's Public Policy Series.
- A number of Commissioners are also members of various advisory boards and committees, including university and non-profit organisations. For example, Robert Fitzgerald serves on the Queensland University of Technology's Centre for Philanthropy and Nonprofit Studies Advisory Board, and the Australian Catholic University Community Engagement Advisory Committee. Dr Wendy Craik serves on the Boards of the WorldFish Center and the Australian Rural Leadership Foundation. Dr Warren Mundy is currently the Deputy Chair of Airservices Australia. He is a member of the Aviation Industry Advisory Committee of the University of New South Wales and a Fellow of the Royal Aeronautical Society of London and the Australian Institute of Company Directors. Alison McClelland is a fellow of the Institute of Public Administration Australia (IPAA) (Victoria), a member of IPPA Victoria's Program Committee, a Charter Member of the Brotherhood of St Laurence and an Adjunct Professor at La Trobe University.
- The Commission's Chairman and senior staff have also participated in the East Asian Bureau of Economics Research's 'Public Sector Linkages Project'. This project, involving representatives from leading policy research institutes throughout East Asia, held a series of international meetings concerned with the development of better institutional foundations for structural reform in countries in the region.

- Staff members are also involved in a range of other research networking activities. For example, members of staff have recently served on a range of bodies including the ABS Productivity Measurement Reference Group, the ABS Analytical Reference Group and the OECD Working Party on Industry Analysis. Members of staff have also been recently involved in APEC capacity building activities that assist developing economies in furthering their structural reform plans.
- The Commission has also received funding from the Australian Government to undertake a visit program for government officials in APEC economies across 2012-13, initially with agencies in Malaysia, Vietnam, Indonesia and China.

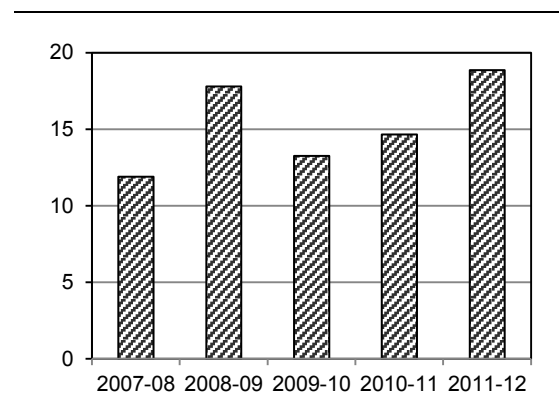
Informing and communicating via the internet

Internet technology has facilitated speedier and easier notification of developments in Commission inquiries, and community access to its research outputs. The Commission places submissions to inquiries on its website as soon as possible after receipt, enabling public scrutiny of the views and analysis being put to it. Transcripts of public hearings, draft reports and position papers, inquiry circulars and final inquiry reports (when released by the Government) are also all posted on the website.

The Commission’s website provides ready access to its other outputs — research publications, Commission submissions to other review bodies, key speeches by the Chairman, competitive neutrality complaints reports, benchmarking studies and reports arising from its secretariat work for the Review of Government Service Provision. The website facilitates on-line registration of people’s interest in participating in individual inquiries and studies and in receiving updates on more general developments. An email alert service currently notifies more than 1500 recipients of significant events, including report releases and the commencement and completion of inquiries. Additional email alerts are also sent to Commonwealth parliamentarians, \ the media, government departments and contacts in the states and territories.

The Commission’s website received over 18 million file requests from external users in 2011-12 (figure 2.2).

Figure 2.2 **Website hits**
Million



There were more than 272 000 external requests for the index pages of inquiries and government-commissioned research studies current in 2011-12. The projects of most interest were the inquiries on aged care (60 027 requests), disability support (41 404 requests) and Australia's retail industry (28 931 requests), and the research studies on the early childhood development workforce (18 146 requests) and COAG reforms (11 297 requests). Other heavily accessed web pages were for the 2011 and 2012 *Report on Government Services* (25 333 and 22 603 requests, respectively) and the 2011 *Overcoming Indigenous Disadvantage: Key Indicators* report (25 900 requests). Speeches by the Commission's Chairman attracted more than 55 000 requests over the year.

Even after an inquiry or research study is completed, community interest can remain high. For example, during the year, the web pages for the Commission's 2009 inquiry on Australia's gambling industries received over 38 000 requests; and the Commission's 2010 study of the contribution of the not-for-profit sector received over 26 000 requests.

Feedback on the Commission's work

The Commission monitors reaction to, and seeks feedback on, its work in order to improve its performance and its contribution to public understanding and policy making. The results of past surveys were reported in previous annual reports and cover external perceptions about the quality of the Commission's inquiry processes and reports, its reporting on the financial performance of government trading enterprises and the quality and usefulness of its supporting research program. The rolling program of surveys complements the feedback received through comments and submissions on draft reports, position papers, workshop papers and the views expressed during public hearings and consultations on its research program.

In June 2007 the Commission undertook a major survey of the quality and readability of its reports in order to identify areas in which its performance could be enhanced. Results from this survey were reported in detail within the 2006-07 Annual Report. The Commission has used the findings of this and earlier surveys to develop an improved framework for engaging with and responding to the range of potential participants in its work. As part of this process it has been giving attention to how it presents its analysis and conclusions, and to the readability of its reports.

In addition to its rolling program of surveys, the Commission monitors less formal sources of feedback on the public record. Views expressed about the value of the Commission's processes and the quality of its outputs can reflect agreement with, or opposition to, specific pieces of Commission analysis or advice. Nevertheless, the

examples in box 2.3 illustrate the breadth of support for the Commission's contribution.

The Commission systematically offers recipients of its reports and users of its website the opportunity to provide feedback. The Commission's website has provision for sending comments via email and an on-line survey form and the Commission provides a publication feedback card in reports for mailing comments.

The Commission also provides an opportunity for people attending its public hearings to express their views on the organisation and the conduct of hearings. Around 70 participants provided feedback through this mechanism in 2011-12, most of which was positive. Feedback is in turn forwarded to relevant authors, inquiry teams and management for consideration and action, where required.

Policy and wider impacts

All of the Commission's activities are directed at meeting the policy needs of government or otherwise fulfilling statutory requirements. The outcome objective against which the Commission's overall performance is assessed is:

Well-informed policy decision making and public understanding on matters relating to Australia's productivity and living standards, based on independent and transparent analysis from a community-wide perspective.

Assessment of the Commission's performance is complicated by it being one contributor among many to any policy outcome. Even when its specific recommendations are not supported by government, the Commission can play a significant role in helping governments, parliaments and the community understand the trade-offs in different policy choices. Furthermore, as the Commission's public inquiry and research outputs contribute to public debate and policy development across a range of complex and often contentious issues, its contribution is best considered over the medium term. (These and other considerations in assessing the Commission's overall performance and across each of its four main activity streams are discussed in appendix B.)

Box 2.3 **Support for Commission activities: some recent examples**

During the year the Government asked the Commission to undertake inquiries and studies on a range of topics, including climate change adaptation, default superannuation funds, electricity network regulation, the benchmarking of regulatory impact assessments, and Australia's patent system.

The Hon. Jenny Macklin, Minister for Families, Housing, Community Services and Indigenous Affairs, described the Commission in December 2011 as 'Australia's leading economic research body.' (Macklin 2011)

The Governor of the Reserve Bank, Glenn Stevens, discussed productivity-enhancing economic reforms in June 2012 and stated:

I think the best answer is we have a body called the Productivity Commission... They've got a long list of things to do. My answer to what we can do about productivity is go get the list and do them. They're not popular and they are very difficult and they are politically hard in many instances, but these people are the experts. (as quoted in Greber, Daley and Massola 2012)

During the year COAG identified several further areas where Commission projects would assist it with its work. These included a request to provide high level advice on the likely costs and benefits of further COAG reforms; and to undertake further possible work on construction costs and/or major project development assessment processes.

In November 2011 an OECD Economic Review of Germany called for a body similar to the Commission to be established, stating:

In order to focus the debate and to identify remaining hurdles to higher productivity, an advisory body tasked with reviewing regulation and other issues – similar to the Australian Productivity Commission – should be established. (OECD 2011e, p. 20)

The Federal Opposition proposed a number of tasks for the Commission during the year, including that it conduct regular audits of Departmental attempts to reduce red tape; develop a set of guidelines for future automotive industry assistance; inquire into foreign ownership of agricultural land and agribusinesses; be asked to conduct a comprehensive review of the *Fair Work Act*; and undertake an inquiry to consider ways that high quality child care can be delivered more flexibly to suit the individual circumstances of families.

A number of policy analysts and newspaper editorials during the year variously advocated that the Commission be asked to undertake reviews on a wide range of topics, including the performance of national cities; carbon price assistance for industries; the costs and benefits of major government expenditure proposals; tax concessions for the finance industry; the Medicare system; an extension of unit pricing across the retail sector; options to increase the private funding of high-priority infrastructure projects; drug laws; and policy options to enhance labour mobility.

The Aged Care Industry Council welcomed the release of the Commission's final inquiry report on aged care, and stated that:

... the Productivity Commission has provided a timely blueprint for establishing an affordable and sustainable quality aged care system for Australia. (ACIC 2012)

Details are provided in appendix B.

Notwithstanding the difficulties inherent in measures of performance assessment, the influence of the Commission's work is reflected in a range of indicators, including government policy decisions that draw on its analysis and recommendations, and the use of Commission work in policy debate by federal and state parliamentarians, government agencies, other review bodies, business and community groups and the media.

Influence on government policy-making

Government decisions in response to the Commission's inquiry reports and commissioned research studies provide a tangible indication of their usefulness to the Government, Parliament and the broader community.

During the year, the Australian Government announced the following decisions on Commission reports.

- The Australian Government released an interim response to the Commission's *Education and Training Workforce: Early Childhood Development* report on 1 December 2011 (Australian Government 2011g). The Government welcomed the Commission's report and stated that it would consider all of its findings and recommendations and provide a final response in mid 2012.
- On 9 December 2011 the Australian Government released its response to the Commission's report on the Australian retail industry (Conroy, O'Connor, Sherry and Shorten 2011). The Government agreed, or agreed in principle, with eight recommendations and noted four recommendations (in noting two of the recommendations, the Government recognised that some matters, such as those dealing with planning and zoning, trading hours and tenancy, were state issues). It also "noted" recommendations on Workplace Relations Regulation and on the gathering data about online retailing. The Government did not agree with one recommendation dealing with the issue of restrictions on competition created by the *Copyright Act*. It preferred an alternative process to that recommended by the Commission to further investigate such concerns (by referring it to the Australian Law Reform Commission). The Government welcomed the staged approach recommended by the Commission to the issue of the appropriate level of the Low Value Threshold. This involved establishing a Taskforce to investigate improved approaches to processing low value parcels and then reassessing the extent to which the Threshold could be reduced.
- On 30 March 2012 the Minister for Infrastructure and Transport, the Hon Anthony Albanese, and the Assistant Treasurer and Minister Assisting for Deregulation, the Hon David Bradbury, released a response to the Commission's report on airport regulation (Albanese and Bradbury 2012). In responding to the

report, the Government broadly accepted the Commission's recommendations, but did not fully implement its proposed approach. The Government agreed in principle with the Commission's recommendations to continue monitoring and improve the operation of the regime through enhancements to the monitoring approach, namely:

- publication by the Australian Competition and Consumer Commission (ACCC) of a draft monitoring report
- a 'show cause' process that would see the ACCC, in the published draft airport monitoring report, having the option to nominate an airport to show cause why its conduct should not be subject to a price inquiry. Where the ACCC is not satisfied with an airport's response, the ACCC should make a recommendation to the relevant Minister that a price inquiry be held under Part VIIA of the Competition and Consumer Act 2010 (CCA)
- a review of the objective criteria for quality of service monitoring by June 2013
- publication of airports' prices, terms and conditions for transport operators' access to airports.

However, the Government also noted that, in its view, since the ACCC is an independent statutory authority, it is the responsibility of the ACCC to give effect to a number of the Commission's proposed enhancements to the monitoring regime as it sees fit.

The Government response provided agreement to the Commission's recommendations on landside access to airports.

- On 27 April 2012, the Minister for Agriculture, Fisheries and Forestry, the Hon. Joe Ludwig, announced a new national framework for drought management and preparedness (Ludwig 2012). As part of these reforms, and in line with recommendations in the Commission's 2009 report on government drought support, Exceptional Circumstances Interest Rate Subsidies concluded on 30 June 2012.
- On 23 May 2012, the Attorney General, the Hon. Nicola Roxon, introduced the *Legislative Instruments Amendment (Sunsetting Measures) Bill 2012* into Parliament (Roxon 2012). The Bill is consistent with a recommendation in the Commission's 2011 report *Identifying and Evaluating Regulation Reforms* that more flexibility be introduced into the Legislative Instruments Act to enable thematic reviews of related instruments. It also provides for greater smoothing of dates when older instruments must sunset, which is also consistent with the

Commission's report. In introducing the Bill into Parliament, the Attorney General stated:

The Productivity Commission, in its 2011 report *Identifying and Evaluating Regulation Reforms*, expressed concern about the mass expiry of instruments from 2015. They identified an increased risk that instruments will be remade without adequate review and without proper consultation with business and other stakeholders. The Commission noted that the sheer quantity of instruments required to be remade by government increases the risk that business and other stakeholders will not have sufficient time to make a meaningful contribution to any review.

Consistent with the recommendations of the Productivity Commission, the purpose of this bill is to smooth these sunseting peaks and to encourage high-quality consultation before regulations and legislative instruments are remade. It is also intended to ensure the information on the Federal Register of Legislative Instruments is current.

- The Australian Government released its *Living Longer. Living Better.* aged care reform package, which included a response to the Commission's report on aged care, in May 2012 (Australian Government 2012b). A number of recommendations from the Commission's report were supported, and adopted in the *Living Longer. Living Better* reforms. These included:
 - the establishment of an Aged Care Reform Council
 - that no deductions will be permitted from the bonds paid for residential care accommodation
 - new 'intermediate level' community care packages
 - the establishment of an initial care Gateway (but not accompanied by a move to an aged care entitlement as the Commission had recommended)
 - a review of the reforms after five years
 - the establishment of an aged care data clearing house.

Recommendations on respite care, carer support arrangements, sub-acute health services and palliative care were also supported. The government also supported recommendations to separate the policy settings for the major cost components of aged care; and that a life-time stop-loss provision for care costs be introduced.

The Government did not agree with a number of the Commission's recommendations, including those on establishing an Aged Care Home Credit scheme, establishing an Aged Pensioners Savings Account and establishing an independent regulatory agency. While the government announced a comprehensive (income and asset) means test for care contributions in residential care only (rather than in all settings as recommended by the Commission), the principal residence has been excluded from the means test for

care (a measure that had been recommended by the Commission to improve the long-term fiscal sustainability of the aged care system).

- The Australian Government released a final response to the Commission's 2011 report on rural research and development corporations in July 2012 (Australian Government 2012a). The Government agreed or agreed in principle to thirteen of the Commission's recommendations. These included recommendations on public funding principles, industry requests for marketing, evaluations and performance reviews, specific maximum levy rates, government matching funding, annual monitoring and reporting, and government representation on Research and Development Corporation (RDC) Boards. The Government did not agree with four of the Commission's recommendations, including those on halving the cap on government matching contributions to RDCs in conjunction with the introduction of a new subsidy above the cap, and on the possible establishment of a new RDC, Rural Research Australia.
- On 25 July 2012, COAG noted progress in establishing the first stage of a National Disability Insurance Scheme (NDIS) from July 2013, drawing on the Commission's August 2011 report on *Disability Care and Support*. COAG stated that the Commonwealth has reached in-principle agreement with South Australia, Tasmania and the Australian Capital Territory for a launch to commence from July 2013 (COAG 2012). COAG also noted that it:

... welcomed a report from the Select Council on Disability Reform on progress with establishing an NDIS... As part of its report, the Select Council has proposed an approach to defining eligibility and reasonable and necessary support under an NDIS, building on the work of the Productivity Commission.

Summaries of recent government responses to Commission reports are in appendix D.

Governments need not accept the Commission's advice, and sometimes do not (at least initially). That said, a review of the Commission's inquiry outputs since its inception in 1998 shows that governments have typically adopted a substantial majority of the Commission's recommendations and generally endorsed its findings (details are provided in appendix B and table B.7). Further, an assessment of the nature and extent of references made to Commission inquiry reports suggests that those reports have contributed to policy debates in federal, state and territory parliaments, as well as within the media and general community (appendix B).

Contribution to parliamentary debate

Commission inquiry and research reports continue to be used frequently by parliamentarians in debates and questions. During the 2011-12 sittings of the *Federal Parliament*:

- 103 Members and 53 Senators referred to 79 different Commission reports or inquiries, or to the Commission's role in policy processes
- in over three-quarters of the mentions in debates and questions, federal parliamentarians cited the Commission as an authoritative source. Only 1 per cent of mentions were of a critical nature
- Commission inquiries and reports which featured most prominently were those on emissions reduction policies and carbon pricing, disability care and support and aged care.

In addition, there were 87 mentions of the Commission and its work in the Hansard proceedings of *federal parliamentary committees* in 2011-12. The Commission was mentioned in the proceedings of 26 different committees, most prominently in proceedings of the Senate Standing Committee on Economics; the Senate Standing Committees on Rural Affairs and Transport; and the Joint Select Committee on Australia's Clean Energy Future Legislation. The most frequent mentions were to the reports on aged care, disability care and support and wheat export marketing.

Eleven parliamentary committees drew on a range of Commission inquiry and research outputs in their own reports during the year. The 18 recent parliamentary committee reports listed in table B.1 referred to 16 different Commission outputs.

Research material provided to parliamentarians during 2011-12 by the Parliamentary Library — such as Bills Digests and Research Briefs — referred to 17 different Commission outputs (table B.2). These included eight inquiry and other commissioned research reports and several research papers. Use of Commission outputs by the Australian National Audit Office is also reported in appendix B.

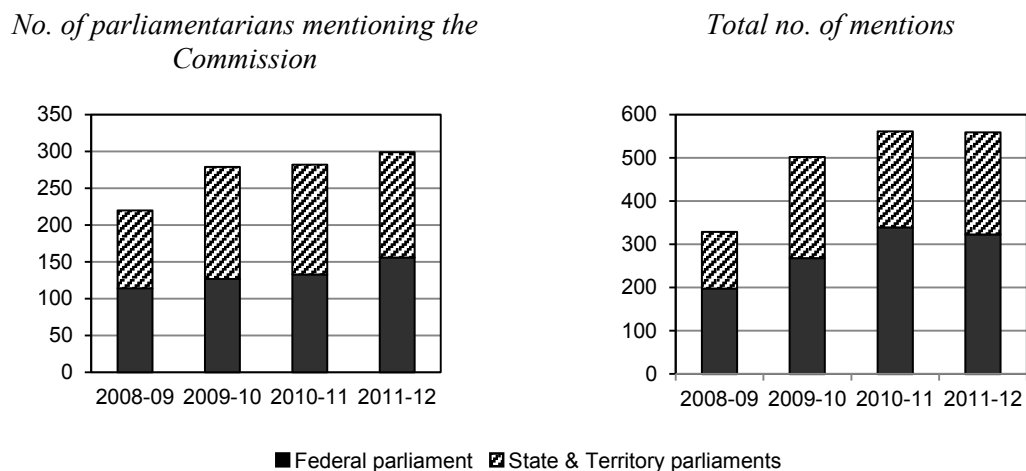
Commission inquiry and research reports, from this and previous years, were also used extensively in debate and questions by *state and territory parliamentarians*. During the 2011-12 sittings of the eight state and territory parliaments:

- 143 members referred to 42 different Commission publications or inquiries, the Report on Government Services, or to the Commission's role in policy processes
- in 77 per cent of the 236 mentions in debates and questions, State and Territory parliamentarians cited the Commission as an authoritative source, while less than 1 per cent of mentions were critical of a particular finding, report or Commission attribute

- the most frequent mentions were to the Report on Government Services, with the Commission’s reports on disability care and support and gambling also featuring prominently.

Recent trends in mentions of the Commission in federal, state and territory parliamentary proceedings are shown in figure 2.3.

Figure 2.3 Mentions of the Commission in Australian parliaments, 2008-09 to 2011-12



Other indicators of policy impact

Recognition of the contribution of the Commission’s work to policy formulation and debate is also demonstrated by the following examples:

- use of Commission analysis during the year by the Prime Minister, Treasurer, Assistant Treasurer and other Ministers, the Leader of the Opposition and Shadow Ministers, including use of Commission reports on gambling, disability care and support, aged care, trade and assistance and climate change
- the widespread use being made of the Report on Government Services by central and line government agencies, state Ministers, parliamentarians, parliamentary committees, Auditors-General, and community and industry groups
- the use made by the Commonwealth Treasury, COAG, state governments, federal parliamentary committees, the Parliamentary Library, the ABS, the AIHW and others of a diverse range of Commission supporting research outputs.
- use of Commission outputs by key international agencies, including the OECD and the IMF.

One continuing indicator of the degree of interest in the Commission's inquiry and other work is the many invitations to give briefings and present papers to parliamentary, business and community groups and to conferences (table E.1). As part of a rolling program of briefings for state and territory governments on the Commission's work, presentations and visits were made to New South Wales, Queensland, Western Australia and Victoria, and visits to other jurisdictions are scheduled throughout 2012-13. The Commission also responded to requests for briefings to visiting officials and delegations from New Zealand, Iraq, China, the Netherlands, Japan, Indonesia, Mexico, the Philippines, Singapore, India, the OECD and the WTO (table E.2).

A further indicator of public interest in the Commission's work, and its potential influence, is the extent of media coverage. During 2011-12, 61 editorials in 11 major metropolitan newspapers drew on the findings or recommendations in 13 different Commission reports, or referred to the Commission's role in assisting public policy making. The Commission's reports on the retail industry, aged care, gambling, disability care and support, international carbon policies and COAG reforms featured prominently.

The Commission rated an average of 280 mentions a month in electronic media and an average of 381 mentions a month in print media in 2011-12. The Commission's inquiries into disability and retail received the most coverage. Indicators of the influence of Commission outputs during the year — its inquiry, performance reporting, competitive neutrality work and supporting research — are discussed more fully in appendix B.

Associated reporting

Management and accountability information for 2011-12 is reported in appendix A. The audited financial statements for the Commission are contained in appendix G.

In response to suggestions by the Senate Standing Committee on Economics (2008), details of Commission appearances at Senate Estimates during the year are provided in Appendix B.

In association with this annual report, the Commission is preparing the following companion publications:

- *Productivity Monitor 2011-12*, which will be published in early 2013 and will include reporting on recent trends in productivity performance.
- *Trade & Assistance Review 2011-12*, which will report on trade policy and assistance developments and contain the Commission's latest estimates of assistance to Australian industry.

A Management and accountability

This appendix provides information on the management and accountability of the Commission, as well as additional information in accordance with parliamentary requirements for departmental annual reports.

Overview

Role and structure

The Commission — established under the *Productivity Commission Act 1998* — is the Australian Government’s independent research and advisory body on a range of economic, social and environmental issues affecting the welfare of Australians. Information about the Commission’s objectives is contained in the overview to chapter 2. Further information on the Commission’s role is available on its website and in its first annual report (PC 1998a, pp. 25–36).

The Commission comprises its Chairman and between four and 11 other Commissioners, appointed by the Governor-General for periods of up to five years. Associate Commissioners can be appointed by the Assistant Treasurer for terms of up to five years or for the duration of specific inquiries. The work of the Commission is assisted by employees who are employed under the *Public Service Act 1999*.

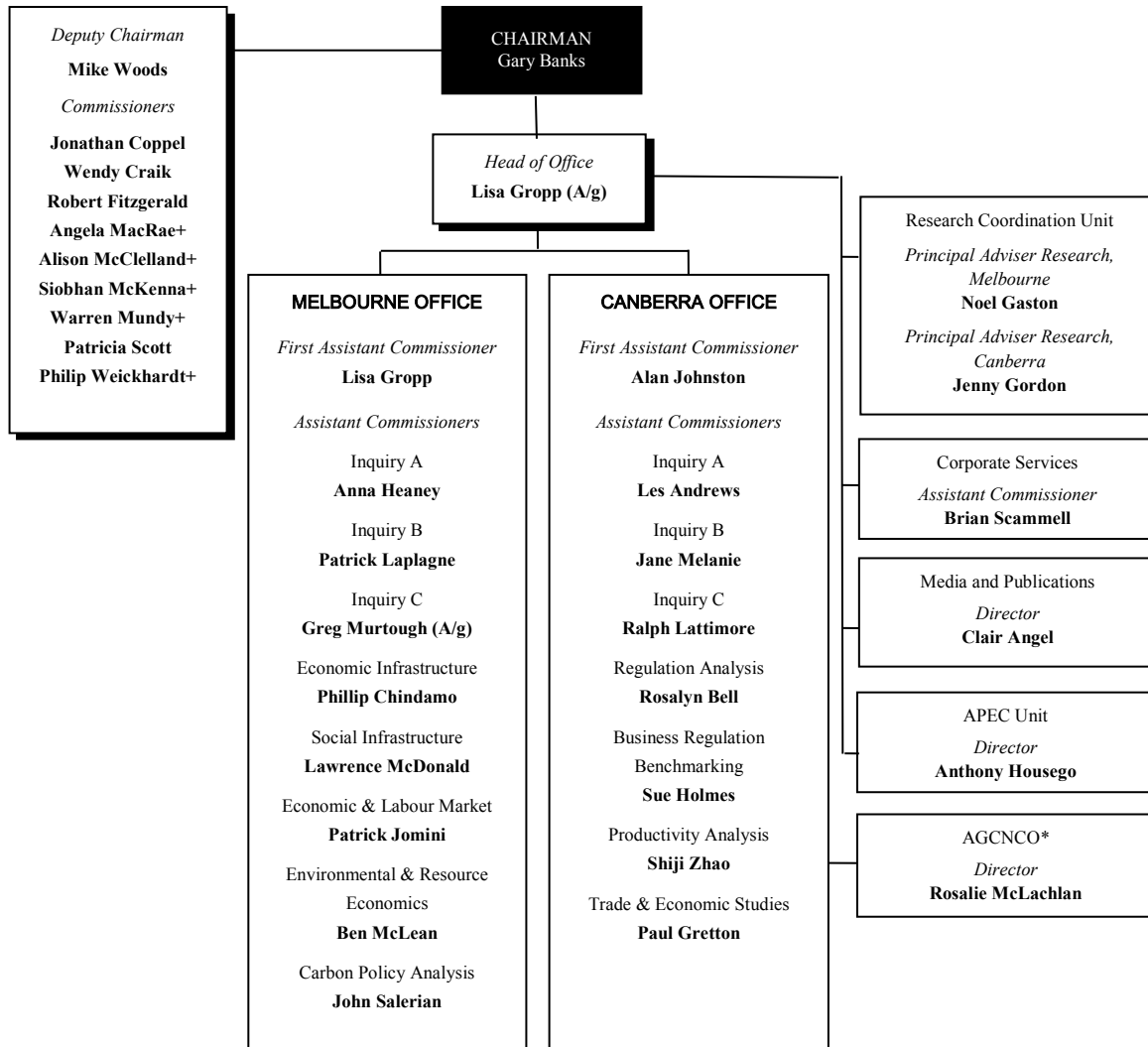
The Commission’s structure and senior staff at 30 June 2012 are shown in figure A.1.

Commissioners

At 30 June 2012 there were eleven members of the Commission, including the Chairman. Five Commissioners held part-time appointments, one of whom is on long-term leave without pay.

Commissioner Louise Sylvan resigned on 20 September 2011 to take up the position of Chief Executive Officer of the Australian National Preventive Health Agency.

Figure A.1 Productivity Commission structure and senior staff, 30 June 2012



+ Part-time Commissioners

* Australian Government Competitive Neutrality Complaints Office

On 28 July 2011 Mr Jonathan Coppel was appointed a full-time Commissioner for a period of five years. Immediately prior to his appointment Mr Coppel was the Economic Counsellor to the OECD Secretary-General where he was responsible for the OECD's contributions to the G20. While at the OECD he held a range of positions including head of the Office of the OECD Chief Economist, Executive Manager of the NEPAD-OECD Africa Investment Initiative, Senior Economist on foreign direct investment, Deputy Counsellor to the Chief Economist, Head of the EU and UK Desks, and Climate Change Specialist in the OECD Economics Department. He has also been an Energy Analyst at the International Energy Agency. Mr Coppel has previously held senior management positions in the

Reserve Bank of Australia and started his career at the Australian Commonwealth Treasury. He has also been a lecturer for the World Trade Institute's Mile Masters Programme in International Law and Economics and at Sciences Po Institute in Paris. Mr Coppel has a Bachelor of Economics (Honours) from the Australian National University and a Masters in International Affairs (Economics and Management) from Columbia University in New York.

Biographical information on all Commissioners is available on the Commission's website and their terms of appointment are listed in table A1.1 of Attachment A1.

Associate Commissioners

At 30 June 2012, four Associate Commissioner appointments were current (table A1.2 of Attachment A1).

On 20 July 2011 Mr Bernie Wonder PSM was appointed on a part-time basis for the duration of the study into the role of local government as regulator. Mr Wonder was the Head of Office at the Productivity Commission from 2005-2010. Prior to joining the Commission in that role, Mr Wonder was Deputy Secretary at the Australian Government Department of Agriculture, Fisheries and Forestry and is a former Executive Director of the Australian Bureau of Agricultural and Resource Economics (ABARE).

On 8 September 2011 Dr Neil Byron was appointed on a part-time basis for the duration of the inquiry into barriers to effective climate change adaptation. Dr Byron is an environmental economist and policy analyst. He was the Commissioner responsible for environment, agriculture and natural resource management issues in the Productivity Commission from April 1998 to March 2010. Dr Byron presided over ten public inquiries and directed the Commission's environmental economics program during that period.

On 9 January 2012 Mr Paul Costello was appointed on a part-time basis for the duration of the inquiry into default superannuation funds in modern awards. Mr Costello has extensive experience in the superannuation industry. In 2011, he chaired the Stronger Super Consultative Group which advised the Government on how to best implement the Stronger Super package of reforms. From 2006 to 2010 Mr Costello was the General Manager of the Future Fund Management Agency. Other previous positions include Chief Executive of the New Zealand Superannuation Fund and Chief Executive of the Superannuation Trust of Australia.

On 24 February 2012 Mr Paul Coghlan was appointed on a part-time basis for the duration of the Regulation Impact Analysis: Benchmarking study. Mr Coghlan has extensive experience in regulatory review activities, including as a former head of the Office of Regulation Review. He has previously been appointed as a part-time Associate Commissioner for the commissioned study on Standard Setting and Laboratory Accreditation and studies in the Performance Benchmarking of Australian Business Regulation work stream, including those relating to occupational health and safety; planning, zoning and development assessment; and food safety.

Associate Commissioner appointments completed during 2011-12 are listed in table A1.3 of Attachment A1.

Staff

The average staffing level during 2011-12 was 197 compared to 193 in 2010-11.

The Commission recruited 21 staff during the year, including six through its graduate recruitment program. Staff turnover was approximately nine per cent.

Statistical information on staffing is provided in tables A1.4 to A1.6 of Attachment A1.

Outcome objective and resources

The financial and staffing resources devoted to the achievement of the Government's desired outcome objective for the Commission — outlined on page 86 — are summarised in table A.1. An agency resource statement for 2011-12 is included at Attachment A2. Performance information in respect of this outcome is provided in appendix B.

Table A.1 **Financial and staffing resources summary**

	<i>Budget *</i> 2011-12 \$'000	<i>Actual</i> 2011-12 \$'000	<i>Variation</i> \$'000
Outcome 1: Well-informed policy decision-making and public understanding on matters relating to Australia's productivity and living standards, based on independent and transparent analysis from a community-wide perspective	(a)	(b)	(a-b)
Program 1.1			
Departmental Expenses			
Ordinary annual services (Appropriation Bill No. 1)	37 956	35 136	2 820
Revenues from independent sources (Section 31)	521	521	–
Expenses not requiring appropriation in the Budget year	966	966	–
Total for Outcome 1	39 443	36 623	2 820
	2010-11	2011-12	
Average Staffing Level (number)	193	197	

* Full-year budget, including any subsequent adjustment made to the 2011-12 Budget.

Governance

The Commission's governance arrangements are designed to achieve efficient, effective and ethical use of resources in the delivery of the Commission's mandated outcome objective. The arrangements are also designed to ensure compliance with legislative and other external requirements in regard to administrative and financial management practices.

In keeping with good governance principles, the Commission's governance arrangements encompass:

- establishing clear responsibilities for decision-making and the undertaking of mandated activities
- ensuring accountability through the monitoring of progress, and compliance with legislative and other requirements, of mandated activities
- underpinning these arrangements through the promotion of a risk management and ethical behaviour culture.

Key responsibilities

The Commission's Chairman is responsible for the overall management and governance of the Commission.

He is assisted in these tasks by the Head of Office and a Management Committee which addresses matters of strategic direction, organisational development, policies and practices, monitoring of performance and resource allocation. Management Committee comprises the Chairman (as chair), Deputy Chairman, the Head of Office, the Melbourne and Canberra First Assistant Commissioners and the Assistant Commissioner, Corporate Services. It meets monthly, or more frequently as necessary.

The Research Committee is responsible for approving research proposals and ensuring that these are consistent with the Commission's objectives and current research themes. More generally, it also promotes the effectiveness and efficiency of the Commission's research program. It meets monthly and comprises the Melbourne and Canberra Principal Advisers Research (alternate chairs), the Chairman, the Deputy Chairman, the Head of Office, the Melbourne and Canberra First Assistant Commissioners and two research Assistant Commissioners.

Commissioners have a role in strategic coordination and are responsible for the conduct of the individual inquiries, studies or other activities to which they are assigned by the Chairman. Responsibility extends to the quality and timeliness aspects of the assigned project or activity.

Accountability

Management Committee's monitoring of the Commission is aided through the provision of regular reports covering staffing, expenditure, staff development and other operational matters.

Monthly Commission meetings — also attended by senior staff — are used to discuss and monitor progress across the Commission's four mandated outputs. Specifically:

- presiding Commissioners on government-commissioned projects report monthly on significant issues and progress against key milestones
- the Research Committee reports on a quarterly basis on the status and future directions of the research program
- the activities of the Steering Committee for the Review of Government Service Provision, chaired by the Chairman of the Commission, are reported on a quarterly basis
- a Commissioner designated with responsibility for competitive neutrality issues reports to the Commission on a quarterly basis

-
- the Head of Office provides Commissioners with a monthly update on key management issues.

The Audit Committee is a further source of accountability through its periodic review of particular aspects of the Commission's operations. Its membership comprises a chairperson (currently a Commissioner), two senior members of staff and an external member. The Commission's contracted internal auditors generally attend meetings, as does a representative of the Australian National Audit Office on an 'as required' basis. The Audit Committee meets at least four times a year.

Risk management and fraud control

Risk assessments are undertaken within a formal risk management model specified in the Commission's risk management plan. The plan is reviewed annually by senior management and the Audit Committee.

The Commission has prepared a fraud risk assessment and fraud control plan and has in place appropriate fraud prevention, detection, investigation reporting and data collection procedures and processes that meet the specific needs of the Commission and comply with the Commonwealth Fraud Control Guidelines. The Chairman's certification in respect of fraud control is at Attachment A3.

Information about the Commission's risk management procedures is available to all employees. It is brought to the attention of new employees on commencement, and awareness raising for existing employees is undertaken periodically.

Ethical standards

The Commission has adopted a range of measures to promote ethical standards.

- It has embraced the Australian Public Service (APS) Values and Code of Conduct. The Commission's various employment agreements contain a commitment from employees to at all times conduct themselves in a manner consistent with the Values and Code.
- All employees have been provided with a copy of the Values and Code, while new employees receive a copy as part of their induction.
- Senior managers in particular are encouraged to set an example through the ethical and prudent use of Commonwealth resources.

The Commission has developed a number of specific policies relating to ethical standards which have regard to its own operational context. These deal with matters

such as email and internet use, harassment and bullying, discrimination, fraud, disclosure of information, and managing conflicts of interest. The policies are readily available to all employees. Staff awareness and training sessions are offered on these topics.

External and internal scrutiny

The Commission's processes, which provide for transparency and community participation in its work, are a key means of promoting external scrutiny. These processes are outlined in some detail in the corporate chapters of the Commission's annual reports.

External scrutiny is also promoted through the Commission's extensive reporting, in various publications, of different aspects of its work. This annual report is an example and, in particular, appendix B provides an account of the Commission's performance.

Both the Commission and the Australian Government Competitive Neutrality Complaints Office (which has separate functions although located within the Commission) have service charters.

Performance against the charters is monitored on an exceptions basis — that is, by complaints to designated senior managers. No complaints were received during 2011-12 in respect of either charter.

The Auditor-General issued an unqualified independent audit report on the Commission's 2011-12 financial statements.

References to particular reports of the Commission made by federal parliamentary committees during the year are detailed in appendix B. Details of the Commission's appearances at Senate Estimates hearings in 2011-12 are included in appendix B.

Internal scrutiny occurs through an ongoing review program of policies, procedures and activities for effectiveness, efficiency and public accountability. Particular matters addressed during the year included the following.

Website and publications: The Commission's website continues to provide a valuable source of information about the current work of the Commission, its publications and other activities. During 2011-12 the Commission continued to enhance the structure, presentation and accessibility of website content, including liaison with the New Zealand Productivity Commission regarding presentation of material relating to the joint study on strengthening economic relations.

Information technology: Maintenance, review and upgrade of Commission ICT infrastructure has continued. In 2011-12, this included replacement of printers and photocopiers, an upgrade of office software and network storage capacity, and disaster recovery planning.

Human Resources: During 2011-12, the Commission continued a system of performance appraisal for staff and senior executives, intended to enhance individual development and improve organisational performance. The Commission's staff development program continued to have a focus on report writing skills during 2011-12.

Internal Audit: The Commission engaged an accounting firm to conduct a program of internal audits over a three-year period commencing in 2009-10. Internal audits conducted in 2011-12 focused on travel management, credit cards, cash management, bank reconciliations and fraud risk assessment. No control or compliance deficiencies involving unacceptable risk were identified.

Audit Committee: The Audit Committee also plays an important internal scrutiny role. The Committee's efforts during the year related mainly to:

- oversight of the Commission's internal audit program
- consideration of the annual financial statements and associated issues
- scrutiny of the Commission's risk management, fraud control and business continuity plans
- reviews of relevant ANAO reports.

Management of human resources

The Commission's human resources management operates within the context of relevant legislation, government policy and Commission-developed policy. Day-to-day management is devolved to senior managers within a broad framework agreed by Management Committee. The Committee routinely monitors the performance of people management functions through a range of feedback mechanisms, including through standing reports to its monthly meetings.

Workforce planning

Management Committee plays the key role for ensuring alignment between the Commission's resources and its future capability requirements.

The Commission regularly considers a range of workforce planning issues associated with the attraction, retention and development of staff. In particular, the Commission has been actively monitoring the age profile of its workforce and is seeking to retain mature aged employees by making available flexible working arrangements.

The Commission reviews its graduate recruitment process annually with a view to increasing the awareness of graduating university students of the Commission as a potential employer. Six new employees were engaged during 2011-12 through the Commission's graduate recruitment program.

An important input to workforce planning is the information obtained from departing employees through exit questionnaires and, in many cases, personal interviews on exit. Such information is considered regularly by Management Committee and applied to a variety of initiatives including conditions of service, developing employment agreements, and employee retention strategies.

Remuneration and employment conditions

Commissioners are part of the Principal Executive Office structure established by the Government. The Chairman, as the 'employing body', is responsible for determining Commissioners' remuneration within guidelines and parameters set and reviewed by the Remuneration Tribunal. The Chairman's remuneration continues to be set directly by the Tribunal.

The Commission's 21 Senior Executive Service (SES) employees are employed under individual determinations under the *Public Service Act 1999*. SES remuneration is set in the context of public and private sector benchmarks, including those contained in the APS SES Remuneration Survey conducted for the Australian Public Service Commission.

Information on Commissioners and SES employees total remuneration is set out in Note 12 to the Financial Statements (appendix G).

APS salary ranges for non-SES staff which correspond to the Commission's broadbanded classifications are shown in the enterprise agreement which is available on the Commission's website.

During 2011-12, a new enterprise agreement was approved for the Commission's non-SES employees. The new agreement has a nominal expiry date of 30 June 2014. The levels of remuneration and terms and conditions of employment of approximately 180 employees are covered by this agreement.

The new enterprise agreement provides improvements in remuneration and other conditions, while also providing a basis for productivity improvements. The agreement includes a number of provisions aimed at providing work/life balance and a satisfying and rewarding environment for employees.

Performance management and pay

All employees participate in the Commission's performance management scheme. The scheme seeks to:

- clarify the understanding by individual employees of their work tasks, their responsibilities and the performance standards expected (through performance agreements)
- provide feedback on performance and improve communication between supervisors and their staff (through performance appraisals)
- provide a basis for determining salary advancement
- identify learning and development needs
- assist in identifying and managing underperformance.

Ahead of each appraisal round — which occurs at six-monthly intervals — senior staff attend 'context setting' meetings to promote a consistent approach to the appraisal process and outcomes. Training is conducted for new employees and new managers to ensure employee readiness for the appraisal round.

Under the Commission's enterprise agreement, all salary increases are conditional upon employees being rated fully effective in their performance appraisal. Senior Executive remuneration continues to include potential to receive a performance related bonus, in keeping with the policy of having a higher proportion of SES employees' remuneration 'at risk'. In October 2010 the Remuneration Tribunal removed access to performance pay for Commissioners and rolled a compensatory amount into their total remuneration.

Performance bonuses paid for 2011-12 are summarised in table A.2.

Table A.2 Performance bonuses paid for 2011-12

<i>Classification level</i>	<i>Employees receiving bonus</i>	<i>Total bonuses paid</i>	<i>Average bonus paid</i>
Staff Level 1	0	0	0
Staff Level 2	0	0	0
Staff Level 3	0	0	0
Staff Level 4	0	0	0
SES	22	181 122	8 232
Principal Executive Officers	0	0	0
Total	22	181 122	8 232

Consultative arrangements

The key employee consultative mechanism is the Productivity Commission Consultative Committee (PCCC). The PCCC comprises five elected employee representatives, a CPSU representative, and four management representatives. The PCCC met on several occasions during the year to discuss a range of workplace issues.

In addition, direct consultation between management and employees occurs on a regular basis, including through the Chairman's 'all staff' meetings, a range of topic-specific committees, and regular team and branch meetings.

Learning and development

The Commission encourages employees to undertake learning and development in an appropriate mix of four core competencies:

- management and leadership
- conceptual and analytical skills
- time and work management
- oral and written communication.

The need for learning and development can be employee identified (including through individual development plans settled with supervisors as part of performance appraisals), be supervisor-encouraged or directed, or reflect organisation-wide initiatives.

Recorded expenditure on learning and development in 2011-12 was 2.2 per cent of the annual salary budget. This expenditure related to:

- 140 employees who undertook a total of 419 days of specific training and development
- 127 attended general development programs
- 11 employees who received studies assistance in the form of paid leave and assistance with fees in the pursuit of tertiary qualifications
- 3 employees received assistance as part of a Post Graduate Study Award.

The above activities are in addition to one-on-one coaching to address particular development needs and extensive on-the-job training within the Commission. A program of internal seminars on a range of topical economic, social and environmental issues also contributes to staff development.

Workplace health & safety (WHS)

A WHS Committee oversees the Commission's workplace health and safety program. Committee membership includes health and safety representatives and staff observers from both offices. The Committee met four times during 2011-12.

No formal WHS investigations were conducted during the year and there were no notifiable incidents. No notices under Part 10 of the *Work Health Safety Act 2011* were given to the Commission during 2011-12.

Training is provided for employees who have specific OHS related responsibilities.

OHS activities during the year included:

- Commission-funded flu vaccinations (take up rate in 2011-12 was around 50 per cent)
- ergonomic work station assessments (69 were completed, including 38 as part of the induction program).
- regular workplace hazard inspections conducted by members of the WHS Committee
- desk calendars for all employees promoting emergency evacuation and threat procedures
- the opportunity for employees to complete working hours questionnaires
- workplace health-related seminars.

An indicator of the effectiveness of the Commission's WHS programs is Comcare's workers' compensation rate. The Commission's rate for 2011-12 was assessed at approximately one-tenth of the rate for the whole-of-Australian Government pool. There were no claims for injury in 2011-12.

Employee Assistance Program

The Commission offers its employees independent, confidential and professional counselling, consultation and training assistance for work-related or personal issues. Eleven employees or their families utilised the service in 2011-12.

Workplace diversity

The Commission continues to foster a culture that is supportive of employees achieving their potential and which values employee diversity. This is facilitated through the commitment — in the Commission's enterprise agreement, equity and diversity plan and related policies — to promote workplace diversity.

National Disability Strategy

Since 1994, Commonwealth departments and agencies have reported on their performance as policy adviser, purchaser, employer, regulator and provider under the Commonwealth Disability Strategy. In 2007-08, reporting on the employer role was transferred to the Australian Public Service Commission's *State of the Service Report* and the *APS Statistical Bulletin*. These reports are available at www.apsc.gov.au. From 2010-11, departments and agencies have no longer been required to report on these functions.

The Commonwealth Disability Strategy has been overtaken by a new National Disability Strategy which sets out a ten-year national policy framework for improving life for Australians with disability, their families and carers. A high level report to track progress for people with disability at a national level will be produced by the Standing Council on Community, Housing and Disability Services to the Council of Australian Governments and will be available at www.fahcsia.gov.au. The Social Inclusion Measurement and Reporting Strategy agreed by the Government in December 2009 will also include some reporting on disability matters in its regular *How Australia is Faring* report and, if appropriate, in strategic change indicators in agency Annual Reports. More detail on social inclusion matters can be found at www.socialinclusion.gov.au.

Financial performance

The Productivity Commission is a prescribed agency under the *Financial Management and Accountability Act 1997*.

Revenue from government increased in 2011-12 to \$38.0 million (\$37.3 million in 2010-11). Revenue from other sources also increased slightly in 2011-12 to \$0.5 million (\$0.3 million in 2010-11).

Additional funding was provided to the Commission at Additional Estimates for the 'Clean Energy Future – Governance – Productivity Commission Reviews' measure. Further information on that funding is provided in the 2011-12 Treasury Portfolio Additional Estimates Statements.

Operating expenses decreased slightly in 2011-12 to \$36.6 million (\$37.3 million in 2010-11). The major expenses in 2011-12 were \$28.2 million in respect of employee expenses, \$7.5 million relating to supplier payments, and \$0.9 million in asset depreciation, amortisation and related expenses.

The operating result for 2011-12 was a \$1.9 million surplus (\$0.3 million in 2010-11).

Table A.1 provides a summary of financial and staffing resources. The agency resource statement is provided at Attachment A2. The audited financial statements for 2011-12 are shown in appendix G.

Other information

Purchasing

The Commission applies the Commonwealth Procurement Guidelines. The Commission's purchases of goods and services during 2011-12 were consistent with the 'value-for-money' principle underpinning those guidelines.

The Commission did not enter into any contracts or standing offers that were exempt from being published on AusTender. Contracts of \$100 000 or more let during 2011-12 included a provision for the Auditor-General to have access to the contractor's premises if required.

Consultancies

The Commission continued to utilise the services of a range of consultants during the year where it was cost-effective to do so. Many of the consultancies are for the purpose of refereeing particular pieces of work and are generally of relatively low cost.

During 2011-12, ten new consultancy contracts were entered into involving total actual expenditure of \$141 145. In addition, two ongoing consultancy contracts were active during the 2011-12 year, involving total actual expenditure of \$11 800.

Table A.3 provides information on expenditure on consultants in the five years to 2011-12.

Annual reports contain information about actual expenditure on contracts for consultancies. Information on the value of contracts and consultancies is available on the AusTender website www.tenders.gov.au.

Table A.3 **Expenditure on consultancies, 2007-08 to 2011-12**

	2007-08	2008-09	2009-10	2010-11	2011-12
	\$'000	\$'000	\$'000	\$'000	\$'000
Expenditure	493	124	49	36	153

Special payments

The Commission made a number of special payments during 2011-12. Such payments were made to organisations and activities judged by management as making a worthwhile contribution to the Commission's outputs. The main payments were as follows:

Consortium memberships: \$20 718 for membership of the Global Trade Analysis Project Consortium based at Purdue University in the United States. The Commission's contribution supports the development and updating of a publicly available database and model framework for multi-country trade policy analysis. It gives the Commission early access to database updates that are needed in its research, priority access to model training, and input to the future direction of model and database development.

Research partnerships: \$22 000 to the University of NSW for an ARC partnership project on productivity measurement in infrastructure, services, and research and development; and \$10 000 to the University of Queensland for an ARC partnership

project on utilisation of social science research in policy development and program review.

Conference sponsorships: \$5500 to the 56th Australian Agricultural and Resource Economics Society National Conference; \$14 850 to the 2012 Economic and Social Outlook Conference; \$8250 to the Economics Society of Australia (Vic) for the 41st Australian Conference of Economists; \$5000 to the Economic Society of Australia (NSW) for the Australian Economic Forum 2012; \$3000 to the Econometric Society Australasian Meeting 2012; and \$5000 to the 14th International Schumpeter Society Conference.

Awards: \$1000 to the top student, Master of Economics, at the Australian National University (Robert Jones Productivity Commission Prize); and \$300 to the top Microeconomics student at La Trobe University.

Legal services

Total expenditure on legal services in 2011-12 was \$6540. Further details are published on the Commission's website, in accordance with *Legal Services Directions 2005* issued by the Attorney-General.

Ecologically sustainable development (ESD)

Under the *Environment Protection and Biodiversity Conservation Act 1999*, agencies are required — through their annual reports — to report on ESD and environmental matters. This requirement is part of the Government's program to improve progress in implementing ESD.

The Commission operates under statutory guidelines, one of which is to have regard to the need 'to ensure that industry develops in a way that is ecologically sustainable' (section 8(1)(i) of the *Productivity Commission Act 1998*). This legislation also prescribes that at least one member of the Commission 'must have extensive skills and experience in matters relating to the principles of ecologically sustainable development and environmental conservation' (section 26(3)).

There are five aspects against which agencies are required to report.

The first relates to how an agency's actions during the reporting period accorded with the principles of ESD.

Reflecting its statutory guidelines, ESD principles are integral to the Commission's analytical frameworks, their weighting depending on the particular inquiry or research topic. Examples of Commission projects where different aspects of ESD have arisen have been provided in past annual reports. Recent Commission reports on *Barriers to effective climate change adaptation* and *Emission reduction policies and carbon prices in key economies* are further examples of work undertaken requiring integration of complex economic, social and environmental considerations.

The second reporting requirement asks how the Government's outcome for the Commission contributes to ESD. As stated elsewhere in this report, the outcome nominated for the Commission is:

Well-informed policy decision making and public understanding on matters relating to Australia's productivity and living standards, based on independent and transparent analysis from a community-wide perspective.

In pursuing this outcome, the Commission is required to take into account impacts on the community as a whole — these may be economic, social and/or environmental. The transparency of its processes provides the opportunity for anyone with an interest in an inquiry to make their views known and to have these considered. Consequently, a broad range of views and circumstances are taken into account, in keeping with the ESD principle that 'decision-making processes should effectively integrate both long-term and short-term economic, environmental, social and equity considerations'.

The third to fifth reporting requirements relate to the impact of the Commission's internal operations on the environment. The Commission is a relatively small, largely office-based, organisation in rented accommodation, and the actions able to be taken are somewhat limited. However, the Commission adopts measures aimed at the efficient management of waste and minimising energy consumption.

In order to manage its impacts on the environment in a systematic and ongoing way, the Commission maintains an Environmental Management System. The Environmental Management System contains the Commission's environmental policy, an environmental management program to address identified impacts, and provision for monitoring and reporting on performance.

Publications and submissions

Appendix F lists all the Commission's publications in 2011-12.

Freedom of information

Agencies subject to the *Freedom of Information Act 1982* (FOI Act) are required to publish information to the public as part of the Information Publication Scheme (IPS). This requirement is in Part II of the FOI Act and has replaced the former requirement to publish a section 8 statement in an annual report. Each agency must display on its website a plan showing what information it publishes in accordance with the IPS requirements.

Advertising and market research

The Commission does not undertake ‘advertising campaigns’. However, the Commission publicises its government-commissioned inquiries and studies so that any individual, firm or organisation with an interest has an opportunity to present their views. Publicity takes the form of newspaper advertisements, regular distribution of *PC Update*, press releases, an email alert service, notification on the Commission’s website and distribution of Commission circulars.

A total of \$111 556 was paid for advertising (including recruitment advertising) in 2011-12 to Adcorp Australia Ltd.

Annual reporting requirements and aids to access

Information contained in this annual report is provided in accordance with Schedule 2 Part 4 of the *Work Health and Safety Act 2001*, section 49 of the *Financial Management and Accountability Act 1997* and Part II of the *Freedom of Information Act 1982*.

The entire report is provided in accordance with section 10 of the *Productivity Commission Act 1998*.

The annual report has also been prepared in accordance with parliamentary requirements for departmental annual reports issued by the Department of the Prime Minister and Cabinet. A compliance index is provided in Attachment A4.

The contact officer for inquiries or comments concerning this report is:

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Productivity Commission
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MELBOURNE VIC 8003
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The Commission's internet home page is at <http://www.pc.gov.au>

This annual report can be found at the above internet address. Inquiries about any Commission publication can be made to:

Director
Media and Publications
Productivity Commission
GPO Box 1428
CANBERRA CITY ACT 2601
Telephone: (02) 6240 3239
Facsimile: (02) 6240 3300

Attachment A1

Commissioner and employee statistics

Table A1.1 **Chairman and Commissioners, 30 June 2012**

	<i>Current period of appointment</i>	
	<i>From</i>	<i>To</i>
Mr G R Banks AO (Chairman)	20 May 2008	19 May 2013
Mr M C Woods (Deputy Chairman)	17 Apr 2011	16 Apr 2016
Mr J Coppel (M)	28 Jul 2011	27 Jul 2016
Dr W Craik AM (C)	4 Jun 2009	3 Jun 2014
Mr R Fitzgerald AM (C)	27 Jan 2009	26 Jan 2014
Ms A McClelland (M) (p/t)	8 Dec 2010	7 Dec 2015
Ms A MacRae (M) (p/t)	8 Dec 2010	7 Dec 2015
Ms S McKenna (M) (p/t)	4 Jun 2009	3 Jun 2014
Dr W Mundy (C) (p/t)	8 Dec 2010	7 Dec 2015
Ms P Scott (C)	7 Sep 2009	6 Sep 2014
Mr P Weickhardt (M) (p/t)	4 Dec 2008	3 Dec 2013

(C) denotes Canberra based, (M) denotes Melbourne based and (p/t) denotes part-time.

Table A1.2 **Part-time Associate Commissioners, 30 June 2012**

	<i>Inquiry/Study</i>	<i>Period of appointment^a</i>	
		<i>From</i>	<i>To</i>
Mr B Wonder	Business Regulation Benchmarking: Role of Local Government as Regulator	20 Jul 2011	19 Aug 2012
Dr N Byron	Climate Change Adaptation	8 Sep 2011	7 Oct 2012
Mr P Costello	Default Superannuation Funds in Modern Awards	9 Jan 2012	8 Nov 2012
Mr P Coghlan	Regulatory Impact Analysis: Benchmarking	24 Feb 2012	23 Dec 2012

^a Engagement ceases at the conclusion of the inquiry/study or the period of appointment, whichever is the earlier

Table A1.3 Part-time Associate Commissioners completing appointments during 2011-12

	<i>Inquiry/Study</i>	<i>Period of appointment</i>	
		<i>From</i>	<i>To</i>
Mr J Walsh	Disability Care and Support	14 April 2010	13 Oct 2011
Mr J Sutton	Economic Regulation of Airport Services	7 Oct 2010	6 Jan 2012

Table A1.4 Employees by location and gender, 30 June 2012

<i>Level</i>	<i>Melbourne</i>			<i>Canberra</i>			<i>Total</i>		
	<i>Female</i>	<i>Male</i>	<i>Total</i>	<i>Female</i>	<i>Male</i>	<i>Total</i>	<i>Female</i>	<i>Male</i>	<i>Total</i>
SES Band 3	1	0	1	0	0	0	1	0	1
SES Band 2	0	1	1	1	1	2	1	2	3
SES Band 1	1	8	9	3	5	8	4	13	17
Staff Level 4	10	15	25	8	16	24	18	31	49
Staff Level 3	21	11	32	7	10	17	28	21	49
Staff Level 2	18	21	39	8	9	17	26	30	56
Staff Level 1	12	6	18	7	1	8	19	7	26
Total^b	63	62	125	34	42	76	97	104	201
Corresponding totals at 30 June 2011 ^a	67	55	122	30	45	75	97	100	197

^a Totals exclude 6 inoperative employees at 30 June 2011. ^b Totals exclude 9 inoperative employees at 30 June 2012; 2012 totals include one acting SES Band 3, SES Band 1, Staff Level 4, and Staff Level 2.

Table A1.5 Employees by employment status and gender, 30 June 2012

<i>Level</i>	<i>Female</i>			<i>Male</i>			<i>Total</i>		
	<i>F/t</i>	<i>P/t</i>	<i>Total</i>	<i>F/t</i>	<i>P/t</i>	<i>Total</i>	<i>F/t</i>	<i>P/t</i>	<i>Total</i>
SES Band 3	1	0	1	0	0	0	1	0	1
SES Band 2	1	0	1	2	0	2	3	0	3
SES Band 1	4	0	4	13	0	13	17	0	17
Staff Level 4	14	4	18	27	4	31	41	8	49
Staff Level 3	21	7	28	18	3	21	39	10	49
Staff Level 2	19	7	26	29	1	30	48	8	56
Staff Level 1	12	7	19	7	0	7	19	7	26
Total^b	72	25	97	96	8	104	168	33	201
Corresponding totals at 30 June 2011 ^a	72	25	97	94	6	100	166	31	197

^a Totals exclude 6 inoperative employees at 30 June 2011. ^b Totals exclude 9 inoperative employees at 30 June 2012; 2012 totals also include one acting SES Band 3, SES Band 1, Staff Level 4, and Staff Level 2..

Table A1.6 Employees by level and reason for separation, 2011-12

<i>Level</i>	<i>Promotion</i>	<i>Transfer</i>	<i>Resignation</i>	<i>Invalidity Retirement</i>	<i>VRP^a</i>	<i>Other</i>	<i>Total</i>
Staff Level 4	0	0	0	0	0	0	0
Staff Level 3	0	1	1	0	0	0	2
Staff Level 2	0	2	2	1	0	0	5
Staff Level 1	0	2	3	0	0	1	6
Total	0	5	11	1	0	1	18
Corresponding totals at 30 June 2011	1	6	13	0	0	1	21

^a Voluntary Redundancy Package

Attachment A2

Agency Resource Statement — 2011-12

	<i>Actual Available Appropriation 2011-12</i>	<i>Payments Made 2011-12</i>	<i>Balance Remaining</i>
	\$'000	\$'000	\$'000
	(a)	(b)	(a-b)
Ordinary Annual Services			
Departmental appropriation¹			
Prior year Departmental appropriation	15 797		
Departmental appropriation 2010-11	38 307	33 794	
S.31 Relevant agency receipts²	1 101	1 101	
Total ordinary annual services	<hr/> 55 205	<hr/> 34 895	<hr/> 20 310
Total Resourcing and Payments	<hr/> 55 205	<hr/> 34 895	<hr/> 20 310

¹ Appropriation Bill (No.1) 2011-12 and Appropriation Bill (No.3) 2011-12.

² Receipts received under section 31 of the *Financial Management and Accountability Act 1997*.

Attachment A3



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Productivity Commission

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***From the Chairman's
Office***

23 August 2012

Annual Report 2011-12 – Fraud Control Certification

In accordance with Guideline 5.8 of the *Commonwealth Fraud Control Guidelines 2011* (the Guidelines), issued pursuant to Regulation 16A of the *Financial Management and Accountability Regulations 1997*, I hereby certify that I am satisfied that the Productivity Commission has:

- prepared fraud risk assessments and fraud control plans;
- in place appropriate fraud prevention, detection and investigation and reporting and data collection procedures and processes that meet the specific needs of the Commission and comply with the Guidelines; and
- taken all reasonable measures to minimise the incidence of fraud in the Commission and to investigate and recover the proceeds of fraud against the Commission.

A handwritten signature in black ink, appearing to read 'G. Banks', with a horizontal line underneath.

Gary Banks AO

Attachment A4

Compliance index

Compliance with the Joint Committee of Public Accounts and Audit requirements for annual reports

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Compliance with the Productivity Commission Act

The annual report is also prepared in accordance with the general provisions of s.10 of the Productivity Commission Act, as well as the following specific requirements:

s.10(1) Commission operations	chapter 2 and appendix B
s.10(2) matters referred to the Commission	appendix D
s.10(4) competitive neutrality complaints	appendix C

In association with this annual report, the Commission is preparing two companion publications:

- *Productivity Monitor 2011-12*
- *Trade & Assistance Review 2011-12*

B Program performance

The Productivity Commission's designated role is to contribute to well-informed policy decision-making and public understanding on matters relating to Australia's productivity and living standards. It performs this role by undertaking independent and transparent analysis from a community-wide perspective.

The Commission's four main activity streams are public inquiries and other government-commissioned projects, performance reporting and other services to government bodies, competitive neutrality complaints activities, and supporting research and statutory annual reporting. This appendix sets out some broad considerations in assessing the Commission's performance and reports various indicators of overall performance, as well as the Commission's main activities and related performance in 2011-12.

Objectives for performance assessment

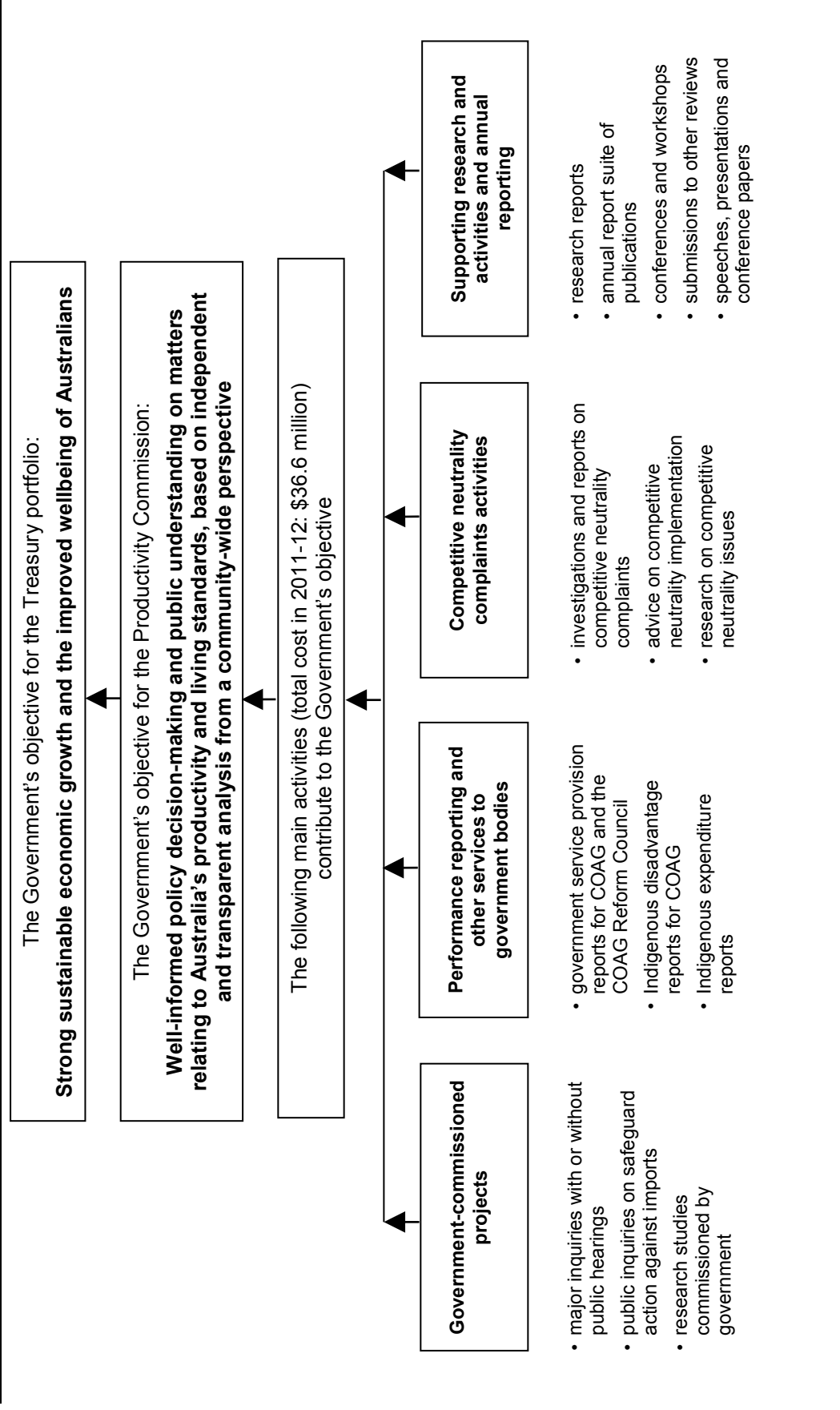
The Government's outcome objective against which the Commission's overall performance is to be assessed is:

Well-informed policy decision making and public understanding on matters relating to Australia's productivity and living standards, based on independent and transparent analysis from a community-wide perspective.

The Commission's inquiry, research, advisory and associated activities derive from its statutory functions. These can be classified into four main activity areas:

- government-commissioned projects
- performance reporting and other services to government bodies
- competitive neutrality complaints activities
- supporting research and activities and statutory annual reporting (figure B.1).

Figure B.1 Productivity Commission main activities 2011-12



The Commission's overall objective is embedded within the Government's broader outcome objective for the Treasury portfolio as a whole:

to improve the wellbeing of the Australian people, including by achieving strong, sustainable economic growth, through the provision of advice to government and the efficient administration of federal financial relations.

Commission activities

All of the Commission's activities are directed at meeting the policy needs of government, or otherwise fulfilling statutory requirements. Main activities are:

- undertaking individual projects specifically commissioned by government, including commissioned projects of an inquiry or research nature relating to regulatory issues
- meeting standing research, investigatory and advisory functions nominated by government
- research undertaken in response to emerging needs for policy-relevant information and enhanced analytical frameworks, and for building the Commission's capacity to respond to the policy priorities of government.

Commissioned projects

Government-commissioned projects have individual terms of reference.

Public inquiries involve extensive public consultation — including through visits, submissions and public hearings — to help identify the relevant issues, assist in the analysis of information and the development of policy options, and to obtain feedback on the Commission's analysis and proposed recommendations. Depending on the length of the reporting period, the Commission typically issues either a full draft report or a 'Position Paper' as part of this consultation process before finalising its report to government. Inquiry reports are tabled in Parliament.

Commissioned research studies are generally concerned with assembling policy-relevant information or analysis of policy options for tasks that are often narrower in scope, or required in shorter timeframes, than inquiries. They typically involve less public interaction than inquiries and no formal public hearings. The Commission adapts its inquiry processes in conducting these studies, although it aims to expose its preliminary findings in workshops or roundtable discussions. Commissioned research studies are released at a time agreed with the Government.

Standing functions

The Government has established the following standing research, investigatory and advisory functions for the Commission:

- secretariat and research services for the Steering Committee for the Review of Government Service Provision. As an integral part of the national performance reporting system, the Steering Committee informs Australians about services provided by governments and enables performance comparisons between and within jurisdictions (SCRGSP Terms of Reference). The Steering Committee is required to:
 - measure and publish annually data on the equity, efficiency and cost effectiveness of government services through the *Report on Government Services*
 - produce and publish the regular *Overcoming Indigenous Disadvantage* report
 - collate and prepare performance data under the Intergovernmental Agreement on Federal Financial Relations, in support of the analytical role of the COAG Reform Council and the broader national performance reporting system
 - initiate research and report annually on improvements and innovation in service provision, having regard to the COAG Reform Council’s task of highlighting examples of good practice and perform any other related tasks referred to it by COAG
 - produce the two-yearly *Indigenous Expenditure Report*, contributing to better policy making and improved outcomes for Indigenous Australians by reporting on expenditure on Indigenous-specific and mainstream services which support Indigenous Australians
- national and international benchmarking of key economic infrastructure industries. The Commission has some discretion in the choice of industry and the timing, guided by an assessment of the Government’s policy needs
- reports and related activities necessary to meet the Commission’s statutory obligation to investigate any complaint that an Australian Government business is not conducted in accordance with competitive neutrality arrangements
- statutory annual reporting on assistance and regulation benefitting different industries (published as the *Trade & Assistance Review*) and on industry and productivity performance generally (encompassed in the *Productivity Monitor*).

Government-commissioned projects and the Commission’s standing functions have priority in the deployment of its staffing and financial resources.

Supporting research

The Commission also has a statutory mandate to conduct a program of research to support its annual reporting and other responsibilities, and to promote community awareness and understanding of productivity and regulatory issues. This program of supporting research is guided by government statements on policy priorities and parliamentary debate and committee work, and draws on consultation with Australian Government departments and agencies, peak employer and union bodies, and community and environmental groups. The views of State and Territory governments and academics are also sought.

There is a hierarchy of publications and other activities within the Commission's program of supporting research.

- The suite of three annual reporting publications, as well as Commission Research Papers and submissions to other inquiries or reviews established by government or parliament, present the Commission's views on policy issues.
- Published research by Commission staff aims to provide the information and analysis needed to inform policy discussion within government, parliaments and the broader community. Such research contains no recommendations, but can provide 'building blocks' for policy development.
- Publication of the proceedings of conferences and workshops sponsored by the Commission, and of consultants' reports to the Commission, is also intended to promote and inform discussion on important policy issues. As with staff publications, the views expressed need not reflect the views of the Commission.

Interpreting performance indicators for the Commission

The Commission has sought to demonstrate its effectiveness through a number of performance indicators that apply across its main activities (box B.1). Subsequent sections of this appendix report against these indicators for each of its main activities. Feedback surveys, use of Commission work in the parliamentary process, and some general indicators of effectiveness are also reported below.

A number of factors need to be taken into account when interpreting indicators of the Commission's performance.

Box B.1 Performance indicators for the Commission

<i>Main areas of activity</i>	<i>Key indicators</i>
Government-commissioned projects	Projects, reports and associated activities:
Performance reporting and other services to government bodies	<ul style="list-style-type: none">• of a high quality
Competitive neutrality complaints activities	<ul style="list-style-type: none">• useful to stakeholders
Supporting research and activities and statutory annual reporting	<ul style="list-style-type: none">• timely

First, the effectiveness with which the Commission's activities contribute to the achievement of its designated outcome can be difficult to assess and is often subjective. The Commission is but one source of policy advice. Furthermore, feedback on the Commission's performance often can be of an informal kind, which is hard to document and collate systematically. Where views are documented, they can reflect the interests of those affected by the Commission's findings or advice.

Second, the Commission's work program typically covers contentious or complex policy issues (or both), where the Commission's impact should properly be assessed over the medium to long term. Examples from the past year demonstrate the 'shelf life' of a variety of Commission reports in policy formulation and debate (box B.2).

Third, the Commission has to give priority to certain projects and allocates its resources accordingly. The quantum and scope of the Commission's work are, to a significant extent, determined externally. This includes the number and timing of government-commissioned projects and competitive neutrality complaints. Similarly, its secretariat and research work for the Review of Government Service Provision is guided by a Steering Committee. As a consequence, the number and timeliness of projects from the Commission's supporting research program, for example, need to be interpreted in the light of the demands of its public inquiry workload and other standing commitments.

Fourth, the Commission has no control over the release of its final inquiry reports (unlike its draft reports), although the *Productivity Commission Act 1998* requires that the Minister table inquiry reports in Parliament within 25 sitting days of receipt. The time taken for decisions on such reports, and the nature of the decisions themselves, are matters for the Government. However, the release of detailed responses to Commission findings and recommendations, as standard administrative practice, has enhanced the transparency of government decision making on Commission reports and permitted better assessment of their contribution to public

Box B.2 Longer-term influence

Some recent examples indicate ways in which Commission inquiry and other reports from past years continue to be influential.

- Debate on media ownership during the year (for example, Yeates 2011) drew on discussion of a public interest test for media mergers in the Commission's 2000 inquiry report on broadcasting (PC 2000). Discussion papers released in September 2011 as inputs into the Government's Convergence Review of media and communications (DBCDE 2011) also drew on the Commission's 2000 report.
- A 2011 review of Australia's preparedness for the threat of foot-and-mouth disease, undertaken for the Department of Agriculture, Forestry and Fisheries by Ken Matthews AO, made extensive use of a 2002 Commission report on the topic.
- In April 2012 the Minister for Agriculture, Fisheries and Forestry, the Hon. Joe Ludwig, announced new arrangements to help farmers better manage risk and prepare for challenges associated with drought. The arrangements drew on recommendations from the Commission's 2009 inquiry report on drought assistance.
- A report on employment barriers for older workers, released by National Seniors Australia and the Productive Ageing Centre in December 2011, drew on a 1999 Commission report on the policy implications of an ageing population.
- The final report of the Building the Education Revolution Implementation Taskforce, published in July 2011, recommended that the Commission be asked to update its 1991 work on the construction industry (BERIT 2011).
- The Australian National Audit Office continued to make widespread use of past Commission reports in its work. For example, the ANAO drew on analysis and recommendations in the Commission's 2002 inquiry on cost recovery by Commonwealth Agencies in *Audit Report No. 3, Therapeutic Goods Regulation: Complementary Medicines*. The Commission's 2006 report on *Tasmanian Freight Subsidy Arrangements* was used in Audit Report No. 13, *Tasmanian Freight Equalisation Scheme*.
- Past Commission reports on a range of subjects also continued to inform the work of the Parliamentary Library. For example: the Commission's 2005 reports on medical technology and the health workforce were used in a Library research paper on the sustainability of the health system; and a Commission inquiry report on workers compensation and OH&S from 2004 was used by the Library in several background notes and Bills Digests.
- The OECD also continued to make extensive use of past Commission research outputs during the year. This included research on productivity performance (Dolman, Parham and Zheng 2007) in a paper on product market regulation (Conway 2011); research on restrictions on trade in distribution services (Kalirajan 2000) in a report on distribution services (OECD 2012a); and research on firm size and export performance (Gabbitas and Gretton 2003) in a report on small and medium sized enterprises in global markets (OECD 2012b).

policy making. Extended delays in the tabling of inquiry reports and decisions on them can compound the difficulties of assessing the Commission's contribution to outcomes. All inquiry reports in 2011-12 were tabled within the statutory period.

While research studies commissioned by the Government do not have to be tabled in Parliament, these reports are generally released soon after completion. Where available, government use of and responses to commissioned research studies are reported in appendix D.

This appendix reviews some broad-based indicators of Commission performance before reporting on each of its main activities against the indicators agreed under the Government's performance framework.

Feedback surveys

The Commission has a program of surveys and other initiatives to gather external feedback on its activities. These surveys complement the feedback received through comments and submissions on draft reports, position papers, workshop papers and the views expressed during public hearings and consultations on its research program.

The results of past surveys were reported in previous annual reports and cover external perceptions about the quality of the Commission's inquiry processes and reports, its reporting on the financial performance of government trading enterprises, the Report on Government Services and the quality and usefulness of the Commission's supporting research program.

Other feedback

As noted in chapter 2, the Commission continued to provide feedback opportunities through email, on-line surveys, and survey forms included in publications or issued to participants in the Commission's public hearings. Comments are passed to management and authors for consideration. Much of the feedback received through these mechanisms this year was positive.

Commission projects and the work of the Federal Parliament

The inquiries and reports which figured most prominently in federal parliamentary debate during 2011-12 were the Commission's reports on emissions reduction policies and carbon pricing, disability care and support and aged care. . As noted in chapter 2, 103 Members and 53 Senators referred to 79 different Commission

reports or inquiries, or to the Commission's role in policy processes, during the 2011-12 parliamentary proceedings.

Commission projects are also used in parliamentary work in a variety of other ways.

- Eleven parliamentary committees drew on a range of Commission inquiry and research outputs in their own reports during the year. The 18 recent parliamentary committee reports listed in table B.1 referred to 16 different Commission outputs.
- Research material provided to parliamentarians during 2011-12 by the Parliamentary Library — such as Bills Digests and Research Briefs — referred to 17 different Commission outputs (table B.2). These included eight inquiry and other commissioned research reports and several research papers.
- People appearing at the hearings of parliamentary committees in 2011-12 referred to Commission outputs in more than 50 different topic areas.

Use of Commission Reports by the Audit Office

Performance audits undertaken by the Australian National Audit Office (ANAO) inform the Parliament and the Government about public sector administration and performance. During 2011-12 the ANAO drew on analysis and recommendations in the Commission's 2002 inquiry on cost recovery by Commonwealth Agencies in Audit Report No. 3, *Therapeutic Goods Regulation: Complementary Medicines*. The ANAO drew on findings in the *Report on Government Services* from various years in Audit Report No. 10, *Administration of the National Partnership on Early Childhood Education*. The Commission's 2006 report on *Tasmanian Freight Subsidy Arrangements* was used in Audit Report No. 13, *Tasmanian Freight Equalisation Scheme*. Analysis and findings from the Commission's 2011 draft report on Australia's retail industry was used in Audit Report No. 15, *Risk Management in the Processing of Sea and Air Cargo Imports*. The Commission's 2009 report on paid parental leave was drawn upon in Audit Report No. 24, *Administration of Government Advertising Arrangements: March 2010 to August 2011*. The 2011 Report on Government Services was used in Audit Report No. 26 on *Capacity Development for Indigenous Service Delivery*. The ANAO also drew on the 2011 Overcoming Indigenous Disadvantage report in Audit Report No. 35, *Indigenous Early Childhood Development. New Directions: Mothers and Babies Services*.

Table B.1 Use of Commission publications in parliamentary committee reports in 2011-12

<i>Parliamentary Committee and report</i>	<i>Commission output used</i>
House of Representatives Standing Committee on Regional Australia, <i>Of drought and flooding rains: Inquiry into the impact of the Guide to the Murray-Darling Basin Plan</i> , May 2011	Research Report, Rural Water Use and the Environment: The Role of Market Mechanisms, March 2011; Research Report, <i>Market Mechanisms for Recovering Water in the Murray-Darling Basin</i> , March 2010
Joint Select Committee on Gambling Reform, <i>First report: The design and implementation of a mandatory pre-commitment system for electronic gaming machines</i> , May 2011	Inquiry Report, <i>Gambling</i> , February 2010
Senate Economics Legislation Committee, <i>Customs Amendment (Anti-dumping Measures) Bill 2011 [Provisions]</i> , June 2011	Inquiry Report, <i>Australia's Anti-dumping and Countervailing System</i> , December 2009
Senate Economics Legislation Committee, <i>Bankruptcy Amendment (Exceptional Circumstances Exit Package) Bill 2011</i> , September 2011	Inquiry Report, <i>Government Drought Support</i> , February 2009
Senate Finance and Public Administration Legislation Committee, <i>National Health Reform Amendment (Independent Hospital Pricing Authority) Bill 2011 [Provisions]</i> , September 2011	Research Report, <i>Public and Private Hospitals</i> , December 2009
Senate Legal and Constitutional Affairs Legislation Committee, <i>Patent Amendment (Human Genes and Biological Materials) Bill 2010</i> , September 2011	Inquiry Report, <i>Public Support for Science and Innovation</i> , March 2007
House of Representatives Standing Committee on Economics, <i>Advisory report on the Food Standards Amendment (Truth in Labelling—Palm Oil) Bill 2011</i> , September 2011	Inquiry Report, <i>Review of Australia's Consumer Policy Framework</i> , May 2008
Senate Economics References Committee, <i>The impacts of supermarket price decisions on the dairy industry</i> , November 2011	Draft Inquiry Report, <i>Economic Structure and Performance of the Australian Retail Industry</i> , August 2011
Senate Economics References Committee, <i>Investing for good: the development of a capital market for the not-for-profit sector in Australia</i> , November 2011	Research Report, <i>Economic Contribution of the Not For Profit Sector</i> , February 2010
Senate Economics Legislation Committee, <i>Tax Laws Amendment (2011 Measures No. 8) Bill 2011 [Provisions]</i> , <i>Pay As You Go Withholding Non-compliance Tax Bill 2011 [Provisions]</i> , November 2011	Research Report, <i>Review of the Regulatory Burden on the Upstream Petroleum (Oil and Gas) Sector</i> , April 2009

Senate Education, Employment and Workplace Relations References Committee, <i>The administration and purchasing of Disability Employment Services in Australia</i> , November 2011	Research Report, <i>Economic Contribution of the Not For Profit Sector</i> , February 2010
House of Representatives Standing Committee on Climate Change, Environment and the Arts, <i>Advisory Report on the Offshore Petroleum and Greenhouse Gas Storage Amendment (Significant Incident Directions) Bill 2011</i> , November 2011	Research Report, <i>Review of the Regulatory Burden on the Upstream Petroleum (Oil and Gas) Sector</i> , April 2009
Parliamentary Joint Select Committee on Gambling Reform, <i>Second report: Interactive and online gambling and gambling advertising, Interactive Gambling and Broadcasting Amendment (Online Transactions and Other Measures) Bill 2011</i> , December 2011	Inquiry Report, <i>Gambling</i> , February 2010
Senate Education, Employment and Workplace Relations Legislation Committee, <i>Fair Work Amendment (Textile, Clothing and Footwear Industry) Bill 2011</i> , February 2012	Inquiry Report, <i>Review of TCF Assistance</i> , July 2003
Senate Economics Legislation Committee, <i>Minerals Resource Rent Tax Bill 2011 [Provisions] and related bills</i> , March 2012	Inquiry Report, <i>Caring for Older Australians</i> , August 2011
Senate Rural and Regional Affairs and Transport References Committee, <i>Operational issues in export grain networks</i> , April 2012	Inquiry Report, <i>Wheat Export Marketing Arrangements</i> , July 2010
House of Representatives Standing Committee on Education and Employment, <i>Advisory report on the Fair Work Amendment (Better Work/Life Balance) Bill 2012</i> , May 2012	Inquiry Report, <i>Caring for Older Australians</i> , August 2011; Inquiry Report, <i>Disability Care and Support</i> , July 2011
House of Representatives Standing Committee on Health and Ageing, <i>Lost in the Labyrinth: Report on the inquiry into registration processes and support for overseas trained doctors</i> , March 2012	Research Report, <i>Australia's Health Workforce</i> , December 2005

Table B.2 Parliamentary Library use of Commission publications in 2011-12

<i>Parliamentary Library output 2011-12</i>	<i>Commission output used</i>
<i>Citizens' engagement in policymaking and the design of public services, Research Paper, July 2011</i>	Research Report, <i>Economic Contribution of the Not For Profit Sector</i> , February 2010
<i>Offshore Petroleum and Greenhouse Gas Storage Amendment (National Regulator) Bill 2011, Bills Digest No 3, July 2011</i>	Research Report, <i>Review of the Regulatory Burden on the Upstream Petroleum (Oil and Gas) Sector</i> , April 2009
<i>Chronology of Fair Work: background, events and related legislation, Background Note, August 2011</i>	Draft Inquiry Report, <i>Economic Structure and Performance of the Australian Retail Industry</i> , August 2011
<i>Toward national workplace safety and workers' compensation systems: a chronology, Background Note, August 2011</i>	Inquiry Report, <i>National Workers' Compensation and Occupational Health and Safety Frameworks</i> , March 2004
<i>Customs Amendment (Anti-dumping Measures) Bill 2011, Bills Digest No 28, August 2011</i>	Inquiry Report, <i>Australia's Anti-dumping and Countervailing System</i> , May 2010
<i>Work Health and Safety Bill 2011, Bills Digest No 29, August 2011</i>	Inquiry Report, <i>National Workers' Compensation and Occupational Health and Safety Frameworks</i> , March 2004
<i>Customs Amendment (Anti-dumping Improvements) Bill 2011, Bills Digest No 47, September 2011</i>	Inquiry Report, <i>Australia's Anti-dumping and Countervailing System</i> , May 2010
<i>Clean Energy Bill 2011, Bills Digest No 68, October 2011</i>	Research Report, <i>Carbon Emission Policies in Key Economies</i> , May 2011
<i>What are we doing to ensure the sustainability of the health system?, Research Paper, November 2011</i>	Research Report, <i>Impacts of Advances in Medical Technology in Australia</i> , September 2005; Research Report, <i>Australia's Health Workforce</i> , December 2005
<i>Electronic gaming machines: what lessons from Norway?, Background Note, November 2011</i>	Inquiry Report, <i>Gambling</i> , February 2010
<i>Securing a clean energy future: some economic aspects, Research Paper, November 2011</i>	Research Report, <i>Carbon Emission Policies in Key Economies</i> , May 2011; Productivity Commission Submission, <i>What role for policies to supplement an emissions trading scheme? Submission to the Garnaut climate change review</i> , May 2008

<p><i>Offshore Petroleum and Greenhouse Gas Storage Amendment (Significant Incident Directions) Bill 2011</i>, Bills Digest No 69, November 2011</p>	<p>Research Report, <i>Review of the Regulatory Burden on the Upstream Petroleum (Oil and Gas) Sector</i>, April 2009</p>
<p><i>Australian Government spending on irregular maritime arrivals and counter-people smuggling activity</i>, Background Note, December 2011</p>	<p>Steering Committee for the Review of Government Service Provision, <i>Report on Government Services 2011</i>, January 2011</p>
<p><i>Fair Work Amendment (Textile, Clothing and Footwear Industry) Bill 2011</i>, Bills Digest No 92, January 2012</p>	<p>Research Report, Modelling economy-wide effects of future TCF assistance, June 2008; Inquiry Report, <i>Review of TCF Assistance</i>, July 2003</p>
<p><i>Broadcasting Services Amendment (Regional Commercial Radio) Bill 2011</i>, Bills Digest No 94, January 2012</p>	<p>Research Report, <i>Annual review of regulatory burdens on business: social and economic infrastructure services</i>, August 2009</p>
<p><i>Chronology of Fair Work: background, events and related legislation</i>, Background Note, February 2012</p>	<p>Draft Inquiry Report, <i>Economic Structure and Performance of the Australian Retail Industry</i>, August 2011</p>
<p><i>Superannuation Legislation Amendment (MySuper Core Provisions) Bill 2011</i>, Bills Digest No 119, March 2012</p>	<p>Issues Paper, <i>Default Superannuation Funds in Modern Awards</i>, February 2012</p>
<p><i>Budget Review 2012-13</i>, Research Paper, May 2012</p>	<p>Inquiry Report, <i>Economic Structure and Performance of the Australian Retail Industry</i>, November 2011; Inquiry Report, <i>Caring for Older Australians</i>, August 2011; Inquiry Report, <i>Disability Care and Support</i>, July 2011</p>
<p><i>Paid Parental Leave and Other Legislation Amendment (Dad and Partner Pay and Other Measures) Bill 2012</i>, Bills Digest No 131, May 2012</p>	<p>Inquiry Report, <i>Paid Parental Leave</i>, May 2009</p>

Senate Committee appearances

The Commission is also invited to appear regularly before Senate Committees to assist the work of Federal Parliament and facilitate scrutiny of its work. It was requested to attend Senate Estimates hearings on three occasions in 2011-12. Appearances by the Chairman and senior staff before the Senate Standing Committee on Economics occurred on 20 October 2011, 16 February 2012 and 31 May 2012. Hansard of the appearances is available on the Parliament of Australia website.

Other evidence

In addition to the performance indicators for 2011-12 referred to in chapter 2 and those detailed elsewhere in this appendix, recognition of the ability of the Commission to contribute to policy making and public understanding through independent and transparent analysis was demonstrated by the following developments. These mostly involve suggestions for specific references or reporting tasks, but also encompass general assessments of the Commission's performance.

- In July 2011, the Government announced several significant new tasks for the Commission as part of its *Clean Energy Future Plan*. These include reviews of industry assistance under the Jobs and Competitiveness Program and the Coal Sector Jobs Package; reviews of the impact of the carbon price on industry; continued reporting on actions by other countries to reduce carbon pollution; and a review of fuel excise arrangements, including an examination of the merits of a regime based explicitly and precisely on the carbon and energy content of fuels (Australian Government 2011a, pp 111-112).
- When discussing the release of the Commission's final report into disability care and support in August 2011, the Prime Minister, the Hon. Julia Gillard, stated:
And let's be clear here: the Productivity Commission has done some great work, very in-detail recommendations and we will review and analyse them and we will respond to those recommendations. (Gillard, Macklin, Shorten and McLucas 2011)
- The Hon. Jenny Macklin, Minister for Families, Housing, Community Services and Indigenous Affairs, described the Commission in December 2011 as 'Australia's leading economic research body.' (Macklin 2011)
- In September 2011 the Treasurer discussed the introduction of a carbon price and stated:

It is consistent with advice we've seen from leading economic institutions like the IMF, OECD, Productivity Commission and the overwhelming majority of respected economists across the nation. (Swan, Combet 2011)

- The Commission's final inquiry report on aged care, released in December 2011, was widely commented on.
 - The Advisory Panel on the Economic Potential of Senior Australians (2011) said that:

The recent Productivity Commission inquiry, *Caring for Older Australians*, has made a very substantial contribution to the direction of the aged care sector in Australia.
 - The CEO of Palliative Care Australia, Dr Yvonne Luxford, stated:

The Productivity Commission... had really broad terms of reference and it came up with a fantastic report... There's been a lot of discussion in the Senate in the past 12 months in regards to the Productivity Commission's inquiry into aged care. It's coming to people's attention. (Noone 2011, p. 2)
 - In January 2012, the Aged Care Industry Council welcomed the release of the report, and stated that:

... the Productivity Commission has provided a timely blueprint for establishing an affordable and sustainable quality aged care system for Australia. (ACIC 2012)
- The Governor of the Reserve Bank, Glenn Stevens, discussed productivity-enhancing economic reforms in June 2012 and stated:

I think the best answer is we have a body called the Productivity Commission... They've got a long list of things to do. My answer to what we can do about productivity is go get the list and do them. They're not popular and they are very difficult and they are politically hard in many instances, but these people are the experts. (Greber, Daley and Massola 2012)
- During the year COAG identified several further areas where Commission projects would assist it with its work. These included a request to provide high level advice on the likely costs and benefits of further COAG reforms; and to undertake further possible work on construction costs and/or major project development assessment processes.
- The Federal Opposition proposed a number of tasks for the Commission during the year, including that it:
 - conduct regular audits of Departmental attempts to reduce red tape (Abbott 2011)
 - develop a set of guidelines for future automotive industry assistance (Mirabella 2012)

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- inquire into foreign ownership of agricultural land and agribusinesses (Truss 2011)
 - be asked to conduct a comprehensive review of the Fair Work Act (Abetz 2011)
 - undertake an inquiry to consider ways that high quality child care can be delivered more flexibly to suit the individual circumstances of families (Abbott 2012).
 - The Australian Greens proposed that the Commission be asked to undertake several strands of new work during the year, including that it:
 - provide a report detailing options for the establishment of an Australian sovereign wealth fund (Bandt 2012)
 - report on the effectiveness of competition policy in the grocery sector (Milne 2012)
 - be asked to conduct an inquiry into the Federal Government's funding of childcare services, including a review of the childcare rebate and benefit (Hanson-Young 2012).
 - The Grattan Institute called in February 2012 for the Commission to be tasked with tracking and reviewing subsidies and tax exemptions for electricity generation. (Wood, Edis, Mullerworth and Morrow 2012)
 - The 2012-13 Commonwealth Budget included a requirement that the Commission review the trial of mandatory gambling pre-commitment technology that will be conducted in the Australian Capital Territory.
 - In December 2011, the Standing Council on Energy and Resources stated that the Commission would conduct a review into the non-financial barriers faced by mineral and petroleum exploration companies, with the review to commence in 2012. (SCER 2011)
 - In May 2012, CSR and the Australian Logistics Council called for a Commission inquiry into the coastal shipping industry.
 - The final report of the Building the Education Revolution Implementation Taskforce, published in July 2011, recommended that the Commission be asked to update its 1991 work on the construction industry (BERIT 2011).
 - In July 2011 the Tasman Transparency Group recommended that the Commission be asked to conduct independent reviews of all proposed trade agreements before they are agreed to by the Federal Government (Jean 2011).

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- Parliamentary Committees also continued to draw on Commission reports to inform their work and to recommend new work for the Commission. For example:
 - In October 2011, the Senate Select Committee on the Scrutiny of New Taxes recommended that the Commission be tasked with conducting a comprehensive cost benefit analysis of the proposed carbon tax
 - The Senate Rural Affairs and Transport References Committee recommended in June 2011 that the Commission conduct a review of the current and future supply of pilots in Australia.
 - A number of policy analysts and newspaper editorials during the year variously advocated that the Commission be asked to undertake reviews on a wide range of topics, including the performance of national cities; carbon price assistance for industries; the costs and benefits of major government expenditure proposals; tax concessions for the finance industry; the Medicare system; an extension of unit pricing across the retail sector; options to increase the private funding of high-priority infrastructure projects; drug laws; the short term small amount lending market; and policy options to enhance labour mobility.
 - Anglicare Sydney recommended in May 2012 that the Commission be given a brief to study the nature and extent of childhood social exclusion in Australia and develop a National Child Poverty Action Plan. (Anglicare Sydney 2012)
 - Throughout the year, various peak bodies also continued to call for the Commission to be requested to undertake a diverse range of work. For example:
 - In November 2011, the Business Council of Australia called for the Commission to be tasked with conducting an investigation into the sources and extent of entrenched disadvantage and the most effective means of breaking these cycles (Westacott 2011). In May 2012 the Council called for the Commission to be tasked with conducting an inquiry into major project assessments and construction costs (Westacott 2012).
 - The Australian Chamber of Commerce and Industry called in July 2012 for the Commission to be asked to conduct a review of the renewable energy target. (Evans 2012)
 - General endorsement of the Commission's role and work can also be found in various proposals for new agencies that have similar roles. For example:
 - In May 2012, the Government of Denmark established a Productivity Commission to consider options to improve on the slow productivity growth

that has existed in Denmark since the mid-1990s. (European Commission 2012)

- A report on economic reform in China, produced by a joint team from the World Bank and the Development Research Centre, called for the establishment of a reform commission, and stated:

Commission members will need to undertake extensive and genuine consultations and discussions with all stakeholders so that everyone respects and understands the objectives of the reforms and the underlying rationale for policy changes and so that a proper balance is struck between the interests of various stakeholders. (World Bank and Development Research Centre of the State Council 2012, p. 67)

- In November 2011 an OECD Economic Review of Germany called for a body similar to the Commission to be established, stating:

In order to focus the debate and to identify remaining hurdles to higher productivity, an advisory body tasked with reviewing regulation and other issues – similar to the Australian Productivity Commission – should be established. (OECD 2011e, p. 20)

Citations in journals and elsewhere

In addition to the parliamentary, media and other coverage reported elsewhere in this appendix, the Commission and its reports are widely cited elsewhere. The Commission found evidence of over 600 mentions of the Commission and its reports in 2011-12 in a wide range of journals and other publications. These covered a wide range of different reports, papers, speeches and work in progress. The reports receiving the most number of citations were the annual *Report on Government Services* from various years, the *Overcoming Indigenous Disadvantage* reports, and inquiries on aged care and gambling.

COAG review of the Report on Government Services

COAG agreed in 2009 to a review of the *Report on Government Services* (RoGS), to be undertaken by a combined Senior Officials and Heads of Treasuries Working Group. COAG endorsed the view that the review was the key tool to measure and report on the productive efficiency and cost effectiveness of government services.

COAG endorsed new terms of reference for the Steering Committee and the RoGS in April 2010. The Steering Committee reports to COAG on its operations triennially, with the first report provided in September 2012.

Review of the Overcoming Indigenous Disadvantage: Key Indicators report

In 2012, the Productivity Commission, in its role as Secretariat for the Review of Government Service Provision, commissioned the Australian Council of Educational Research to conduct a review of the Overcoming Indigenous Disadvantage report. The review included consultation with governments, Indigenous organisations and research bodies, using a mix of face-to-face meetings and forums, telephone interviews and surveys. The review found a positive view of the report and identified a number of opportunities to strengthen it.

Government-commissioned projects

These projects are major tasks commissioned or formally requested by the Australian Government. They encompass the conduct of public inquiries, case studies, program evaluations, taskforces and commissioned research projects. They typically involve extensive public consultation. The Commission can also be asked to assist policy development processes by undertaking technical modelling exercises of policy initiatives under consideration by the Government.

In response to these requests, the Commission is committed to undertaking projects in accordance with required processes and to produce reports which are of a high standard, useful to government and delivered on time. Performance against these indicators is reported below.

All government-commissioned inquiries in 2011-12 were conducted by the Commission in accordance with statutory processes which set requirements for public hearings, submissions and the use of economic models.

Activities in 2011-12

The Commission had nine public inquiries and eight government-commissioned research studies underway at some time during the year. The program of government-commissioned projects is summarised in table B.3, although the varying complexity of policy issues addressed and the consultation demands are difficult to capture.

During 2011-12 the Commission:

- completed four public inquiries commenced in 2010-11 — on disability care and support, urban water, the retail industry and the economic regulation of airport services

- commenced, and completed in the year, a public inquiry on Australia's export credit arrangements
- commenced a further four new public inquiries during the year, on climate change adaptation, electricity network regulation, default superannuation and the compulsory licensing of patents.

Table B.3 Program of public inquiries and other government-commissioned projects^a

Month	2010-11					2011-12												2012-13						
	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D
Public inquiries:																								
Caring for Older Australians																								
Disability care and support																								
Australia's Urban Water Sector																								
Structure and Performance of the Retail Industry																								
Economic Regulation of Airport Services																								
Australia's Export Credit Arrangements																								
Barriers to Effective Climate Change Adaptation																								
Electricity Network Regulation																								
Default Superannuation Funds in Modern Awards																								
Compulsory Licensing of Patents																								
Commissioned research studies:																								
Emissions Reduction Policies and Carbon Prices																								
Regulatory Burdens: Regulation reforms																								
Education and Training Workforce – ECD																								
Education and Training Workforce – Schools																								
Impacts and Benefits of COAG Reforms ^b																								
Regulation Benchmarking: Role of Local Government																								
Benchmarking: Regulatory Impact Analysis																								
Australian and New Zealand Economic Relations																								
COAG Regulatory and Competition Reforms																								

^a Shaded area indicates the approximate duration of the project in the period covered by the table. ^b Includes consideration of Vocational Education and Training and Seamless National Economy reforms.

Research studies commissioned by the Government were also a significant component of the Commission's workload again in 2011-12 (figure 2.1). During the year the Commission:

- finalised three government-commissioned research studies begun the previous year — on the schools and early childhood development workforces, and the

fifth stage of the review of regulatory burdens on business study (on identifying and evaluating regulatory reforms)

- commenced and completed in the same year a study on the impacts and benefits of COAG reforms and a report on the future COAG reform agenda
- commenced a further three new studies on the role of local government as a regulator, a business regulation benchmarking study on regulatory impacts assessments, and a study on Australian and New Zealand economic relations.

Trends in public inquiry activity and participation over the past five years are shown in table B.4. Information on individual projects is provided in appendix D.

Table B.4 Public inquiry and other commissioned project activity, 2007-08 to 2011-12

<i>Indicators</i>	<i>2007-08</i>	<i>2008-09</i>	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>
Public inquiries					
Inquiry references received	3	3	4	3	5
Issues papers released	1	3	4	3	4
Public hearings (sitting days) ^a	28	17	28	45	16
Organisations/people visited	124	205	261	361	152
Submissions received	720	749	609	2397	566
Draft reports ^b	2	2	4	4	5
Inquiry reports completed	3	2	3	3	5
Inquiries on hand (at 30 June)	2	3	4	4	9
Research studies					
References received	7	5	5	4	5
Submissions received	262	972	483	352	590
Draft reports ^b	4	6	11	3	4
Research reports completed	4	7 ^d	7 ^d	4	4
Studies on hand (at 30 June)	5	5	5	3	4
Total references					
Total references received	10	8	9	7	10
Total references completed	7	8	9	7	8
Total references on hand (at 30 June)	7	8	9	7	7

^a Excludes forums and roundtable discussions. ^b Includes all types of draft reports. ^c Includes 90 almost identical short letters sent in response to the Commission's draft report on science and innovation. ^d Total includes two final reports completed as part of the study on business regulation benchmarking.

The Commission endeavours to conduct projects in an economical manner, while ensuring rigorous analysis and maximising the opportunity for participation. Total estimated costs (covering salaries, direct administrative expenses and an allocation for corporate overheads) for the ten inquiries and government-commissioned research studies completed in 2011-12 are shown in table B.5.

Table B.5 Cost of public inquiries and other commissioned projects completed in 2011-12^a

<i>Government-commissioned project</i>	<i>Total cost</i>
	\$'000
Disability Care and Support	2 767
Australia's Urban Water Sector	1 670
Structure and Performance of the Retail Industry	1 207
Economic Regulation of Airport Services	964
Australia's Export Credit Arrangements	1 222
Regulatory Burdens: Regulation Reforms	558
Education and Training Workforce - ECD	1 934
Education and Training Workforce - Schools	1 538
Impacts and Benefits of COAG Reforms	1 553
COAG Regulatory and Competition Reforms	125

^a Includes estimated overheads.

The major administrative (non-salary) costs associated with public inquiries and other government-commissioned projects relate to the Commission's extensive consultative processes and the wide dissemination of its draft and final reports. Comparisons of these costs for the period 2007-08 to 2011-12 are shown in table B.6.

Variations in the administrative cost of inquiries and other commissioned projects arise from the extent and nature of public consultation, the number of participants, the complexity and breadth of issues, the need for on-site consultations with participants and the State and Territories, the cost of any consultancies (including those arising from the statutory requirements relating to the use of economic models), and printing costs and the duration of the inquiry or project.

Table B.6 Direct administrative expenditure on public inquiries and other government-commissioned projects^a, 2007-08 to 2011-12

<i>Expenditure item</i>	<i>2007-08</i>	<i>2008-09</i>	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>
	\$'000	\$'000	\$'000	\$'000	\$'000
Travel	394	546	526	667	523
Printing	108	133	212	183	223
Consultants	402	82	27	28	20
Other ^b	208	251	526	942	242
Total	1 112	1 012	1 291	1 820	1 008

^a Expenditure other than salaries and corporate overheads. ^b Includes other costs, such as advertising, venue hire, transcription services and data acquisition.

Consultative processes

The practice of consulting widely during inquiries and government-commissioned research projects continued in 2011-12, encompassing government departments and agencies, professional and industry organisations, academics and the broader community.

In the course of its inquiry work over the year, the Commission held 16 public hearings, visited more than 150 individuals and organisations and received more than 1150 submissions.

The Commission actively encourages public participation in its inquiry work and continues to develop mechanisms to facilitate this. For example:

- In conducting its inquiry into Australia's retail industry, the Commission advertised the inquiry widely in print and electronic media. It visited a wide range of external stakeholders, attended a workshop organised by the Department of Customs, organised a Roundtable prior to the release of the draft report, and held public hearings following the release of the draft report. The Commission's roundtable brought together representatives from Customs, express couriers and Australia Post, and was valuable in clarifying issues. The Commission also consulted with overseas experts and with postal services such as the Royal Mail in the UK. Further consultations were also held with investment analysts and financial institutions with expertise in the retail sector. Public hearings were attended by unions, business representatives, government officials and consumers. They were also invaluable in clarifying issues.
- In undertaking its study on the role of local government as a regulator, the Commission liaised with an advisory panel, consisting of representatives from

the Australian Local Government Association and central departments in all states and territories and the Commonwealth government. Extensive surveys were undertaken of state and local governments which also raised awareness of the study generally and to core issues in the terms of reference more specifically. To consult widely with local governments at the grass roots, the Commission visited all of the local government associations in all jurisdictions. In addition, over the course of the study, presentations were made at conferences directed at local government issues. The Commission also visited many of the state and territory peak industry bodies and some select individual businesses in all jurisdictions. Based on the suggestion in the terms of reference that the Commission could draw on good overseas regulatory practices by local government, the Commission also visited key agencies in the United Kingdom and New Zealand.

Further details on the consultations undertaken in the course of government-commissioned research studies are provided in the reports.

Internet technology has greatly increased the accessibility of the Commission's reports and facilitated speedier and easier notification of developments in inquiries and studies. On-line registration facilitates people notifying their interest in specific inquiries and studies and being kept informed of developments. In particular, participants' submissions to inquiries and studies and transcripts of hearings (other than confidential information) are placed on the Commission's website. Internet access has also increased the opportunities for earlier and less costly public scrutiny of the views and analysis being put to the Commission. There were more than 77 000 external requests for the index pages to submissions for inquiries and commissioned studies current in the year to 30 June 2012.

Quality indicators

Quality assurance processes are built into the way the Commission conducts its public inquiries and other government-commissioned projects. The Commission receives extensive feedback on the accuracy and clarity of its analysis in its inquiry work and the relevance of its coverage of issues. Much of this feedback is on the public record through submissions on draft reports and transcripts of public hearings.

The roundtables and workshops convened during the course of inquiries and government-commissioned research studies, noted above, also contributed to the Commission's quality assurance processes.

The Government's formal responses to the work it has commissioned potentially provide a further indicator of the quality of that work. These responses are also an indicator of usefulness and are reported under that heading below. Details of the Government's responses to Commission reports are provided in appendix D.

Timeliness

Of the ten inquiries and commissioned research studies finalised in 2011-12, six were completed on or ahead of schedule.

Extensions were required for four inquiries and studies:

- The reporting period for the inquiry into Australia's urban water sector was extended by approximately four weeks to allow time for the further consideration of work being undertaken concurrently by several other organisations.
- A three-week extension was granted for the study on the education and training workforce: early childhood development. This was required to allow the Commission to incorporate key data that it had recently received and to hold a workshop on the approach and findings with key stakeholders prior to finalising the report.
- An extension of approximately one week was granted for the Commission's study *Identifying and Evaluating Regulation Reforms* to allow the further consideration of recently received submissions.
- The reporting date for the study on Impacts of COAG Reforms: Business Regulation and VET was extended by one month to enable consideration of late submissions and to finalise the detailed modelling of reform outcomes.

Indicators of usefulness

The usefulness of government-commissioned projects undertaken by the Commission in contributing to policy making and public understanding is demonstrated by a range of indicators.

Government responses

The Commission's impact on policy making is revealed most directly through government responses to, and decisions on, its reports. During the year, the Australian Government announced the following decisions on Commission reports.

- On 9 December 2011 the Australian Government released its response to the Commission's report on the Australian retail industry (Conroy, O'Connor, Sherry and Shorten 2011). The Government agreed, or agreed in principle, with eight recommendations and noted four recommendations (in noting two of the recommendations, the Government recognised that some matters, such as those dealing with planning and zoning, trading hours and tenancy, were state issues). It also "noted" recommendations on Workplace Relations Regulation and on the gathering data about online retailing. The Government did not agree with one recommendation dealing with the issue of restrictions on competition created by the *Copyright Act*. It preferred an alternative process to that recommended by the Commission to further investigate such concerns (by referring it to the Australian Law Reform Commission). The Government welcomed the staged approach recommended by the Commission to the issue of the appropriate level of the Low Value Threshold. This involved establishing a Taskforce to investigate improved approaches to processing low value parcels and then reassessing the extent to which the Threshold could be reduced.
- On 30 March 2012 the Minister for Infrastructure and Transport, the Hon Anthony Albanese, and the Assistant Treasurer and Minister Assisting for Deregulation, the Hon David Bradbury, released a response to the Commission's 2011 report on airport regulation (Albanese and Bradbury 2012). In responding to the report, the Government broadly accepted the Commission's recommendations, but did not fully implement its proposed approach.

The Government agreed in principle with the Commission's recommendations to continue monitoring and improve the operation of the regime through enhancements to the monitoring approach, namely:

- publication by the Australian Competition and Consumer Commission (ACCC) of a draft monitoring report
- a 'show cause' process that would see the ACCC, in the published draft airport monitoring report, having the option to nominate an airport to show cause why its conduct should not be subject to a price inquiry. Where the ACCC is not satisfied with an airport's response, the ACCC should make a

recommendation to the relevant Minister that a price inquiry be held under Part VIIA of the Competition and Consumer Act 2010 (CCA)

- a review of the objective criteria for quality of service monitoring by June 2013
- publication of airports' prices, terms and conditions for transport operators' access to airports.

However, the Government also noted that, in its view, since the ACCC is an independent statutory authority, it is the responsibility of the ACCC to give effect to a number of the Commission's proposed enhancements to the monitoring regime as it sees fit.

The Government response provided agreement to the Commission's recommendations on landside access to airports.

- The Minister for Agriculture, Fisheries and Forestry, the Hon. Joe Ludwig, announced a new national framework for drought management and preparedness on 27 April 2012, (Ludwig 2012). As part of these reforms, and in line with recommendations in the Commission's 2009 report on government drought support, Exceptional Circumstances Interest Rate Subsidies concluded on 30 June 2012.
- On 23 May 2012, the Attorney General, the Hon. Nicola Roxon, introduced the *Legislative Instruments Amendment (Sunsetting Measures) Bill 2012* into Parliament (Roxon 2012). The Bill is consistent with a recommendation in the Commission's 2011 report *Identifying and Evaluating Regulation Reforms* that more flexibility be introduced into the Legislative Instruments Act to enable thematic reviews of related instruments. It also provides for greater smoothing of dates when older instruments must sunset, which is also consistent with the Commission's report. In introducing the Bill into Parliament, the Attorney General stated:

The Productivity Commission, in its 2011 report *Identifying and Evaluating Regulation Reforms*, expressed concern about the mass expiry of instruments from 2015. They identified an increased risk that instruments will be remade without adequate review and without proper consultation with business and other stakeholders. The Commission noted that the sheer quantity of instruments required to be remade by government increases the risk that business and other stakeholders will not have sufficient time to make a meaningful contribution to any review.

Consistent with the recommendations of the Productivity Commission, the purpose of this bill is to smooth these sunsetting peaks and to encourage high-quality consultation

before regulations and legislative instruments are remade. It is also intended to ensure the information on the Federal Register of Legislative Instruments is current.

- The Australian Government released its *Living Longer, Living Better* aged care reform package, which included a response to the Commission's aged care report, in May 2012 (Australian Government 2012b). A number of recommendations from the Commission's report were supported, and adopted in the *Living Longer, Living Better* reforms. These included:
 - the establishment of an Aged Care Reform Council
 - that no deductions will be permitted from the bonds paid for residential care accommodation
 - new 'intermediate level' community care packages
 - the establishment of an initial care Gateway (but not accompanied by a move to an aged care entitlement as the Commission had recommended)
 - a review of the reforms after five years
 - the establishment of an aged care data clearing house.

Recommendations on respite care, carer support arrangements, sub-acute health services and palliative care were also supported. The government also supported recommendations to separate the policy settings for the major cost components of aged care; and that a life-time stop-loss provision for care costs be introduced.

The Government did not accept a number of the Commission's recommendations, including those on establishing an Aged Care Home Credit scheme, establishing an Aged Pensioners Savings Account and establishing an independent regulatory agency. While the government announced a comprehensive (income and asset) means test for care contributions in residential care only (rather than in all settings as recommended by the Commission), the principal residence has been excluded from the means test for care (a measure that had been recommended by the Commission to improve the long-term fiscal sustainability of the aged care system).

- The Australian Government released a final response to the Commission's 2011 report on rural research and development corporations in July 2012 (Australian Government 2012a). The Government agreed or agreed in principle to thirteen of the Commission's recommendations. These included recommendations on public funding principles, industry requests for marketing, evaluations and performance reviews, specific maximum levy rates, government matching

funding, annual monitoring and reporting, and government representation on Research and Development Corporation (RDC) Boards. The Government did not agree with four of the Commission's recommendations, including on halving the cap on government matching contributions to RDCs in conjunction with the introduction of a new subsidy above the cap, and on the possible establishment of a new RDC, Rural Research Australia.

Governments have not always agreed with or accepted the Commission's advice, at least initially. Nevertheless, a review of the Commission's inquiries since its inception in 1998 shows that governments typically adopted a substantial majority of recommendations and generally endorsed its findings (details are provided in table B.7). Further, an assessment of the nature and extent of references made to material in the Commission inquiry reports suggests that those reports have materially contributed to policy debates in Federal, State and Territory Parliaments, as well as more generally within the media and general community.

Table B.7 Impact of Commission inquiry reports on government policy making^a

<i>Inquiry report</i>	<i>Government response to Commission findings and/or recommendations</i>
1 Australian Black Coal Industry (July 1998)	The Australian Government supported all of the Commission's recommendations and intended to work with the New South Wales and Queensland Governments to ensure their implementation.
2 International Air Services (September 1998)	The Government agreed to implement substantial liberalisation of the regulatory framework, though not to offer unrestricted access to Australia's major airports nor to remove cabotage restrictions.
3 Pig and Pigeon Industries: Safeguard Action Against Imports (November 1999)	The Government concurred with the Commission's findings on safeguard action; eschewing tariff and quota restrictions and opting for adjustment assistance for the industry.
4 Nursing Home Subsidies (January 1999)	The Government accepted a range of Commission recommendations but rejected others. The report continues to be a key reference in Parliament, State and community debate on aged care.
5 Implementation of Ecologically Sustainable Development by Commonwealth Departments and Agencies (May 1999)	The formal government response to the report and a postscript on implementation indicate substantial support for the Commission's proposals for integrating ESD principles in decision making and agency reporting and for improvements in data collection.
6 Progress in Rail Reform (August 1999)	The Australian Government broadly endorsed a number of the Commission's recommendations relating to areas of its responsibility. In other areas, it deferred consideration of Commission recommendations, contingent on progress with reform within existing institutional arrangements.
7 International Telecommunications Market Regulation (August 1999)	The Government endorsed nearly all of the Commission's principal findings.
8 Impact of Competition Policy Reforms on Rural and Regional Australia (September 1999)	The Government cited the evidence of the benefits of national competition policy to rural and regional Australia and endorsed the thrust of the Commission's recommendations. The Commission's findings on the impacts of competition reforms and the wider economic and social drivers of change were used in parliamentary debates, in national competition policy processes and wider community debate on competition policy.
9 International Liner Cargo Shipping (September 1999)	The Government accepted all of the Commission's key recommendations.

- 10 Australia's Gambling Industries (November 1999)
The report was welcomed by the Prime Minister as the first comprehensive investigation of the social and economic impacts of gambling in Australia; it is being used extensively in policy debates in the States and Territories, with a number of its proposals being adopted; and it is the prime reference source on problem gambling for community groups and the media. The report remains a major reference point in community discussion of gambling issues in Australia.
- 11 Broadcasting (March 2000)
The Government did not formally respond to the report. Nevertheless, the report is still referred to in parliamentary and wider community debate on foreign ownership, the cross-media rules, the regulation of digital TV and datacasting and indigenous broadcasting; and policy analysts and the media continue to cite it regularly. The Government made some references to the report when introducing its Broadcasting Services Amendment (Media Ownership) Bill 2006.
- 12 Review of Australia's General Tariff Arrangements (July 2000)
In December 2000 the Government rejected the Commission's recommendations to remove the 3 per cent duty on business inputs under the Tariff Concession System and the 5 per cent general tariff rate, but agreed to overhaul the by-law system. In its 2005-06 Budget, the Government announced removal of the 3 per cent tariff applying to business inputs imported under a tariff concession order, effective from 11 May 2005.
- 13 Review of Legislation Regulating the Architectural Profession (August 2000)
Responsibility for regulating architects lies with the States and Territories. The Working Group developing a national response to the report rejected the Commission's preferred option to repeal Architects Acts and remove statutory certification. However, it supported a range of Commission proposals to remove anti-competitive elements in legislation regulating the architectural profession.
- 14 Review of the Prices Surveillance Act (August 2001)
While agreeing to repeal the Prices Surveillance Act, the Government decided to retain more extensive price controls and processes in the Trade Practices Act than recommended by the Commission.
- 15 Cost Recovery by Government Agencies (August 2001)
The Government's interim response indicated substantial agreement with the Commission's recommendations. Recommendations on the design of cost recovery arrangements and improvements to agency efficiency would be examined in detail with affected agencies and addressed in preparing the Government's final response.
- 16 Telecommunications Competition Regulation (September 2001)
The Government moved to speed up dispute resolution processes consistent with the Commission's draft report proposals. In its legislative response to the final report, the Government endorsed the thrust of the Commission's recommendations by retaining the telecommunications-specific parts of the competition regime, providing greater upfront certainty for investors and implementing a number of other recommendations. It did not maintain the recommended merit appeal processes.

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Table B.7 (continued)

<i>Inquiry report</i>	<i>Government response to Commission findings and/or recommendations</i>
17 Review of the National Access Regime (September 2001)	The Government endorsed the majority of the Commission's recommendations on the national access regime, in particular the provision of clearer directions to regulators and greater certainty for investors.
18 Review of Certain Superannuation Legislation (December 2001)	The Government agreed that legislative changes were needed to reduce compliance costs, would implement a number of Commission recommendations and further examine others, but did not accept proposed reforms to institutional arrangements for handling complaints. In a subsequent response to a report by the Superannuation Working Group, the Government effectively supported the Commission's recommendations to license superannuation trustees and for trustees to submit a risk management statement.
19 Price Regulation of Airport Services (January 2002)	The Government supported all of the major elements of the Commission's preferred approach for a light-handed regulatory regime, involving a 'probationary' period of price monitoring.
20 Citrus Growing and Processing (April 2002)	The Government stated that the Commission's report had enabled the concerns of the Australian citrus industry about its competitive situation and outlook to be carefully examined. It subsequently endorsed all of the Commission's recommendations covering trade negotiations, market access arrangements, export control arrangements and review, and industry compliance costs.
21 Independent Review of the Job Network (June 2002)	The Government stated the report was a significant and authoritative examination of the Job Network and agreed with a number of Commission recommendations. It had already changed the design of some Job Network features on the basis of the Commission's draft report. However, the Government did not support some key Commission recommendations at present, but would give consideration to them as employment services policy evolves.
22 Radiocommunications (July 2002)	The Government accepted most of the Commission's recommendations but would further consider whether spectrum licences should be issued in perpetuity and some other matters. Six recommendations were rejected, the most significant of which dealt with changes to competition rules and ministerial discretion on limits to spectrum acquisition in auctions.
23 Review of Section 2D of the Trade Practices Act 1974: Local Government Exemptions (August 2002)	The Government accepted the Commission's recommendation that section 2D be repealed and replaced with a section stating explicitly that Part IV of the Trade Practices Act only applies to the business activities of local government.

24	Economic Regulation of Harbour Towing and Related Services (August 2002)	The Government accepted all the Commission's recommendations, with minor modifications relating to the implementation of price monitoring.
25	Review of Automotive Assistance (September 2002)	The Government endorsed the Commission's findings on post-2005 tariff reductions and transitional adjustment assistance for the industry (though with an additional \$1.4 billion, over 10 years, than preferred by the Commission), agreed with many of the Commission's findings on other assistance and industry matters, and announced a further inquiry by the Commission in 2008.
26	Review of TCF Assistance (July 2003)	The Government accepted the Commission's preferred tariff option and quantum of transitional assistance, though with some variations in the components of that support package.
27	National Workers' Compensation and Occupational Health and Safety Frameworks (March 2004)	The Government initially did not support key elements of the Commission's proposed national framework model and deferred consideration of recommendations relating to design elements for workers' compensation schemes and OHS pending advice from a new tripartite body, the Australian Safety and Compensation Council. Subsequently, the Government has expanded access to self-insurance arrangements for firms and enacted other legislative changes consistent with the Commission's recommendations.
28	First Home Ownership (March 2004)	The Government supported recommendations relating to areas of State responsibility but not those relating to reviews of the personal income taxation regime and the housing needs of low income households nor changes to the First Home Owner Scheme.
29	Impacts of Native Vegetation and Biodiversity Regulations (April 2004)	The Government announced that it supported the Commission's recommendations and would pursue implementation by the States and Territories through the COAG process.
30	Review of the Disability Discrimination Act 1992 (April 2004)	The Government accepted a majority of the Commission's 32 recommendations in full, in principle or in part. Many of the Commission's most significant recommendations were adopted including legislative change to clarify the reasonable adjustment duty implied in the Act but, importantly, also to strengthen and/or extend existing safeguard mechanisms.
31	Review of the Gas Access Regime (June 2004)	The Ministerial Council on Energy supported the Commission's key recommendations.

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Table B.7 (continued)

<i>Inquiry report</i>	<i>Government response to Commission findings and/or recommendations</i>
32 Review of Part X of the Trade Practices Act 1974: International Liner Cargo Shipping (February 2005)	The Government did not support the Commission's preferred policy option of repealing Part X of the Trade Practices Act and subjecting the liner shipping cargo industry to general competition law. The Government decided to retain Part X but to amend it, however, in a manner consistent with other options in the Commission's report.
33 Review of National Competition Policy Reforms (February 2005)	The Government stated that the response to the Commission's recommendations would be the outcome of COAG's review of national competition policy. COAG drew on the Commission's analysis of the benefits of past national competition policy reforms and important elements of COAG's National Reform Agenda reflect the Commission's recommendations and approach.
34 Smash Repair and Insurance (March 2005)	The Government agreed with the Commission's key recommendations on the development and nature of a voluntary code of conduct for the smash repair and insurance industries. A Motor Vehicle Insurance and Repair Industry Code of Conduct commenced on 1 September 2006.
35 Australian Pigmeat Industry (March 2005)	The Government in effect endorsed the bulk of the Commission's findings and, importantly, did not commit to additional industry-specific assistance measures.
36 The Private Cost Effectiveness of Improving Energy Efficiency (August 2005)	The Government has announced agreement with all of the Commission's recommendations and that it would work with the States, through the Ministerial Council on Energy, to consider the Commission's findings and analysis.
37 Conservation of Australia's Historic Heritage Places (April 2006)	While the Government agreed with the Commission that private owners should not have unreasonable costs imposed on them by heritage listing, it was not attracted to the Commission's key recommendation that private owners be given an additional appeal right on this basis. The Government also rejected recommendations that all levels of government recognise and separately fund the heritage responsibilities of non-heritage agencies as community service obligations and for transparency in reporting heritage-related expenditures and costs.
38 Waste Management (October 2006)	The Government endorsed the overarching principle of subjecting all waste policies to rigorous cost-benefit analysis and other elements of best-practice regulation making but rejected the Commission's broad policy framework recommendations. The Commonwealth endorsed a range of other recommendations including those on the assessment of mandatory standards for recycled content in products; the National Packaging Covenant; avoidance of mandatory standards for recycled content in products; the supply of factually accurate, relevant and publicly accessible information on the risks, costs and benefits of waste management issues; and leaving the provision of waste-exchange services to private markets.

- 39 Tasmanian Freight Subsidy Arrangements (December 2006)
 In response to the Commission's draft report proposals that the subsidy schemes be phased out or abolished, the Government announced that both the Tasmanian Freight Equalisation Scheme and the Tasmanian Wheat Freight Scheme would continue. The Commission's final report focused on reforms which would improve the efficiency and effectiveness of the schemes and the Government agreed with the Commission's substantive recommendations.
- 40 Review of Price Regulation of Airport Services (December 2006)
 The Government announced that it supported nearly all of the Commission's recommendations on a new price monitoring regime for airport services.
- 41 Road and Rail Freight Infrastructure Pricing (December 2006)
 COAG announced in April 2007 that it broadly endorsed the reform blueprint proposed by the Commission. Further, it accepted the Commission's finding that the road freight industry is not subsidised relative to rail freight on either the inter-capital corridors or in regional areas and that the appropriate focus for policy reform is on enhancing efficiency and productivity within each mode.
- 42 Safeguards Inquiry into the Import of Pigmeat (Accelerated Report) (December 2007)
 On 20 December 2007 the Minister for Agriculture, Forestry and Fisheries announced the Commission had found that provisional safeguard measures on pigmeat imports were not warranted and that, consistent with Australia's international obligations, the WTO would be notified accordingly.
- 43 The Market for Retail Tenancy Leases in Australia
 A government response was tabled in Parliament on 27 August 2008. The Government agreed or agreed in-principle to the Commission's recommendations on the use of simple (plain English) language in all tenancy documentation; contact points for information on lease negotiation, lease registration and dispute resolution; harmonisation of retail tenancy legislation across jurisdictions; and the possible introduction of a code of conduct for the retail tenancy market as an alternative to prescriptive legislation. The Commonwealth did not support the Commission's recommendation that state and territory governments remove restrictions that provide no improvement in operational efficiency, compared with the broader market for commercial tenancies.
- 44 Safeguards Inquiry into the Import of Pigmeat (March 2008)
 A government response was tabled in Parliament on 4 June 2008. The response provided agreement or in-principle agreement to all of the Commission's recommendations. The response noted that the Commission's accelerated report found that provisional safeguard action could not be taken against pigmeat imports at that time. It further noted that the Commission's final report also found that safeguard action was not justified because increased imports had not caused and were not threatening to cause serious injury to the domestic industry. Accordingly, on 8 April 2008, the Government notified the WTO that the safeguards investigation had been terminated, and that it would not impose safeguard measures.

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Table B.7 (continued)

Inquiry report	Government response to Commission findings and/or recommendations
45 Review of Australia's Consumer Policy Framework (May 2008)	<p>In its communiqué of 2 October 2008, COAG announced that it had agreed to a new consumer policy framework comprising a single national consumer law based on the Trade Practices Act 1974 and drawing on the recommendations of the Commission and best practice in State and Territory consumer laws. In addition, COAG is also reviewing occupational regulations only applying in one or two jurisdictions, which the Commission indicated warranted early attention. In accordance with a further Commission recommendation, on 22 July 2008 the Assistant Treasurer also announced changes to the configuration of the Commonwealth Consumer Affairs Advisory Council (CCAAC).</p> <p>Legislation to fully implement the new consumer law (including new provisions based on best practice in existing State and Territory laws); and to implement the new national legislative and regulatory framework for product safety, was introduced in 2010.</p>
46 Government Drought Support (May 2009)	<p>On 28 June 2010, the Australian Government announced that, in partnership with the Western Australian Government, it would conduct a pilot of drought reform measures from 1 July 2010 to 30 June 2011. The pilot reform measures draw partly on a number of recommendations made in the Commission's report, in particular regarding interest rate subsidies and farm exit support.</p> <p><i>Subsequently, on 27 April 2012, the Minister for Agriculture, Fisheries and Forestry, the Hon. Joe Ludwig, announced a new national framework for drought management and preparedness (Ludwig 2012). As part of these reforms, and in line with recommendations in the Commission's report, Exceptional Circumstances Interest Rate Subsidies concluded on 30 June 2012.</i></p>
47 Paid Parental Leave (February 2009)	<p>As part of the 2009-10 Budget, the Australian Government announced its intention to introduce a Paid Parental Leave scheme. The scheme introduced was closely based on that proposed in the Commission's final inquiry report. The Government included an income test in the eligibility rules which was not recommended by the Commission, and the Government initially deferred consideration of the two weeks paternity leave that was recommended by the Commission. Otherwise, the features of the Government's scheme reflected those recommended by the Commission.</p> <p>Subsequently, in 2011 the Government introduced provision for two weeks paternity leave in line with the Commission's recommendation.</p>

- 48 Australia's Anti-dumping and Countervailing System (December 2009) The Government announced a response to the Commission's report on 22 June 2011 (Australian Government 2011d). The Government agreed or agreed in-principle with 15 of the report's 20 recommendations. These covered a range of issues, including working groups to examine the close processed agricultural goods provisions; not adopting the practice of zeroing; updating actionable subsidies to align with the latest relevant WTO agreements; arrangements for Custom to seek extensions of investigation periods; the introduction of a 30-day time limit for the Minister to make decisions; adequate resourcing for Customs and Border Protection and the Trade Measures Review Officer; advice to the Minister in investigation reports of the details of comparable recent cases in other countries; consultation with the ABS regarding better access to import data; and a five-year review of proposed reforms. The Government did not accept the Commission's recommendation concerning the introduction of a public interest test.
- 49 Executive Remuneration (December 2009) On 16 April 2010 the Government released a detailed response to the Commission's report. Of the 17 recommendations in the report the Government provided acceptance or in-principle acceptance to 16, with six of the in-principle acceptances provided by the Government subject to additional further strengthening. The Government did not support one recommendation on the removal of cessation of employment as a trigger for the taxation of deferred employee share schemes. It stated that, in its view, removal would increase the concessionality of schemes, providing a disproportionately large benefit to higher-income employees.
- 50 Gambling (February 2010) The Australian Government released an initial response to the Commission's report on 23 June 2010. In responding in brief to the report the Government stated that it supported key reform directions to minimise the harm caused by problem gambling. The Government did not agree with the Commission's recommendation to allow for the partial liberalisation of online gambling.
- 51 Wheat Export Marketing Arrangements (July 2010) On 23 September 2011 the Government released a response to the Commission's report on wheat export marketing arrangements (Australian Government 2011f). The Government agreed in-principle with the Commission's recommendations to abolish the Wheat Export Accreditation Scheme, Wheat Exports Australia and the Wheat Export Charge on 30 September 2011, and remove the access test requirements for grain port terminal operators on 30 September 2014. However it proposed a more gradual, three-stage approach in transitioning to full market deregulation.

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Table B.7 (continued)

Inquiry report	Government response to Commission findings and/or recommendations
52 Rural Research and Development Corporations (February 2011)	<p>The Australian Government released a preliminary government response to the Commission's report on Rural Research and Development Corporations on 15 June 2011. The response stated that, while the Government acknowledged that improvements can be made to the RDC model, it would not adopt the Commission's recommendation to halve the cap on government matching contributions to RDCs in conjunction with the introduction of a new subsidy above the cap. The Government also stated that it would develop a more detailed final response to the report.</p> <p>The Government released a final response to the report in July 2012 (Australian Government 2012). The Government agreed or agreed in principle to thirteen of the Commission's recommendations. These included recommendations on public funding principles, industry requests for marketing, evaluations and performance reviews, specific maximum levy rates, government matching funding, annual monitoring and reporting, and government representation on RDC Boards. The Government did not agree with four of the Commission's recommendations, including on halving the cap on government matching contributions to RDCs in conjunction with the introduction of a new subsidy above the cap, and on the possible establishment of a new RDC, Rural Research Australia.</p>
53 Caring for Older Australians	<p>The Australian Government released its Living Longer. Living Better. aged care reform package, which included a response to the Commission's report, in May 2012 (Australian Government 2012b). A number of recommendations from the Commission's report were supported, and adopted in the Living Longer. Living Better reforms. These included the establishment of an Aged Care Reform Council; that no deductions will be permitted from the bonds paid for residential care accommodation; new 'intermediate level' community care packages; the establishment of an initial care Gateway (but not accompanied by a move to an aged care entitlement as the Commission had recommended); a review of the reforms after five years; and the establishment of an aged care data clearing house.</p> <p>The Government did not agree with a number of the Commission's recommendations, including those on establishing an Aged Care Home Credit scheme, establishing an Aged Pensioners Savings Account and establishing an independent regulatory agency. While the government announced a comprehensive (income and asset) means test for care contributions in residential care only (rather than in all settings as recommended by the Commission), the principal residence has been excluded from the means test for care (a measure that had been recommended by the Commission to improve the long-term fiscal sustainability of the aged care system).</p>

- 54 Disability Care and Support
- On 10 August 2011 the Australian Government provided an initial response to the Commission's report (Gillard et al. 2011). The response supported 'the Productivity Commission's vision for a system that provides individuals with the support they need over the course of their lifetime, and wants reform of disability services that is financially sustainable.' The response stated that, in line with Commission recommendations, work on technical policy work would include development of common assessment tools to determine eligibility for support; development of service and quality standards; development of a national pricing structure; and capacity building in the disability sector, including in relation to the workforce.
- On 25 July 2012, COAG noted progress in establishing the first stage of a National Disability Insurance Scheme (NDIS) from July 2013, drawing on the Commission's August 2011 report on Disability Care and Support. COAG stated that the Commonwealth has reached in-principle agreement with South Australia, Tasmania and the Australian Capital Territory for a launch to commence from July 2013 (COAG 2012).
- 56 Economic Structure and Performance of the Australian Retail Industry
- On 9 December 2011 the Australian Government released its response to the Commission's report on the Australian retail industry (Conroy, O'Connor, Sherry and Shorten 2011). The Government agreed, or agreed in principle, with eight recommendations and noted four recommendations. The Government welcomed the staged approach recommended by the Commission to the issue of the appropriate level of the Low Value Threshold. This involved establishing a Taskforce to investigate improved approaches to processing low value parcels and then reassessing the extent to which the Threshold could be reduced.
- 57 Economic Regulation of Airport Services
- On 30 March 2012 the Minister for Infrastructure and Transport, the Hon Anthony Albanese, and the Assistant Treasurer and Minister Assisting for Deregulation, the Hon David Bradbury, released a response to the Commission's 2011 report on airport regulation (Albanese and Bradbury 2012). In responding to the report, the Government broadly accepted the Commission's recommendations, but did not fully implement its proposed approach. The Government agreed in principle with the Commission's recommendations to continue monitoring and improve the operation of the regime through enhancements to the monitoring approach. However, the Government also noted that, in its view, since the ACCC is an independent statutory authority, it is the responsibility of the ACCC to give effect to a number of the Commission's proposed enhancements to the monitoring regime as it sees fit. The Government response provided agreement to the Commission's recommendations on landside access to airports.

^a Additions or significant changes to the table published in the 2010-11 Annual Report are indicated in italics.

Website and media coverage

Other measures of the Commission's usefulness in contributing to public understanding are the use of its website and media coverage of its reports.

- In the 12 months to June 2012 there were more than 272 000 external requests for the index pages of inquiries and government-commissioned research studies current in 2011-12. The projects of most interest were the inquiries on aged care (60 027 requests), disability support (41 404 requests) and Australia's retail industry (28 931 requests), and the research studies on the early childhood development workforce (18 146 requests) and COAG reforms (11 297 requests). Other heavily accessed web pages were for the 2011 and 2012 *Report on Government Services* (25 333 and 22 603 requests, respectively) and the 2011 *Overcoming Indigenous Disadvantage: Key Indicators* report (25 900 requests). Speeches by the Commission's Chairman attracted more than 55 000 requests over the year. Even after an inquiry or research study is completed, community interest can remain high. For example, during the year, the web pages for the Commission's 2009 inquiry on Australia's gambling industries received over 38 000 requests; and the Commission's 2010 study of the contribution of the not-for-profit sector received over 26 000 requests.
- Inquiry and commissioned research reports typically receive wide media coverage. In 2011-12 there were 61 editorials in major newspapers on Commission inquiries and commissioned research studies. These included the Commission's inquiry reports on the retail industry, aged care, gambling and disability care and support, and studies on international carbon policies and the impacts and benefits of COAG reforms.
- Inquiries current in 2011-12 received over 5 100 mentions in the print and broadcast media during the year — over 64 per cent of total print and broadcast media coverage. Coverage of the Commission's inquiries into disability and retail accounted for a significant share of total mentions. New work suggestions accounted for around 10 per cent of total mentions.

Invited presentations

A measure of the usefulness of the Commission's inquiry and other government-commissioned reports in contributing to public understanding of policy issues is the 75 invitations the Commission accepted in 2011-12 to present papers on inquiries and commissioned studies to business, community and other groups — in particular, on the Commission's climate change adaptation and aged care inquiries (table E.1).

Performance reporting and other services to government bodies

At the request of the Government, the Commission undertakes a number of major activities in this output group. It provides secretariat, research and report preparation services to the Steering Committee for the Review of Government Service Provision in respect of the annual Report on Government Services; the regular Overcoming Indigenous Disadvantage report; the two yearly Indigenous Expenditure Report; and the collation of performance data under the Intergovernmental Agreement on Federal Financial Relations, in support of the analytical role of the COAG Reform Council.

Activities in 2011-12

Publications arising from the Commission's performance reporting activities this year were:

- Report on Government Services 2012, two volumes (and supporting tables on website, January 2012)
- Report on Government Services 2012: Indigenous Compendium (April 2012)
- Overcoming Indigenous Disadvantage: Key Indicators 2011 (August 2011)
- National Agreement performance information 2010-11: National Healthcare Agreement (December 2011)
- National Agreement performance information 2010-11: National Affordable Housing Agreement (December 2011)
- National Agreement performance information 2010-11: National Disability Agreement (December 2011)
- National Agreement performance information 2010-11: National Indigenous Reform Agreement (December 2011)
- National Agreement performance information 2011: National Agreement for Skills and Workforce Development (June 2012)
- National Agreement performance information 2011: National Education Agreement (June 2012)
- National Partnership Agreement on Essential Vaccines: 1 April 2011-31 March 2012 Performance Report (May 2012)
- National Partnership Agreement on Youth Attainment and Transitions: Participation-2010 Performance Report (August 2011)

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- 2010 Indigenous Expenditure Report Supplement (15 September 2011)
 - 2012 Indigenous Expenditure Report (4 September 2012)
 - Expenditure Data Manual: 2012 Indigenous Expenditure Report (4 September 2012)
 - Service Use Measure Definitions Manual: 2012 Indigenous Expenditure Report (4 September 2012).

Review of Government Service Provision

Heads of Government (now the Council of Australian Governments or COAG) established the Review of Government Service Provision (the Review) to provide information on the equity, efficiency and effectiveness of government services in Australia.

In 2009, COAG endorsed the findings and recommendations of a high level review of RoGS. COAG recognised the RoGS as ‘the key tool to measure and report on the productive efficiency and cost effectiveness of government services’ and in 2010 agreed to a new terms of reference and charter of operations for the Review, as well as a new terms of reference for the RoGS (www.pc.gov.au/gsp/review/tor; COAG 2010).

As part of its Reconciliation Agenda, COAG requested in 2002 that the Review produce a regular report against key indicators of Indigenous disadvantage (the Overcoming Indigenous Disadvantage (OID) report). In March 2009, the Prime Minister provided updated terms of reference for the report, requesting the Steering Committee to align the OID framework with COAG’s six high level targets for Closing the Gap in Indigenous outcomes.

In November 2008, COAG endorsed a new Intergovernmental Agreement on Federal Financial Relations (IGA). Under the reforms, the Steering Committee has ‘overall responsibility for collating the necessary performance data’ required for the COAG Reform Council to undertake its assessment, analytical and reporting responsibilities.

In February 2011, COAG transferred responsibility for the Indigenous Expenditure Report from a separate IER Steering Committee (for which the Productivity Commission provided Secretariat support) to the Steering Committee for the Review of Government Service Provision (for which the Productivity Commission also provides support).

Report on Government Services

The seventeenth Report on Government Services was released in January 2012. The Report focuses on the equity, effectiveness and efficiency of government service provision.

Reporting is an iterative process. Working Groups for all service areas have strategic plans to refine performance measures and to improve the quality of information published in the Report. Since the first Report was published in 1995, there have been significant advances in both the scope of reporting and the quality and comprehensiveness of data.

There was a focus on streamlining in the 2012 Report. Sector summaries for all service areas were reported for the first time in the 2012 report. In many service areas, indicators with similar characteristics were reported as separate measures under new high level indicators; redundant or impractical indicators were removed. There was also an expansion of time series reporting in many chapters and inclusion of additional data quality information for many indicators.

Particular improvements in the 2012 Report include:

- children's services —refining the presentation of indicators and measures reported, including specification as to whether the indicator relates to the child care or preschool or both; an additional measure on children using child care indicator — average hours of attendance at Australian Government approved child care; inclusion of contextual information on integrated children's services
- school education —consolidating reporting on learning outcomes; further aligning with National Education Agreement (NEA) and National Indigenous Reform Agreement (NIRA) indicators; disaggregating learning outcomes by parental education and occupation; reporting 2010 Civics and Citizenship National Assessment Program (NAP) outcomes; and improving reporting on VET in schools
- vocational education and training — reporting additional participation and outcome data for Indigenous students; and expansion of time series data for several indicators
- police services — updating reporting to recognise the break in series for the ABS collection *Recorded Crime – Victims 2010*; reporting deaths in custody on more timely financial year basis; replacing the 'costs awarded against the police in criminal actions' with a more meaningful indicator 'percentage of prosecutions where costs were awarded against the police'
- road rescue and ambulance — reporting additional measures for the fire deaths, structure fire response times and confinement to room of origin indicators

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- public hospitals —reporting national data from the Australian Bureau of Statistics (ABS) *Patient Experience Survey 2010-11* under the ‘Patient satisfaction’ indicator
 - primary and community health — reporting updated data on ‘availability of public dentists’; reporting on ‘participation for women in breast cancer screening’ for the first time in this chapter; improved timeliness of data for ‘notifications of selected childhood diseases’
 - mental health management — including the six new indicators: ‘new client index’; ‘mental health service use by total population’; ‘primary mental health care for children and young people’; ‘rates of use of licit and illicit drugs that contribute to mental illness in young people’; ‘mental health outcomes of consumers of specialised public mental health services’ and ‘social and economic inclusion of people with a mental illness’
 - aged care — reporting new measures for: the residential care ‘use by different groups’ indicator; the ‘cost per unit of output’ indicator’ and the ‘expenditure per head of target population indicator
 - services for people with disability — reporting on new indicator ‘Labour force participation of primary carers of people with a disability’ for the first time; updating data from the Survey of Disability, Ageing and Carers (SDAC) 2009 for the indicators ‘Access to NDA specialist disability services’, ‘Service use by severity of disability’, ‘Service use by special needs groups’, ‘Labour force participation and employment with people with disability’, ‘Labour force participation of primary carers of people with disability’, ‘Social participation of people with disability’ including data reporting unmet need reported for the first time; reporting more complete data for the ‘Quality assurance’ indicator
 - protection and support services — reporting more complete data for proportions of expenditure across child protection Pathway activity groups and experimental unit cost data for selected Pathways activity groups; sourcing juvenile justice profile data for most jurisdictions from the Juvenile Justice National Minimum Data Set (JJ NMDS) and improving the method of calculation
 - housing — including a single social housing performance indicator framework, replacing the separate performance indicator frameworks for public housing, SOMIH, community housing and Indigenous community housing; and simplifying and restructuring CRA reporting.

The Review continues efforts to improve reporting on the provision of mainstream services to Indigenous Australians. The Indigenous Compendium to the Report, released in April 2012, provides an easily accessible collation of all Indigenous data from the Report.

Overcoming Indigenous Disadvantage: Key Indicators

In 2002, COAG commissioned the Review to produce a regular report on key indicators of Indigenous disadvantage, 'to help to measure the impact of changes to policy settings and service delivery and provide a concrete way to measure the effect of the Council's commitment to reconciliation through a jointly agreed set of indicators' (COAG Communiqué, 5 April 2002). In March 2009, the terms of reference were updated in a letter from the Prime Minister. The new terms of reference align the OID framework with COAG's six high level targets for Closing the Gap in Indigenous outcomes. The structure of the aligned framework remains very similar to that of previous reports, but highlights the COAG targets and priority areas for reform and includes additional indicators.

The 2011 edition of the OID report was released in August. It showed that many Indigenous people have shared in Australia's recent economic prosperity, with increases in employment, incomes and home ownership. There have also been improvements in some education and health outcomes for Indigenous children. However, even where improvements have occurred, Indigenous people continue to have worse outcomes on average than other Australians, and many indicators have shown little or no change. In some key areas, particularly criminal justice, outcomes for Indigenous people have been deteriorating.

Following the release of the 2011 report, the Productivity Commission engaged the Australian Council for Educational Research to carry out a review of the report including extensive consultations with government agencies, researchers and Indigenous organisations across Australia. The review found widespread support for the report, and identified areas for improvement for future reports (ACER 2012).

Indigenous Expenditure Report

In 2007, COAG agreed to the reporting of Indigenous expenditure. The Productivity Commission assumed secretariat responsibilities from November 2008. A Stocktake Report, including terms of reference for the report and a high level overview of the intended method and future development process, was endorsed by COAG in July 2009.

The inaugural Indigenous Expenditure Report (released on 28 February 2011) provided, for the first time, comprehensive and comparable information on expenditure by the Australian, State and Territory Governments on Indigenous specific services as well as the estimated Indigenous share of mainstream services. A supplement to the 2010 Indigenous Expenditure Report (released on 15 September 2011) complemented 2010 Report by providing estimates of

Australian Government expenditure by state and territory. This enabled the estimation of the total government resources committed in each state and territory.

In February 2011, COAG transferred responsibility for the Indigenous Expenditure Report to the Steering Committee for the Review of Government Service Provision. The Productivity Commission continues to provide secretariat services for *Indigenous Expenditure Report* development through its support of the Review Steering Committee.

The 2012 Indigenous Expenditure Report, which is the second in the series, was released on 4 September 2012. It provides estimates of expenditure on services provided to Aboriginal and Torres Strait Islander people by the Australian Government, and State and Territory governments. Estimates are provided for each level of government, Australia as a whole, and by state and territory geographical basis, for 2008-09 and 2010-11.

The 2012 Report was supported by two companion manuals which documented in detail the methods, data sources and interpretation issues underpinning the estimates:

- 2012 Report Expenditure Data Manual
- 2012 Report Service Use Measure Definitions Manual.

Development of the 2014 *Indigenous Expenditure Report* has commenced and this third instalment in the series is expected to be released in mid-2014.

Quality indicators

The Commission has a range of quality assurance processes in place for its performance reporting activities. These processes help to ensure that it is using the best information available and the most appropriate methodologies.

The Commission's work for the Review of Government Service Provision is guided by a Steering Committee. This Steering Committee consists of senior executives from each jurisdiction, chaired by the Chairman of the Productivity Commission, and serviced by a secretariat drawn from the staff of the Commission. The Committee, in turn, is supported by 14 national working groups comprising representatives from over 80 government agencies. It also draws on the expertise of other bodies such as the ABS and the Australian Institute of Health and Welfare (AIHW), and committees established under Standing Councils and COAG Working Groups.

The Review has an ongoing program of consultation on the *Overcoming Indigenous Disadvantage* report. Following the release of the 2011 report, the Productivity Commission engaged the Australian Council for Educational Research to carry out a review of the report including extensive consultations with government agencies, researchers and Indigenous organisations across Australia.

Timeliness

The 2012 Report on Government Services and its Indigenous Compendium, the *Overcoming Indigenous Disadvantage: Key Indicators 2011*, the six National Agreement reports and four National Partnership reports to the COAG Reform Council were completed on time.

Indicators of usefulness

The usefulness of the Commission's performance reporting activities in contributing to policy making and public understanding is demonstrated by a range of indicators.

Review on Government Services

The key task of the Report on Government Services (RoGS) is to provide information on the equity, effectiveness and efficiency of government services. The RoGS is used extensively in this regard:

- There were 33 mentions of performance information sourced to the 2012 (and earlier) editions of the Report in parliamentary proceedings by government and opposition members in Federal and State parliaments during 2011-12.
- In the 12 month period preceding the release of the 2012 RoGS, previous editions of the RoGS were cited in at least 21 publications, including: Indigenous Law Bulletin; Journal of Population Research; Children Australia; Policing and Society; Australian Economic Review; Australian New Zealand Journal of Public Health; International Journal of Mental Health; Issue Analysis; Housing Studies; Journal of the Australasian College of Road Safety; World Journal of Emergency Medicine; Abacus; and Project Safe Shelter, Submission of Project safe shelter in Canberra to the inquiry into the provision of Social Housing in the ACT; or by organisations: University of NSW, Faculty of Law Research; World Bank, Independent Evaluation Group; Brain Injury Australia; Ninti One Limited; Australian Council of Education Research; Australian Housing and Urban Research Institute; Monash University, Department of Economics; ACT Government.

Other indicators of usefulness from 2011-12 were:

- endorsement of the general performance framework and approach to reporting by an Independent Reference Group
- the international Forum of Federations partnership with the Review secretariat in an international roundtable on 'Benchmarking in Federal Systems' (October 2010), which acknowledged the RoGS as best practice
- high levels of demand, with nearly 1550 bound copies of the 2012 Report distributed by the Commission and more than 19 000 HTML page requests for the Government Service Provision index page on the Commission's website in 2011-12. Earlier editions also continued to be accessed from the website
- extensive media coverage, including 126 press articles drawing on the report in the year to 30 June 2012
- RoGS data are also used by other researchers: for example, data on protection and support services were used in the AIHW's report Child Protection Australia (2009-10); data on VET course completions were used in the NT Government's How we're going data snapshots (2011); data on government real recurrent expenditure on VET per annual hour were used in Box Hill Institute's Response to the Vocational Education and Training Fee and Funding Review (1 July 2011), the Australian Education Union's response to the same (June 2011), in 'TAFE Funding and the Education Targets (Update)' by the ACER Centre for the Economics of Education and Training (Monash University) and in the South Australian Government submission to the GST Distribution Review Panel (September 2011); the NSW TAFE Commission Board submission to the NSW Government's review of the training sector 'Smart and Skilled: making NSW number one' reported declines in public VET funding (November 2011); various data on VET were used in News Update of the Association of Independent Schools of SA (15 February 2011); data on Australian Government funding for schools were used in a Parliament of Australia Background note (January 2011); data on total cost per casemix adjusted separation (recurrent cost plus Secretariat estimates of capital costs per casemix adjusted separation) were used in the AIHW's Australian Hospital Statistics (2010-11). RoGS' is referenced in ABS National Early Childhood Education and Care Collection Concepts, Sources and Methods Australia 2011, Data Collection Guide Australia 2011 (7 March 2012); National Report on Schooling (ACARA); and Southcott (6 March 2012) reports on use of RoGS' health data in the Alcohol Education and Rehabilitation Foundation's 2010 The Range And Magnitude Of Alcohol's Harm To Others report.
- There is also widespread use of the 2011 (and earlier) reports in OECD committee documents and working papers.

Overcoming Indigenous Disadvantage: Key Indicators

The principal task of the Overcoming Indigenous Disadvantage report is to identify indicators that are of relevance to all governments and Indigenous stakeholders, and that can demonstrate the impact of program and policy interventions. The then Prime Minister acknowledged the importance of the report when he issued revised terms of reference in March 2009:

Since it was first established in 2003, the OID report has established itself as a source of high quality information on the progress being made in addressing Indigenous disadvantage across a range of key indicators. The OID report has been used by Governments and the broader community to understand the nature of Indigenous disadvantage and as a result has helped inform the development of policies to address Indigenous disadvantage.

The Productivity Commission engaged the Australian Council for Educational Research to review the Overcoming Indigenous Disadvantage report in 2012, including extensive consultation with governments, Indigenous organisations and researchers. Overall, stakeholders had a positive view of the report and its usefulness but suggested that it could be further enhanced by focusing more on strengths and making clearer the involvement of Indigenous people in its development (ACER 2012).

National Agreement reporting

COAG has requested that the Steering Committee provide to the CRC the agreed performance information for the CRC to undertake its assessment, analytical and reporting responsibilities (COAG communiqué July 2008). The Steering Committee's role relates to 'overall responsibility for collating the necessary performance data' for National Agreements [para C5(b)]. The IGA further specifies that 'the Steering Committee will comment on the quality of the performance indicator data using quality statements prepared by collection agencies' [para C12].

The main purpose of NA reporting is to support the CRC. The CRC participated in an internal evaluation of the third cycle of NA reporting, and noted that it was very happy with the Secretariat's performance. Feedback received from the Executive Councillor and Head of the CRC secretariat was that the Secretariat's performance was of an 'excellent' standard.

The Secretariat has also provided well-received advice on the National Performance Reporting System to a range of organisations and processes, including:

- advice to the CRC during its drafting of the six National Agreement reports and four National Partnership reports

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- advice to the Joint Committee on Parliamentary Accounts and Audit inquiry into national funding agreements
 - multiple NA and NP review working groups.

Competitive neutrality complaints activities

The Australian Government Competitive Neutrality Complaints Office (AGCNCO) is an autonomous office located within the Commission. It is staffed on a needs basis from the resources of the Commission. As specified in the Productivity Commission Act and the Commonwealth Competitive Neutrality Policy Statement of June 1996, the role of the AGCNCO is to:

- receive and investigate complaints on the application of competitive neutrality to Australian Government businesses, and make recommendations to the Government on appropriate action
- provide advice and assistance to agencies implementing competitive neutrality, including undertaking research on implementation issues.

The AGCNCO aims to finalise most investigations and report to the Assistant Treasurer within 90 days of accepting a complaint although this is dependent, in part, on the timely co-operation of parties related to the complaint. The Office also aims to undertake reporting and associated activities that are of a high standard and useful to government.

Activities in 2011-12

Complaints activity

The AGCNCO received four formal complaints during 2011-12 (table B.8). It also received numerous inquiries that involved considerable investigative work to determine whether a formal investigation of the complaint should be undertaken. Details of the complaints received, including the action taken, are reported in appendix C.

Advice on the application and implementation of competitive neutrality

An important role of the AGCNCO is to provide formal and informal advice on competitive neutrality matters and to assist agencies in implementing competitive neutrality requirements. During 2011-12, the AGCNCO provided advice around

twice a week, on average, to government agencies or in response to private sector queries either over the telephone or in ad hoc meetings.

The AGCNCO provides advice on all aspects of the implementation of competitive neutrality. Over the past year, in response to requests, the Office provided advice to a number of agencies implementing competitive neutrality policy into their business activities.

The Office also provided advice to a significant number of private sector parties on the arrangements in place for competitive neutrality complaints at the State, Territory and local government levels.

Table B.8 Formal competitive neutrality complaints, 2007-08 to 2011-12

<i>Activity</i>	<i>2007-08</i>	<i>2008-09</i>	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>
Written complaints received	1	0	0	6	4
Action:					
New complaints formally investigated	–	–	–	3 ^a	1
Complaints investigated but not proceeding to full report ^b	1	–	–	3	1
Complaints not investigated	1	–	–	–	2 ^d
Reports completed	1	–	–	–	2
Complaints on hand (30 June)	–	–	–	4 ^c	–

^a These three complaints related to the same matter — the pricing and expected rate of return of NBN Co — and were investigated and reported on (in 2011-12) jointly. ^b Includes: complaints subject to preliminary investigation but for which no prima facie evidence of a breach of competitive neutrality policy was found; and complaints investigated and resolved through negotiation. ^c Includes three complaints relating to the same matter (NBN Co) plus one not proceeding to a full report. ^d The complaints did not relate to an Australian Government business.

Quality indicators

Competitive neutrality complaint investigations and reporting engage the complainant, the government business in question, the competitive neutrality policy arms of the Australian Government and, as required, the government department within whose policy purview the business resides. The generally favourable feedback from all these parties on the integrity of the process and the usefulness of its outcomes — given that the AGCNCO's reports assess competing interests — is the strongest evidence of the quality of the AGCNCO's work.

Where parties who received advice and assistance from the AGCNCO on competitive neutrality policy or its implementation have commented on the operation of the Office, their comments have been favourable.

Owing to their experience in dealing with competitive neutrality issues, the views of the staff of the AGCNCO on more complex matters are often sought by the Treasury and the Department of Finance and Deregulation — the departments responsible for competitive neutrality policy.

Timeliness

The AGCNCO aims to report on complaint investigations within 90 days of accepting a formal complaint for investigation.

Formal investigations can require the Office to request significant amounts of information from complainants and the government business subject to complaint and, in some instances, extended periods of consultation. The timely co-operation of parties relevant to the complaint can also be variable. In these situations the Office is not always able to meet a 90-day time limit on formally reporting on complaints.

Indicators of usefulness

The AGCNCO circulates its reports and research to State and Territory government agencies responsible for competitive neutrality policy and complaint investigations to facilitate the exchange of information and to share procedural experiences. Feedback from those agencies indicates that the AGCNCO makes a valuable contribution to the effective implementation of nation-wide competitive neutrality policy.

In response to its advice on implementing competitive neutrality as part of market-testing exercises, the AGCNCO understands that agencies have adjusted the estimation of their in-house cost bases in line with the Office's advice.

The AGCNCO continues to receive a range of informal comments suggesting that its outputs are contributing to better public understanding. For example, favourable comments continue to be received from government and private sector agencies on the usefulness of two AGCNCO publications — on cost allocation and pricing, and rate of return issues — in assisting their implementation of competitive neutrality policy. Although released in 1998, these research papers continue to be in demand and use.

During 2011-12 there were close to 19 000 external requests to the website for AGCNCO investigation reports and research publications.

Supporting research and activities and statutory annual reporting

While much of the Productivity Commission's research activity is determined externally, it has some discretion in meeting its legislative charter to undertake a supporting program of research and to report annually about matters relating to industry development and productivity, including assistance and regulation. The expectations for its supporting research program are that it will provide high quality, policy-relevant information, analysis and advice to governments and the community, of a nature and of a quality not being produced elsewhere. The research program aims to complement the Commission's other activities. The Commission also organises research conferences and workshops in order to advance the debate on policy issues, to encourage cutting-edge contributions, and to facilitate research networks.

The Commission aims to produce research reports which are of a high standard, timely and useful to government and which raise community awareness of microeconomic policy issues.

Activities in 2011-12

The output of the Commission's annual reporting and supporting research program this year included:

- research to meet the Commission's annual reporting obligations, comprising
 - its annual report for 2010-11, tabled in Parliament on 28 October 2011, which focused on demographic change and related policy challenges
 - a companion publication on trade and assistance issues, released in June 2012
- published speeches by the Chairman on industry assistance, Australia's mining boom, independent policy advice and public policy in Australia, as well as several other presentations by the Chairman posted on the Commission's website
- the Richard Snape Lecture, *Political Economy of Reform in Mexico*, delivered by Dr Roberto Newell from the Mexican Institute for Competitiveness on 11 October 2011
- three Staff Working Papers on multifactor productivity growth cycles; productivity and the electricity, gas and water sectors; and Indigenous labour market outcomes

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- the maintenance of access to resource material on Australia's productivity performance (such as productivity estimates and analytical papers) on the Commission's website
 - other projects associated with inquiry and research support, technical research memoranda, assistance to other government departments, conference papers and journal articles.

The research publications produced in the supporting research program in 2011-12 are listed in box B.3. Research projects underway at 30 June 2012 are shown in box B.4.

Richard Snape Lectures

The presentation by Dr Roberto Newell (a former senior partner at McKinsey and the inaugural President of the Mexican Institute for Competitiveness) was the ninth in a series of public lectures in memory of Professor Richard Snape, the former Deputy Chairman of the Commission, who died in October 2002. The series has been conceived to elicit contributions on important public policy issues from internationally recognised figures, in a form that is accessible to a wider audience. Previous lectures have been delivered by Max Corden, Anne Krueger (First Deputy Managing Director of the IMF, 2001–2006), Martin Wolf (associate editor and chief economics commentator at the Financial Times), Deepak Lal (James Coleman Professor of International Development Studies, University of California at Los Angeles), Patrick Messerlin (Director, Groupe d'Economie Mondiale, Institute d'Etudes Politiques de Paris), Vittorio Corbo (Governor of the Central Bank of Chile, 2003–2007), Professor Yu Yongding (Professor and former Director-General of the Institute of World Economics and Politics at the Chinese Academy of Social Sciences in Beijing), and Dr Mari Pangestu, Indonesia's Minister for Trade.

The next lecture will be given by Pascal Lamy (Director General of the World Trade Organization) on 'The Future of the World Trading System'.

Box B.4 Supporting research projects underway at 30 June 2012

An analysis of the effect of product market competition on innovation and productivity in Australia

Tackling the tough problems in productivity measurement (ARC Linkage Grant)*

Utilisation of social science research (ARC Linkage Grant)*

Sustainability: What does it mean?

Productivity in manufacturing

Overcoming entrenched disadvantage

The use and misuse of multipliers in policy analysis

The use of subjective data in economic policy analysis

Environmental indicators

*Collaborative projects. Information on individual research projects is available from the Commission's website, www.pc.gov.au.

The Commission sees value in the 'public good' aspect of its research and promotes dissemination of its work through publications, internet access and presentations. Summary findings from supporting research publications and details of the 75 presentations given by the Chairman, Commissioners and staff in 2011-12 are provided in appendix E.

Quality indicators

The quality of the Commission's supporting research projects is monitored through a series of internal and external checks.

The staff working paper on productivity in electricity, gas and water, for example, used a number of internal and external quality checks including:

- consultations with a wide range of external parties and sectoral experts, including the Australian Energy Market Operator, Australian Energy Regulator, Energy Networks Association, Energy Supply Association of Australia, Melbourne Water, Sydney Water, and Water Supply Association of Australia
- assistance from the ABS through the provision of data, and advice on data issues and productivity measurement
- the use of internal and external referees, including a referee from the University of New South Wales and several other referees with expertise in productivity analysis.

Research projects can involve consultations with key interested parties on the issues they view as important and to obtain access to information. Research is also monitored internally as it progresses, and staff seminars expose research to peer

review as it develops. Some research-in-progress is also tested through external checks, such as seminars and conferences.

Generally, drafts of research reports are refereed externally. Referees are chosen both for their expertise on a topic and to reflect a range of views. Referees for staff working papers in 2011-12 were drawn from: the Australian National University, the University of Canberra, the University of New South Wales, Statistics Netherlands and the Australian Bureau of Statistics.

Further evidence of the quality and standing of the Commission's supporting research program is found in the following:

- an invitation by the Australian Minister of Trade for the Chairman to attend the APEC Workshop on Structural Reform in August 2011
- invitations from the OECD and the WTO during the year to discuss regulatory reform, trade reform and the results of recent productivity research
- invitations during the year for the Commission to be a research partner in ARC linkage projects
- the large number of international delegations and visitors in 2011-12 that visited the Commission to discuss aspects of its research program and findings (table E. 2).

Timeliness

The Commission's annual report for 2010-11, which included a theme chapter on demographic change, was completed on schedule on 20 October 2011 and tabled in Parliament on 28 October 2011. The annual report companion volume (*Trade & Assistance Review 2010-11*), and most other supporting research publications listed in box B.3, met completion schedules set by the Commission.

Indicators of usefulness

Evidence of the usefulness of the Commission's supporting research and annual reporting activities in contributing to policy making and to public awareness of microeconomic reform and regulatory policy issues is available from a range of indicators. These cover the use of this research by government, community and business groups and international agencies, and invitations to discuss and disseminate its research findings in community and business forums. Examples from 2011-12 include the following:

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- Commission research on labour markets continued to be used throughout the year. For example, research on the labour force participation of women over 45 (Gilfillan and Andrews 2010) was used in discussing the economic potential of senior Australians (Advisory Panel on the Economic Potential of Senior Australians 2011); research on structural change (PC 1998b) was used by the Reserve Bank of Australia when discussing the mining industry (Connolly and Orsmond 2011); and research on resource movements and labour productivity (Bland and Will 2001) was used by the Commonwealth Treasury in a speech on productivity and structural change (Dolman and Gruen 2012).
 - Past research in a diverse range of areas continued to be used in 2011-12, demonstrating the ‘shelf life’ of Commission research outputs. For example, Commission research on trends in agriculture (PC 2005e) was used in discussing drought policy (Ludwig 2011) and by the National Farmers’ Federation when discussing affordable fuel and energy (NFF 2012); a report by the Grattan Institute on carbon assistance (Wood and Edis 2011) drew on past Commission research on aspects of structural adjustment (PC 1998b); research on population ageing (PC and Melbourne Institute of Applied Economic and Social Research 1999) was drawn upon in a report on barriers to employment for older workers (National Seniors Productive Ageing Centre 2011); and past research on Government Trading Enterprises from various years was used by the Australian Competition and Consumer Commission in discussing infrastructure reforms in Australia (ACCC 2011).
 - Research on environmental topics also continued to be widely used throughout the year. This included use of research on irrigation water demand (Appels, Douglas and Dwyer 2004) by the Australian Bureau of Statistics in a paper on environmental accounting (ABS 2012h); use by the National Water Commission (2012) of past Commission research on rural water use and the environment (PC 2006c); and use of the Commission’s 2008 submission to the Garnaut Review (PC 2008d) by an independent review of Victoria’s Climate Change Act 2010 (Department of Premier and Cabinet (Victoria) 2011).
 - The Commission’s *Trade and Assistance Review* from various years also continued to be used. For example, the Minerals Council of Australia (Davidson 2012) drew on estimates of net government assistance when discussing the taxation of mining industries; the Australia Institute (Richardson and Denniss 2011) used the *2010-11 Trade and Assistance Review* when discussing state assistance to the mining sector; and the Reserve Bank of Australia drew on the 2009-10 Review when discussing the mining industry (Connolly and Orsmond 2011).
 - The OECD also continued to make widespread use of Commission research within its own published research in 2011-12. This included research on

productivity performance (Dolman, Parham and Zheng 2007) in a paper on product market regulation (Conway 2011); research on restrictions on trade in distribution services (Kalirajan 2000) in a report on distribution services (OECD 2012a); analysis of regulation impact assessment processes (PC 2011g) in a review of impact assessment systems in selected OECD countries (OECD 2011c); research on intangible assets and productivity growth (Barnes and McClure 2009) in a report on intangible assets at the sectoral level (OECD 2011d); and research on firm size and export performance (Gabbitas and Gretton 2003) in a report on small and medium sized enterprises in global markets (OECD 2012b).

- Examples of the use of supporting research outputs in the work of federal parliamentary committees and the Parliamentary Library are provided in tables B.1 and B.2, respectively.

More generally, important means by which supporting research activities contribute to public debate are through media coverage, the dissemination of reports to key interest groups and ready access to reports on the Commission's website. Outputs from the Commission's supporting research program attracted four editorials in major newspapers in 2011-12. To 30 June 2012, for the reports listed in box B.3, there were more than 32 000 external requests for the index pages on the Commission's website. There was a total of more than 136 000 external requests for the 50 supporting research reports for which website usage was tracked, and more than 55 000 requests for speeches by the Commission's Chairman.

C Competitive neutrality complaints

The Productivity Commission Act and the Australian Government's Competitive Neutrality Policy Statement require the Commission to report annually on the number of complaints it receives about the practices of government businesses and business activities and the outcomes of its investigations into those complaints. The Australian Government Competitive Neutrality Complaints Office (AGCNCO) received four formal complaints in 2011-12. Details of the investigation and action taken in relation to these complaints are summarised in this appendix.

The AGCNCO received four formal written complaints in 2011-12. The complaints were in relation to:

- PETNET Australia Pty Limited
- the Personal Properties Securities Register (PPSR)
- cemeteries operated by Penrith City Council
- Tasmania's Department of Infrastructure Energy and Resources License Test Centre.

After preliminary investigations, the AGCNCO decided to formally investigate the complaint against PETNET Australia. The complaints against PPSR, Penrith City Council and Tasmania's Department of Infrastructure, Energy and Resources did not proceed past the preliminary investigation stage as they did not relate to an Australian government business activity.

During 2011-12, the AGCNCO also finalised its formal investigation into the application of competitive neutrality policy by NBN Co. Preliminary investigations conducted during 2010-11 into a complaint from Office Data System about a partnership arrangement between OfficeMax and Australia Post did not proceed to a formal investigation as Australia Post was found to be complying with competitive neutrality policy.

Formal investigations 2011-12

NBN Co

The AGCNCO finalised its formal investigation into the application of competitive neutrality policy by NBN Co. The investigation report was released on 8 December 2011 (AGCNCO 2011).

The AGCNCO received three complaints concerning the activities of NBN Co from wholesale providers of greenfields telecommunication infrastructure:

- Opennetworks (complaint lodged 13 April 2011)
- Converge Network (lodged on 5 May 2011)
- Service Elements (lodged on 1 June 2011).

The complainants raised a number of concerns.

- NBN Co was announced as a provider of last resort to greenfield developments (where no commercial operator would operate) but was also actively seeking business in commercially viable developments.
- NBN Co's pricing of infrastructure in greenfield developments is contrary to competitive neutrality principles. NBN Co is claimed to be providing infrastructure (fibre and active equipment) and connections in new developments at no charge to the developers. Private providers must charge developers for the capital costs (which are passed on to land buyers), as they are unable to recoup capital costs from retail service providers.
- Related to pricing in new developments, as NBN Co will not be charging developers, the announced rate of return of 7 per cent (allowing for the cost of commercially raising debt), is not possible.
- Regulatory neutrality breaches relating to Ministerial determinations of technical specifications. Currently, providers operate under industry codes of practice. It is argued that Ministerial determinations will favour NBN Co as they will increase the cost of private production making them an unviable option for developers (irrespective of pricing concerns).
- NBN Co is using its position as a government business enterprise to promote itself to the development industry as the only option for fibre to the home network provision is in new greenfield developments.
- NBN Co negotiations with Telstra for the transfer of existing and new networks is putting other smaller players at a significant disadvantage.

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- Operational standards of NBN Co are presented as new industry standards to which other operators must adhere.

In conducting the investigation, the AGCNCO held discussions with the three complainants and with the Department of Broadband, Communications and the Digital Economy (DBCDE), NBN Co, the Department of Finance and Deregulation and the Australian Government Treasury. Written submissions were received from the DBCDE and from NBN Co. A draft of the report was provided to DBCDE and NBN Co for their comments on any matters of fact.

The NBN Co investigation was of a government business activity in its infancy. The business model had not been sufficiently implemented to yield data on what would be viewed as ‘normal’ costs and revenues. As such, the AGCNCO looked at whether NBN Co’s business model would place it in breach of competitive neutrality policy.

The AGCNCO found that NBN Co was in ex ante breach of its competitive neutrality requirements — that is, its business model as outlined in its business case would not generate a commercial rate of return. NBN Co’s expected (after tax) internal rate of return of 7 per cent from building the national broadband network is below all risk broad-banding estimates of commercial rates of return (which range from 8.4 per cent for low risk to 12.4 per cent for high risk).

The AGCNCO recommended that:

- the Australian Government arrange for an analysis of the nature and magnitude of the non-commercial benefits required to be delivered by the NBN Co. Also, based on this analysis, the Australian Government should put in place accountable and transparent community service obligation funding.
- to comply with competitive neutrality policy, NBN Co would need to adjust its pricing model by taking into account funding by the Australian Government for its community service obligations and would need to demonstrate that the adjusted pricing model is expected to achieve a commercial rate of return that reflects its risk profile.

After the report was release, the Minister for Broadband, Communications and the Digital Economy announced that no action would be taken in relation to the findings.

PETNET Australia

The AGCNCO received a complaint from Emil Ford and Co Lawyers on behalf of Cyclopharm Limited on 9 August 2011. Cyclopharm Limited alleged that PETNET Australia Pty Limited (hereafter PETNET Australia), a wholly owned subsidiary of the Australian Nuclear Science and Technology Organisation (ANSTO), was not complying with competitive neutrality policy.

Cyclopharm Limited is an Australian company. Through its wholly owned subsidiary, CycloPet Pty Limited, it manufactures positron emission tomography (PET) radiopharmaceuticals. The radiopharmaceuticals are used to detect and determine the location, extent and stage of cancer, neurological disorders and cardiac disease.

PETNET Australia manufactures and sells the most common PET radiopharmaceutical, fluoro-deoxy glucose (FDG). PETNET Australia (trading as PETNET Solutions) began its operations in August 2009. It operates two medical cyclotrons for radiopharmaceutical production at Lucas Heights. PETNET Australia currently provides FDG to Nepean Hospital, Royal North Shore (on a shared basis with Cyclopharm), and two private departments located at Sydney Adventist Hospital and PRP's Gosford imaging centre.

Cyclopharm claimed that:

- ANSTO's decision to enter into a franchise style arrangement with Siemens was approved without a public review process or tender
- ANSTO was charging prices that did not fully reflect costs and because of subsidised prices, PETNET Australia was able to secure a New South Wales tender to supply FDG to the public hospital sector
- ANSTO was not applying commercial rates of interest on loans made to PETNET Australia
- PETNET Australia could not achieve a commercial rate of return in the timeframe (10 years) set out by ANSTO.

As PETNET Australia had only begun operating in 2009, the investigation conducted by the AGCNCO related to a government business enterprise that was still operating in its start-up stage. As such, the AGCNCO looked at whether PETNET Australia was pursuing a business model that could place it in breach of competitive neutrality policy.

In conducting the investigation, the AGCNCO held discussions with the complainant and ANSTO. A written submission was received from ANSTO and a

draft investigation report was provided to ANSTO for comments on any matters of fact. The investigation report was released on 4 April 2012 (AGCNCO 2012).

The investigation's findings were that:

- ANSTO's process for selecting a commercial partner to re-enter the PET radiopharmaceuticals market was not a breach of competitive neutrality policy
- ANSTO's approach to apportioning and charging centrally provided services satisfied the requirements for competitive neutrality policy
- PETNET Australia had converted outstanding loans to equity and, as such, it could not be found in breach of the debt neutrality provision of competitive neutrality policy
- based on revenue and expenditure forecasts (provided by ANSTO), PETNET Australia's commercial operations were unlikely to achieve a commercial rate of return on the equity invested over either 10 or 15 years. This represented an ex ante breach of competitive neutrality policy.

The AGCNCO found that for ANSTO to comply with competitive neutrality policy, it would need to adjust PETNET Australia's business model such that it could be expected to achieve a commercial rate of return that reflected its risk profile and the full investment made by ANSTO.

ANSTO also argued that PETNET Australia faces more stringent regulatory requirements than its competitors by virtue of its Australian Government ownership. A comparison of the fees that PETNET Australia faces under the Australian Government regulatory environment and those it would face operating under the New South Wales regulatory regime revealed that the costs under the Australian Government regulatory framework and the ongoing fees for licencing and registration were higher.

If PETNET Australia was a private business only servicing state based hospitals and medical facilities (as is currently the case), it would only be subject to state based regulations. The Office recommended that the cost disadvantage resulting from the more stringent regulations applying to PETNET Australia should be neutralised in its cost base.

Complaints received but not formally investigated

Three complaints received during 2011-12 were not formally investigated.

Personal Properties Securities Register

A complaint was received from the Information Brokers & Law Stationers Association (IBLSA) on 23 August 2011 regarding potential pricing of searches to be conducted on the Personal Properties Securities Register (PPSR).

The PPSR is a new register established as part of the Council of Australian Governments (COAG) Reform Agenda under the Seamless National Economy National Partnership. The PPSR is a publically searchable register of security interests in personal property. The register has been established under the *Personal Properties Securities Act 2009*. It replaces a number of State and Australian Government based registers.

At the time of the complaint the register had not begun operation (nor had fees been set) and members of the IBLSA had ‘wholesale’ access to a number of registers through licensing arrangements. The IBLSA alleged that the proposed single pricing policy for the PPSR was a breach of competitive neutrality policy.

In assessing the activities of the PPSR, the AGCNCO held discussions with the Attorney General’s Departments and reviewed the relevant legislation and policy announcements surrounding the development of the PPSR. The AGCNCO concluded that the PPSR failed to meet the ‘business test’ and subsequently was not required to apply competitive neutrality policy.

There were two reasons for this conclusion.

- The PPSR does not have independence in its pricing sufficient for it to set prices that would allow it to earn a commercial rate of return. The PPSR has been given binding policy guidance over its pricing to the effect that it is to operate under the Australian Government Cost Recovery Policy (as set out in the Explanatory Memorandum supporting the *Personal Properties Securities Act 2009*). Agencies operating under cost recovery arrangements are specifically restricted to only recover those costs that are integral to the provision of products or services. By extension, this prevents the PPSR setting prices which incorporate an appropriate margin to generate a commercial return (as such a margin is not ‘directly related or integral to the provision of the product or service’ offered).
- As the *Personal Properties Securities Act 2009* establishes a unique feature which can only be ascribed to the PPSR — that of the ‘perfection’ of a security

— it has no actual or potential competitors. No other register, privately developed or otherwise, can confer perfection to the holder of a security. In this sense, law prevents users from choosing an alternative register for security holders seeking legal surety over their interest in personal property.

The complainant was advised that the potential pricing of the PPSR fell outside the purview of the AGCNCO.

Cemeteries operated by Penrith City Council

In January 2012, the AGCNCO received a complaint from Personal Services Australia regarding the cemeteries department of the Penrith City Council and compliance with competitive neutrality policy.

The AGCNCO informed the complainant that as a local government issue the complaint fell outside matters that the AGCNCO could investigate. The Office suggested that as the issue of concern related to compliance with competitive neutrality policy by local government in New South Wales that the complaint be taken to New South Wales Treasury.

Department of Infrastructure and Energy and Resources Licence Test Centre

The AGCNCO received a complaint from Elite Driving in September 2011 regarding changes made by Tasmania's Department of Infrastructure and Energy and Resources to their Licence Test Centres and possible competitive advantages to the RACT Driving School.

The complainant was informed that as the complaint did not relate to an Australian Government business, it fell outside matters that the AGCNCO could investigate.

D Government commissioned projects

A broad indicator of the quality and impact of the Commission's work is provided by the nature and breadth of the public inquiries and research studies which it is requested by governments to undertake. The acceptance rate of the Commission's findings and recommendations provides a further broad indicator of quality and impact.

This appendix updates information provided in previous annual reports on public inquiries and other projects specifically commissioned by the Government. It includes summaries of terms of reference for new inquiries and projects, and the principal findings and recommendations from reports which have been released, together with government responses to those reports.

The Productivity Commission is required to report annually on the matters referred to it. This appendix provides a summary of projects which the Government commissioned during the year and government responses to reports completed in 2011-12 and previous years. It also reports on commissioned projects received since 30 June 2012.

This appendix is structured as follows:

- terms of reference for new government-commissioned inquiries and studies
- reports released and, where available, government responses to them
- government responses to reports from previous years.

Table D.1 summarises activity since the Commission's 2010-11 annual report and indicates where relevant information can be found.

Table D.1 Stage of completion of commissioned projects and government responses to Commission reports

<i>Date received</i>	<i>Title</i>	<i>For terms of reference see</i>	<i>Stage of completion</i>	<i>Major findings/recommendations</i>	<i>Government response</i>
Inquiries					
17-2-10	Disability Care and Support	AR 09-10	Report completed 31 July 2011	AR 10-11	page 177
27-4-10	Caring for Older Australians	AR 09-10	Report completed 28 June 2011	AR 10-11	page 176
19-7-10	Australia's Urban Water Sector	AR 09-10	Report completed 31 August 2011	page 159	na
15-12-10	Economic Regulation of Airport Services	AR 10-11	Report completed 14 December 2011	page 163	page 164
3-2-11	Economic Structure and Performance of the Australian Retail Industry	AR 10-11	Report completed 4 November 2011	page 161	page 162
1-9-11	Australia's Export Credit Arrangements	AR 10-11	Report completed 31 May 2012	page 165	na
20-9-11	Climate Change Adaptation	AR 10-11	in progress	na	na
9-1-12	Electricity Network Regulation	page 156	in progress	na	na
6-2-12	Default Superannuation Funds in Modern Awards	page 157	in progress	na	na
29-6-12	Compulsory Licensing of Patents	page 159	in progress	na	na
Other commissioned projects					
1-10-10 (rcvd 22-4-10*)	Education and Training Workforce: Early Childhood Development	AR 10-11	Report completed 11 November 2011	page 166	page 168
18-4-11 (rcvd 22-4-10**)	Education and Training Workforce: Schools	AR 10-11	Report completed 20 April 2012	page 170	na
24-5-11	Annual Review of Regulatory Burdens on Business: Identifying and Evaluating Regulation Reforms	AR 10-11	Report completed 2 December 2011	page 168	page 169

4-7-11	Performance Benchmarking of Australian Business Regulation: Role of Local Government	AR 10-11	Report completed 4 July 2012	page 173	na
22-8-11	Impacts and Benefits of COAG Reforms	AR 10-11	Report completed 30 April 2012	page 171	na
28-2-2012	Regulation Impact Analysis: Benchmarking	page 158	in progress	na	na
14-3-2012	Strengthening Australia New Zealand Economic Relations	page 157	in progress	na	na
11-5-2012	COAG Regulatory and Competition Reforms	page 174	Report completed 29 June 2012	na	na

Note: References are to previous annual reports (AR) of the Productivity Commission. *Terms of reference for this project were included in those announced for the Annual Review of Regulatory Burdens on Business — Primary Sector on 28 February 2007. **Terms of reference for this project were included in those announced for the Education and Training Workforce: Vocational education and training (VET) study on 22 April 2010. **na** not applicable.

Terms of reference for new projects

This section outlines the terms of reference for commissioned projects received since the Commission's annual report for 2010-11, which are in progress or for which the report has not yet been released. Full terms of reference are available on the Commission's website and in the relevant reports.

Electricity Network Regulation

On 9 January, 2012, the Deputy Prime Minister and Treasurer, Wayne Swan, asked the Commission to conduct an inquiry into electricity network frameworks. The inquiry is to focus on benchmarking arrangements and the effectiveness of the application by network businesses of the current regulatory regime for the evaluation and development of interregional network capacity in the National Electricity Market (NEM).

The purpose of the inquiry is to inform the Australian Government about whether there are any practical or empirical constraints on the use of benchmarking of network businesses and then provide advice on how benchmarking could deliver efficient outcomes, consistent with the National Electricity Objective (NEO).

In addition, a second stream of the inquiry will examine if efficient levels of transmission interconnectors are being delivered, to inform the Australian Government about whether the regulatory regime is delivering efficient levels of interconnection to support the market.

The terms of reference specify that the Commission should:

- examine the use of benchmarking under the regulatory framework, incorporating any amendments introduced in the review period, in the National Electricity Rules and provide advice on how different benchmarking methodologies could be used to enhance efficient outcomes
- examine whether the regulatory regime, with respect to the delivery of interconnector investment in the National Electricity Market (NEM), is delivering economically efficient outcomes.

In undertaking the inquiry, the Commission has been requested to consider and take into account the work that is currently being progressed through the Standing Council on Energy and Resources, the Australian Energy Market Commission (AEMC) and the Australian Energy Regulator (AER).

A final report is to be released within 15 months of commencing the inquiry.

Default Superannuation Funds in Modern Awards

On 6 February 2012, the Assistant Treasurer asked the Commission to undertake an inquiry into default superannuation funds in modern awards. The purpose of the inquiry is to design transparent and objective criteria for the selection and ongoing assessment of superannuation funds eligible for nomination as default funds in modern awards. In considering these criteria, the terms of reference state that the Commission could have regard to the:

- appropriateness of the investment strategy of the default investment option of the fund in terms of risk and expected return
- medium to long term net-of-costs investment performance of the default investment option
- level of fees incurred by members
- scale of the fund and the level of services provided to fund members
- suitability and cost of insurance provided by the fund
- governance of the fund
- fees incurred and other impacts on members if they cease employment with an employer.

In undertaking the inquiry, the Commission has been asked to consider the interaction with the design and implementation of MySuper, the role of Fair Work Australia in making and varying modern awards, and the interim public review of modern awards by Fair Work Australia in 2012. A final report is to be provided within eight months of receipt of the reference.

Strengthening Australia New Zealand Economic Relations

On 29 January 2012 the Prime Ministers of Australia and New Zealand requested that the Productivity Commissions of both countries conduct a joint scoping study on strengthening trans-Tasman economic relations. The Prime Ministers have requested that the study identify reforms that will boost productivity, increase competitiveness and drive deeper economic integration between the two countries.

In undertaking the study, the Commissions are to provide analysis on:

- potential areas of further economic reform and integration, including identification of the areas of reform where benefits are likely to be most significant, with particular focus on critical issues for business like investment and productivity

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- the economic impacts and benefits of reform
 - any significant transition and adjustment costs that could be incurred
 - identification of reform where joint net benefits are highest
 - the means by which they might be best actioned and
 - the likely time paths over which benefits are expected to accrue.

The Commissions have been requested to provide a final report by 1 December 2012.

Regulatory Impact Analysis: Benchmarking

On 28 February 2012, the Australian Government, with the agreement of Council of Australian Governments (COAG)'s Business Regulation and Competition Working Group, has requested that the Productivity Commission undertake a benchmarking study into regulatory impact analysis (RIA) processes. In undertaking this study, the Commission has been requested to benchmark the efficiency and quality of Commonwealth, state and territory, and COAG RIA processes. The Commission is to specifically have regard to:

- when RIA are required and the factors which must be taken into consideration in analysis
- the mechanisms in place to ensure accountability and compliance with RIA processes
- specific evidence of where the RIA process has resulted in improved regulation
- how and when in the decision-making cycle decision makers engage
- whether there are leading practice examples in RIA that might usefully inform reform consideration by individual jurisdictions.

The study will compare processes and identify leading practices so that individual jurisdictions might learn from the experiences of others and to enable existing processes to be refined to maximise their effectiveness.

The Commission is required to provide a final report by the end of November 2012.

Compulsory Licensing of Patents

The Commission was asked on 29 June 2012 to undertake a nine month inquiry into the compulsory licensing provisions in the *Patents Act 1990*. The main purpose of the inquiry is to assess, advise and recommend on the impacts and mechanisms of compulsory licensing invoked by the Patent Act's public interest and anti-competitive safeguard.

The Terms of Reference require the Commission to:

- assess whether the current Australian provisions can be invoked efficiently and effectively
- recommend any measures to efficiently and effectively exercise these safeguard provisions, in a manner consistent with Australia's international obligations
- recommend any alternative mechanisms, to ensure that the balance between incentives to innovate and access to technology best reflects the objectives of reasonable access to health care solutions, maximising economic growth and growing the Australian manufacturing industry.

In undertaking the inquiry, the Commission is required to have regard to recent changes to the intellectual property system reflected in the *Intellectual Property Laws Amendment (Raising the Bar) Act 2012* (Cwlth), and the range of international approaches.

Reports released by the Government

This section summarises the main findings and recommendations of inquiry and research reports which have been released by the Government in the period to 1 October 2012. It includes terms of reference for those projects commenced and completed in that period and, where available, government responses.

Australia's Urban Water Sector

Inquiry Report No. 55 signed 31 August 2011, report released 12 October 2011.

The Commission's main findings and recommendations were:

- In recent times, the urban water sector has faced drought, growing populations and ageing assets.
- Governments have largely responded with prolonged and severe water restrictions and investments in desalination capacity.

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- The costs to consumers and the community have been large.
 - Water restrictions are likely to have cost in excess of a billion dollars per year (nationally) from the lost value of consumption alone.
 - Inefficient supply augmentation in Melbourne and Perth, for example, could cost consumers and communities up to \$4.2 billion over 20 years.
 - Large government grants for infrastructure may have led to perverse outcomes.
 - Conflicting objectives and unclear roles and responsibilities of governments, water utilities and regulators have led to inefficient allocation of water resources, misdirected investment, undue reliance on water restrictions and costly water conservation programs.
 - Therefore, the largest gains are likely to come initially from establishing clear objectives, improving the performance of institutions with respect to roles and responsibilities, governance, regulation, competitive procurement of supply, and pricing, rather than trying to create a competitive market as in the electricity sector.
 - To implement the recommended universal reforms, governments should:
 - clarify that the overarching objective for policy in the sector is the efficient provision of water, wastewater and stormwater services so as to maximise net benefits to the community
 - ensure that procurement, pricing and regulatory frameworks are aligned with the overarching objective and assigned to the appropriate organisation
 - put in place best practice arrangements for policy making, regulatory agencies, and water utilities
 - put in place performance monitoring of utilities and monitor progress on reform.
 - The circumstances of each jurisdiction and region differ and there is not a ‘one size fits all’ solution to industry structure. In addition to recommended universal reforms, the Commission has set out:
 - four structural options for large metropolitan urban water systems
 - three options for small stand-alone regional systems.
 - There is a role for COAG, but each government can proceed independently to implement the key reforms. Implementation of the reform package, with commitment by governments, will provide consumers with greater reliability of supply, greater choice of services at lower cost than otherwise and reduce the likelihood of costly and inconvenient restrictions.

Economic Structure and Performance of the Australian Retail Industry

Inquiry Report No. 56 signed 4 November 2011, report released 9 December 2011.

The Commission's main findings and recommendations were:

- There are almost 140 000 retail businesses in Australia, accounting for 4.1 per cent of GDP and 10.7 per cent of employment.
- The retail industry exhibits great diversity by: size of business, region, retail format, competition within sectors and in the nature of goods sold. Both current trading conditions and longer term trends are challenging. Retail sales *growth* has trended down over the past half decade as consumers save more of their rising incomes and their spending is increasingly directed towards a range of non-retail services.
- The retail industry has met many competitive challenges in the past. Online retailing and the entry of new innovative global retailers are just the latest. The intensified competition is good for consumers, but is challenging for the industry which, as a whole, does not compare favourably in terms of productivity with many overseas countries. And the productivity gap appears to have widened over time.
- Australia also appears to lag a number of comparable countries in its development of online retailing. The Commission's best estimate is that online retailing represents 6 per cent of total Australian retail sales — made up of 4 per cent domestic online (\$8.4 billion) and 2 per cent from overseas (\$4.2 billion). In some other countries, online sales figures are higher and set to grow further, as will also happen here.
- Retailers operate under several regulatory regimes that restrict their competitiveness and ability to innovate. Major restrictions which need to be addressed are:
 - planning and zoning regulations which are complex, excessively prescriptive, and often anticompetitive
 - trading hours regulations which restrict the industry's ability to adapt and compete with online competitors and provide the convenience that consumers want.
- Workplace relations regulations may not provide sufficient workplace flexibility to facilitate the adoption of best practice productivity measures in the retail industry, and require examination in the reviews scheduled in 2012.
- The current level of the low value threshold (LVT) for exemption from GST and duty on imports of \$1000 is judged to be a minor part of the competitive

disadvantage faced by retailers. But there are strong in principle grounds for the LVT to be lowered significantly, to promote tax neutrality with domestic sales. However, the Government should not proceed to lower the LVT until it is cost effective to do so.

- The Government should establish a taskforce charged with investigating new approaches to the processing of low value imported parcels, particularly those in the international mail stream, and recommending a new process which would deliver significant improvements and efficiencies in handling without creating delivery delays or other compliance difficulties for importers and consumers.
- Once an improved international parcels process has been designed, the Government should reassess the extent to which the LVT could be lowered while still remaining cost effective — the costs of raising this additional revenue should be at least broadly comparable to the costs of raising other taxes.

Government decision

On 9 December 2011 the Australian Government released its response to the report on the retail industry (Conroy, O'Connor, Sherry and Shorten 2011).

The Government agreed or agreed in principle with eight recommendations and noted four recommendations (in noting two of the recommendations, the Government recognised that some matters, such as those dealing with planning and zoning, trading hours and tenancy, were state issues). The Government also chose to “note” recommendations on Workplace Relations Regulation and on the gathering data about online retailing.

The Government did not agree with one recommendation dealing with the issue of restrictions on competition created by the *Copyright Act*. It preferred an alternative process to that recommended by the Commission to further investigate such concerns (by referring it to the Australian Law Reform Commission).

The Government welcomed the staged approach recommended by the Commission to the issue of the appropriate level of the Low Value Threshold. This involved establishing a Taskforce to investigate improved approaches to processing low value parcels and then reassessing the extent to which the Threshold could be reduced.

Economic Regulation of Airport Services

Inquiry Report No. 57 signed 4 November 2011, report released 30 March 2012.

The main findings and recommendations were:

- Some Australian capital city airports possess significant market power, whereas other airports are in a weaker bargaining position.
- Under the light-handed monitoring regime that replaced price cap regulation:
 - there has been a marked increase in aeronautical investment and airports have not experienced the bottlenecks that have beset other infrastructure areas
 - aeronautical charges do not point to the inappropriate exercise of market power
 - service quality outcomes overall are ‘satisfactory’ to ‘good’, although airlines have, on occasion rated two airports as ‘poor’
 - Australian airports’ aeronautical charges, revenues, costs, profits and investment look reasonable compared with (the mostly non-commercial) overseas airports.
- Commercial agreements with airlines are becoming more sophisticated. Agreements often include service level obligations, consultation on capital investment, price paths and dispute resolution when ‘in-contract’, but not during contract formation.
- And while airlines maintain that airports adopt ‘take it or leave it’ negotiation stances and some fail to provide adequate information, no party sought a return to regulatory price setting, given past experience with its associated costs.
- Price monitoring aims to constrain airports from inappropriately exercising any inherent market power. But neither the regulator nor Governments have acted when the regulator has raised the possibility that some airports might potentially be exercising market power.
- Where the regulator, in undertaking its monitoring role, finds prima facie evidence that an airport has misused its market power, the airport should be required to ‘show cause’ why its conduct should not be subject to a ‘forensic’ Part VIIA price inquiry. If the regulator is dissatisfied with the airport’s response it should formally recommend that the Government institute such an inquiry.
 - An airport that offered an ‘approved’ dispute resolution framework with binding arbitration during contract formation would not be subject to such a price inquiry.

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- The access charges and conditions faced by competitors to on-airport car parking are not so high as to impede competition. However, because of vertical integration, charges and conditions should be public and included in monitoring reports.
 - Such transparency would facilitate regulatory action under competition law if an airport acted to impede competition in order to inflate its car park prices or revenues.
 - Access to airport precincts in most major cities is congested owing to inadequate arterial roads and insufficient mass transit services.
 - Developments on airport land (a Commonwealth responsibility) can also add to congestion on connecting transport links (state and territory responsibilities)
 - Recent reforms to better integrate airport transport planning across jurisdictions have been introduced. A review of their efficacy should be undertaken in 2015.

Government decision

On 30 March 2012 the Minister for Infrastructure and Transport, the Hon. Anthony Albanese, and the Assistant Treasurer and Minister Assisting for Deregulation, the Hon. David Bradbury, released a response to the Commission's report (Albanese and Bradbury 2012). In responding to the report, the Government broadly accepted the Commission's recommendations, but did not fully implement its proposed approach.

The Government agreed in principle with the Commission's recommendations to continue monitoring and improve the operation of the regime through enhancements to the monitoring approach, namely:

- publication by the Australian Competition and Consumer Commission (ACCC) of a draft monitoring report
- a 'show cause' process that would see the ACCC, in the published draft airport monitoring report, having the option to nominate an airport to show cause why its conduct should not be subject to a price inquiry. Where the ACCC is not satisfied with an airport's response, the ACCC should make a recommendation to the relevant Minister that a price inquiry be held under Part VIIA of the Competition and Consumer Act 2010 (CCA)
- a review of the objective criteria for quality of service monitoring by June 2013

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- publication of airports' prices, terms and conditions for transport operators' access to airports.

However, the Government also noted that, in its view, since the ACCC is an independent statutory authority, it is the responsibility of the ACCC to give effect to a number of the Commission's proposed enhancements to the monitoring regime as it sees fit. In relation to the recommendation that as part of its monitoring report process, the ACCC should be able to nominate that an airport show cause why its conduct should not be subject to scrutiny under a Part VIIA price inquiry, the response stated that:

The Government believes that additional provisions for a formal 'show cause' process as recommended by the PC are not warranted, as the ACCC already has the ability under the current regulatory framework to seek additional information from airports if the ACCC considers this necessary. Where the ACCC has significant concerns as a result of its monitoring program, it can use its existing capacity to make a recommendation to the Minister responsible for competition policy for appropriate action under the CCA. The Minister will consider the information in the airport monitoring reports and any additional information provided by airports in deciding how to act on such a recommendation.

The Government response provided agreement to the Commission's recommendations on landside access to airports.

Australia's Export Credit Arrangements

Inquiry Report completed 31 May 2012, report released 26 June 2012.

The Commission's main findings and recommendations were that:

- The Export Finance and Insurance Corporation (EFIC) has been established to facilitate and encourage Australian export trade through the provision of financial services. EFIC is expected to conduct its origination business (loans, guarantees, insurance) on a commercial basis. EFIC also manages the national interest account.
- Virtually all of Australia's exports, by volume and value, take place without EFIC's assistance. EFIC's support goes to relatively few firms and often on a repeat basis. By value most of the support is targeted to large corporate clients. These clients account for more than three quarters of the value of EFIC's signings in 2010 11.
- Over the past five years, EFIC has earned most of its income through the investment of surplus funds and its capital and reserves, not the provision of

financial services. EFIC's commercial account operations have yielded a low rate of return, with some facilities subsidised by taxpayers.

- EFIC's commercial account objective should be to efficiently address the limited number of market failures that impede otherwise commercially viable export transactions.
- While few, if any, markets conform to the competitive ideal, there is no convincing evidence of systemic failures that impede access to finance for large firms or for resource-related projects in Australia.
 - EFIC should not continue to provide facilities to large corporate clients or for resource related projects in Australia, including suppliers to those projects, on the commercial account.
- Financial markets may be affected by information related failures. These are likely to be limited to small and medium-sized enterprises (SMEs) with limited export experience or attempting to access emerging export markets.
- Accordingly, EFIC's role should be to demonstrate to the private sector that providing export finance to such newly exporting SMEs can be commercially viable.
- To fulfil this demonstration role, EFIC should provide export finance services on the same basis as the private sector. This means:
 - setting prices to cover the expected full economic costs of provision; and
 - being subject to competitive neutrality arrangements, including earning an appropriate return on equity, setting prices commensurate with risk, and paying a tax equivalent charge and a debt neutrality fee.
- EFIC's commercial account product range should normally be limited to guarantees, including the provision of bonds on behalf of the exporter.
 - When directed by the Minister, the product range may extend to reinsurance for a limited period, to cover sovereign and country risk insurance provided to newly exporting SMEs by the private sector, when financial markets in the buyer's country are temporarily disrupted.
- Measures should be introduced to enhance the transparency of EFIC's activities to the Minister, the Australian Government and the public.

Education and Training Workforce: Early Childhood Development

Research Report completed 11 November 2011, report released 1 December 2011.

The Commission's main findings and recommendations were:

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- The early childhood development sector contributes to the positive early life outcomes experienced by the majority of young children in Australia. The sector provides early childhood education and care, child health and family support services to over 1.5 million children.
 - Governments are implementing a range of substantial reforms to early childhood education and care. These reforms have substantial implications for the 140 000 strong early childhood education and care workforce.
 - The reforms mean that about 15 000 more workers are likely to be required than would otherwise be the case, and the average level of workers' qualifications will need to increase. To meet this additional demand, wages for the more highly qualified childhood education and care employment categories will need to rise.
 - The supply of suitably qualified workers is likely to take some time to respond, and temporary exemptions from the new standards (waivers) will be required. Government timelines for reform appear optimistic.
 - Increased demand for qualifications will increase demand for vocational education and training. Unless existing concerns surrounding poor quality training are addressed, much of any increased investment in vocational education and training could be wasted. As a priority, a review of the relevant training package and sufficient funding so that the new national regulator, the Australian Skills Quality Authority, can effectively monitor the delivery of the package is required.
 - Appropriate and accessible professional development and support for staff is needed so that the benefits of additional training are enduring, and to disseminate information on the extensive pedagogical and regulatory sectoral reforms.
 - The increase in early childhood education and care service costs due to labour cost increases will mainly be shared by governments and parents, rather than by workers or providers. Under existing subsidy arrangements, access to long day care services is expected to be lower than without the reforms, as a result of higher costs faced by parents.
 - Alternative child care subsidy structures, emphasising targeting to the most disadvantaged children and families, could deliver cost savings to the Australian Government while helping to ensure access to services for those who would benefit most.
 - Child and family health nurses are generally in good supply. Research is required to determine the optimal mix of skills and qualifications in the child health workforce.

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- Early childhood development services are not currently providing the same start in life to children with additional needs, and many Aboriginal and Torres Strait Islander children, that is commonly available to other children. The workforce requirements to provide appropriate services for these children must be prioritised so that the gap in outcomes between them and other children is minimised, not exacerbated.
 - The development of integrated early childhood development centres provides new opportunities for improved service delivery, but may require additional leadership and cross-disciplinary professional development for staff for them to be effective.

Government decision

The Australian Government released an interim response to the Commission's *Education and Training Workforce: Early Childhood Development* report on 1 December 2011. The Government welcomed the Commission's report and stated that it would consider all of its findings and recommendations and provide a final response in mid 2012.

Annual Review of Regulatory Burdens on Business: Identifying and Evaluating Regulation Reforms

Research Report completed 2 December 2011, report released 15 December 2011.

The main findings and recommendations were:

- The regulatory system should ensure that new regulation and the existing 'stock' are appropriate, effective and efficient. This requires the robust vetting of proposed regulation; 'fine tuning' of existing regulations and selecting key areas for reform.
 - It also requires that these be performed in a coordinated and cost-effective way, with political leadership a key factor in all this.
- There is a range of approaches to reviewing existing regulation and identifying necessary reforms. Some are more 'routine', making incremental improvements through ongoing management of the stock; some involve reviews that are programmed, and some are more ad-hoc.
- Designed for different purposes, the techniques within these three categories can complement each other, though their usefulness varies.

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- Among ‘management’ approaches, red tape targets can be a good way to commence a burden reduction program. But ‘one-in, one-out’ rules have more disadvantages than advantages. Regulator practices can play a key role in compliance burdens, with scope apparent for improvement.
 - Reviews embedded in legislation can usefully target areas of uncertainty. Sunsetting can help eliminate redundant regulation and ensure that re-made regulation is ‘fit for purpose’, but requires good preparation. Post implementation reviews, triggered by the avoidance of a regulation impact statement, are an important failsafe mechanism but need strengthening.
 - Public stocktakes cast a wide net and can identify cross-jurisdictional and cumulative burdens. Reviews based on a screening principle, particularly the competition test, have been highly effective and could be extended. In-depth reviews are best for identifying options for reform in more complex areas, while benchmarking can point to leading practices.
 - Good design features vary for the individual techniques, but all require sound governance and effective consultation. For significant reviews, public exposure of preliminary findings is a key success factor.
 - While Australia’s regulatory system now has the necessary institutions and processes broadly in place, there remains scope for improvement in:
 - prioritisation and sequencing of reviews and reforms — with greater attention paid to the costs of developing and undertaking reforms
 - monitoring of reviews and the implementation of reforms
 - advance information to achieve better focused consultations
 - incentives and mechanisms for good practice by regulators — with a further review needed to identify the best approaches
 - building public sector skills in evaluation and review.

Government decision

On 23 May 2012, the Attorney General, the Hon. Nicola Roxon, introduced the *Legislative Instruments Amendment (Sunsetting Measures) Bill 2012* into Parliament (Roxon 2012). The Bill is consistent with a recommendation in the Commission’s report that more flexibility be introduced into the Legislative Instruments Act to enable thematic reviews of related instruments. It also provides for greater smoothing of dates when older instruments must sunset, which is also consistent with the Commission’s report.

In introducing the Bill into Parliament, the Attorney General stated:

The Productivity Commission, in its 2011 report *Identifying and Evaluating Regulation Reforms*, expressed concern about the mass expiry of instruments from 2015. They identified an increased risk that instruments will be remade without adequate review and without proper consultation with business and other stakeholders. The Commission noted that the sheer quantity of instruments required to be remade by government increases the risk that business and other stakeholders will not have sufficient time to make a meaningful contribution to any review.

Consistent with the recommendations of the Productivity Commission, the purpose of this bill is to smooth these sunseting peaks and to encourage high-quality consultation before regulations and legislative instruments are remade. It is also intended to ensure the information on the Federal Register of Legislative Instruments is current.

Education and Training Workforce: Schools

Research Report completed 20 April 2012, report released 4 May 2012.

The main findings and recommendations from the report were:

- Australia's future depends on how well it develops the 'human capital' of its population. A well-performing schooling system is fundamental.
- Australian schools generally deliver good student outcomes at reasonable cost, but improvements are required.
 - Student literacy and numeracy have declined in recent years, and Australia has fallen behind other high-performing countries, despite increased spending per student and falling class sizes.
 - Australia does not perform as well as other countries in offsetting educational disadvantage, especially for Indigenous students.
- More effective teachers and other school workers would achieve better student outcomes, and a more efficient schools workforce would achieve a greater improvement from any given level of resources.
- An extensive range of workforce-related reforms are already in place or prospect, but it is too early to fully judge their impacts.
- This study has focused on identifying cost-effective measures that would build on the existing reform program, address some problematic initiatives, and deal with matters that have received insufficient attention.
- The Commission's proposed package of reforms gives priority to:

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- raising teacher quality — by improving: teacher training, induction and mentoring; teacher appraisal; the management of unsatisfactory performance; and the link between teacher performance and career progression
 - reducing teacher shortages — through greater use of pay differentials for hard-to-staff positions, and more flexible entry requirements for teacher training
 - ameliorating educational disadvantage — through targeted initiatives based on evidence, alongside the broader reforms recommended in this study
 - strengthening the use of evaluation and research in policy making — by governments individually reviewing and reforming their approaches, and jointly initiating policy evaluations on educational disadvantage and teacher shortages.
- Many of the recommended reforms would raise the attractiveness of teaching as a profession, and so help to turn around the widely held perception that the status of teachers has declined.
 - The Commission has also made a range of policy-related findings, including on the:
 - importance of school leadership and autonomy in driving workforce innovation
 - benefits of greater flexibility in the industrial relations regime for school workers.

Impacts and Benefits of COAG Reforms: Business Regulation, VET and Youth Transitions

Research Report completed 30 April 2012, report released 15 May 2012. The study assessed the impacts of COAG reforms in two areas:

- aspects of the ‘Seamless National Economy’ regulatory reform priorities; and
- vocational education and training (VET).

Main findings and recommendations were:

- As most of the reforms being assessed have only just been implemented or are to be implemented, most benefits are yet to occur.
 - Forward looking (*ex ante*) assessments of potential changes, together with information obtained during this study, have been the starting point for determining likely impacts.

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- Given the early stage of most reforms, judgements have had to be made. This is particularly the case in estimating the progress and impact of the OHS reforms, given the uncertainties, including the dynamic effects.
 - The Commission’s assessment is that the reforms being considered could raise output and income in all jurisdictions.
 - Seamless National Economy reforms are aimed at reducing the regulatory burden imposed on firms that operate in multiple jurisdictions. Full implementation could ultimately provide cost reductions to business of around \$4 billion per year.
 - After a period of adjustment, national output (GDP) could be increased by nearly one half of a per cent (around \$6 billion per year).
 - Based on current plans, the majority of these gains could accrue by 2020.
 - Guided by achievement of reform milestones, reform reward payments should, as far as practicable, be linked to the achievement of reform outputs and outcomes.
 - Vocational education and training reforms are aimed at improving the overall quality of the workforce and encouraging higher workforce participation, through increased VET provision and greater flexibility in courses offered.
 - Attainment of the COAG 2020 targets potentially could raise GDP by two per cent.
 - It would also assist in achieving COAG’s broader social inclusion goals.
 - Increased efforts by governments will be required if the potential of the COAG agenda is to be realised.
 - A number of areas offer opportunities for even better outcomes. In particular:
 - a more systematic approach to identifying and implementing business regulation reforms;
 - initiatives to increase VET completion rates; and
 - ensuring VET reforms are sequenced so that the building blocks are in place for the successful transition to more contestable markets including:
 - ... strengthening quality control through cost-effective independent validation and auditing of training organisations’ assessment practices, as well as
 - ... making information available to students on the costs of training, quality and labour market outcomes for individual training organisations.

Performance Benchmarking of Australian Business Regulation: Role of Local Government

Research Report completed 4 July 2012, report released 18 July 2012.

The Commission's main findings and recommendations were:

- Implementing and enforcing state and territory laws, rather than local laws, dominates local governments' regulatory workload.
- While the Commonwealth has very limited powers to make laws for local government, it can influence them via national frameworks, such as food safety.
- In addition to local laws and quasi-regulatory instruments, rules can be imposed on business by 'decisions' determined under other laws, such as occurs with permits (including development approvals), licences, leases or registrations. Although they can impose costs on business and/or be anti-competitive, local instruments do not face as much scrutiny as state, territory or Commonwealth regulation.
- Burdens on business arise from delays, information requirements, restrictions on approvals, fees and penalties. Local governments can also prevent a business from operating or realising opportunities. Building, planning and land-use regulations impose the largest burdens on business.
- Unnecessary business burdens will be lower when local governments regulate well. The most important gaps in the support from states to local governments are:
 - insufficient consideration of local governments' capacity to administer and enforce regulation before a new regulatory role is delegated to them
 - limited guidance and training on how to administer and enforce regulations
 - no clear indication and ranking of state regulatory priorities.
- Leading practices for the states and the Northern Territory, include:
 - guidance to local government in writing regulation, such as Victoria's Guidelines for Local Laws
 - incentives for local governments to achieve scale and scope economies in regulatory functions
 - periodic assessment of the stock of local regulation and state regulation requiring a local government role
 - efficient cost recovery for local government regulatory functions
 - guidance to local government in the scrutiny of the impact of laws

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- graduated review and appeal systems for both local government decisions and processes
 - having regulatory decisions made by bodies which take account of all impacts
 - removing or managing the conflicting objectives between local governments' regulatory and other functions
 - a comprehensive central register of the state laws for which local government has a role in administration, enforcement and/or referral.

COAG Regulatory and Competition Reforms

Research Report completed 29 June 2012, report released 3 August 2012.

On 11 May 2012 the Secretary of the Treasury, Dr Martin Parkinson, wrote to the Commission requesting that it undertake, by the end of June 2012, a preliminary high-level review of a range of areas of reform. These reforms were identified by the Business Regulation and Competition Working Group, the Standing Council on Federal Financial Relations and COAG's Business Advisory Forum. They included:

- six priority areas for major reform to lower costs for business and improve competition and productivity, agreed by COAG on 13 April 2012:
 - addressing duplicative and cumbersome environment regulation
 - streamlining the process for approvals of major projects
 - rationalising carbon reduction and energy efficiency schemes
 - delivering energy market reforms to reduce costs
 - improving assessment processes for low risk, low impact developments
 - best practice approaches to regulation
- reforms that COAG agreed on 13 April 2012 to consider to reduce reporting burdens on business through the removal of overlaps in Commonwealth and State and Territory reporting obligations, including the expanded use of online business reporting
- reforms that COAG agreed on 13 April 2012 to consider as part of a new National Productivity Compact to be developed between the Commonwealth, States and Territories and business, to future proof national frameworks, including new national regulatory principles, mechanisms to facilitate more consistent and efficient implementation and enforcement of regulation, and ex-post review of national frameworks

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- the following proposed areas of reform identified by the Business Regulation and Competition Working Group and the Standing Council on Federal Financial Relations:
 - harmonisation of occupational conduct requirements
 - further occupational licensing reform
 - harmonisation of explosives legislation
 - extension of the National Construction Code
 - land transport reform;
 - reforms to government services
 - urban water reform
 - tax reform.

The request also asked that the Commission's analysis draw on past Commission reports and related existing materials, and outline matters such as the national significance of each reform area and the potential reform gains.

Government responses to reports from previous years

Inquiry into Government Drought Support

Inquiry Report No. 46 signed 27 February 2009, report released 12 May 2009.

On 28 June 2010, the Australian Government announced that, in partnership with the Western Australian Government, it would conduct a pilot of drought reform measures from 1 July 2010 to 30 June 2011 (Burke 2010a). The pilot reform measures draw partly on a number of recommendations made in the Commission's report, in particular regarding interest rate subsidies and farm exit support.

Subsequently, on 27 April 2012, the Minister for Agriculture, Fisheries and Forestry, the Hon. Joe Ludwig, announced a new national framework for drought management and preparedness (Ludwig 2012). As part of these reforms, and in line with recommendations in the Commission's report, Exceptional Circumstances Interest Rate Subsidies concluded on 30 June 2012.

Rural Research and Development Corporations

Inquiry Report No. 52 signed 10 February 2011, report released 15 June 2011.

The Australian Government released a preliminary response to the Commission's report on 15 June 2011. This stated that, while the Government acknowledged that improvements can be made to the RDC model, it would not adopt the Commission's recommendation to halve the cap on government matching contributions to RDCs in conjunction with the introduction of a new subsidy above the cap. The Government also stated that it would develop a more detailed final response to the report.

The final response to the report was subsequently released in July 2012 (Australian Government 2012a). The Government agreed or agreed in principle to thirteen of the Commission's recommendations. These included recommendations on public funding principles, industry requests for marketing, evaluations and performance reviews, specific maximum levy rates, government matching funding, annual monitoring and reporting, and government representation on RDC Boards. The Government did not agree with four of the Commission's recommendations, including on halving the cap on government matching contributions to RDCs in conjunction with the introduction of a new subsidy above the cap, and on the possible establishment of a new RDC, Rural Research Australia.

Caring for Older Australians

Inquiry Report No. 53 signed 28 June 2011, report released 8 August 2011.

The Australian Government released its *Living Longer. Living Better.* aged care reform package, which included a response to the Commission's report, in May 2012 (Australian Government 2012b). A number of recommendations from the Commission's report were supported, and adopted in the *Living Longer. Living Better.* reforms. These included:

- the establishment of an Aged Care Reform Council
- that no deductions will be permitted from the bonds paid for residential care accommodation
- new 'intermediate level' community care packages
- the establishment of an initial care Gateway (but not accompanied by a move to an aged care entitlement as the Commission had recommended)
- a review of the reforms after five years
- the establishment of an aged care data clearing house.

Recommendations on respite care, carer support arrangements, sub-acute health services and palliative care were also supported. The government also supported recommendations to separate the policy settings for the major cost components of aged care; and that a life-time stop-loss provision for care costs be introduced.

The Government did not agree with a number of the Commission's recommendations, including those on establishing an Aged Care Home Credit scheme, establishing an Aged Pensioners Savings Account and establishing an independent regulatory agency. While the government announced a comprehensive (income and asset) means test for care contributions in residential care only (rather than in all settings as recommended by the Commission), the principal residence has been excluded from the means test for care (a measure that had been recommended by the Commission to improve the long-term fiscal sustainability of the aged care system).

Disability Care and Support

Inquiry Report No. 54 signed 31 July 2011, report released 10 August 2011.

On 10 August 2011 the Australian Government provided an initial response to the Commission's report (Gillard et al. 2011). The response supported 'the Productivity Commission's vision for a system that provides individuals with the support they need over the course of their lifetime, and wants reform of disability services that is financially sustainable.' It also stated that:

In line with the Productivity Commission's recommendations, the Government, with the States and Territories, will start work immediately on building the foundations for reform. We will:

- Deliver an immediate, additional \$10 million, consistent with the PC recommendations, to support this technical policy work;
- Move to establish a COAG Select Council of Ministers from the Commonwealth, States and Territories to lead reform in this area at COAG next month;
- Take steps to establish an Advisory Group to the Select Council, led by Dr Jeff Harmer, to provide expert advice on delivering the foundations for reform and preparation for launch. (Gillard et al. 2011)

The response stated that, in line with Commission recommendations, work on technical policy work would include development of common assessment tools to determine eligibility for support; development of service and quality standards; development of a national pricing structure; and capacity building in the disability sector, including in relation to the workforce.

Following this, on 25 July 2012, COAG noted progress in establishing the first stage of a National Disability Insurance Scheme (NDIS) from July 2013, and that the Commonwealth has reached in-principle agreement with South Australia, Tasmania and the Australian Capital Territory for a launch to commence from July 2013 (COAG 2012). COAG also noted that it:

... welcomed a report from the Select Council on Disability Reform on progress with establishing an NDIS... As part of its report, the Select Council has proposed an approach to defining eligibility and reasonable and necessary support under an NDIS, building on the work of the Productivity Commission.

E Supporting research and related activities

The Commission's supporting research program encompasses a range of activities. This appendix provides brief summaries of Staff Working Papers released in the year. It also lists the presentations given by the Chairman, Commissioners and staff to parliamentary committees, conferences and industry and community groups in 2011-12, as well as briefings to international visitors.

Staff working papers

Note: The views expressed in staff working papers are those of the authors and do not necessarily reflect the views of the Productivity Commission.

Multifactor Productivity Growth Cycles at the Industry Level

Paula Barnes, July 2011

This staff working paper examined multifactor productivity growth cycles at the industry level in Australia. There is considerable variation in industry-specific cycles across industries and the market sector. Moreover, the cycles chosen to examine industry MFP growth can have a considerable effect on the interpretation of industry productivity performance over time.

Key points of the paper included:

- Understanding productivity performance and its drivers at the aggregate market sector level requires a closer examination of the underlying productivity performance of individual industry sectors. But interpreting movements in both aggregate and industry productivity measures is not entirely straightforward.
- Year-to-year changes in measured multifactor productivity (MFP) reflect not only technological progress, but also many other temporary influences.
 - One important such influence is change in the utilisation rate of capital that, because of limited data, is not measured as a change in inputs but instead appears as a change in measured MFP.

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- A common approach when interpreting movements in MFP is to attempt to abstract from these temporary influences through longer-term averaging of measured growth. The Australian Bureau of Statistics (ABS) identifies periods over which to best examine market sector MFP. These are called ‘MFP growth cycles’ or ‘peak-to-peak periods’.
 - The ABS identifies these periods by reference to peak deviations from trend MFP and to general economic conditions at the time.
 - It is potentially misleading to use MFP cycles for the aggregate market sector for analysing industry MFP over time, as the influences affecting deviations from trend vary across industries.
 - Detailed industry studies would be able to provide information to aid in the identification of industry cycles. However, in the absence of such information, the ABS method for identifying MFP growth cycles for the market sector can be made more mechanical and generic so it can be applied to a range of industries. This modified approach includes:
 - a uniform set of rules for selecting which peak deviations are to be used in industry MFP growth cycles — including taking account of the robustness of peak deviations to alternative trend estimates
 - flagging where the selection of specific peak deviations may benefit from further investigation in industry-specific studies.
 - Applying this modified approach at the industry level suggests that there is considerable variation in industry-specific cycles.
 - Less than a quarter of the industry cycles coincide with market sector cycles. For example, industries including Agriculture, forestry & fishing, Mining, and Wholesale trade have no cycles in common with the market sector, while all cycles identified for Manufacturing coincide with those for the market sector.
 - For both Mining and Wholesale trade, a period of negative MFP growth over a market sector cycle is actually a period of positive MFP growth over the closest industry-specific cycle.
 - This approach provides a generic method for the identification of industry cycles, but the paper also notes the scope for further refinement in the identification of cycles where more detailed industry-specific information is available.

Influences on Indigenous Labour Market Outcomes

Annie Savvas, Clare Boulton and Ellie Jepsen, December 2011

This paper used data from the 2008 National Aboriginal and Torres Strait Islander Social Survey (NATSISS) to model the links between various personal characteristics and activities, and four Indigenous labour market outcomes. As causality may run in either direction, results are interpreted as associations.

Key points from the paper were:

- Results typically differ between men and women, in part because of different responsibilities in relation to child rearing, broader family responsibilities and other specialisation in unpaid work. Of these differences, the most notable were those for educational attainment. Results suggest that for women, attainment of year 10 or above is associated with a higher probability of employment and labour force participation, whereas this is less evident for men.
- Results confirm findings from previous research that other human capital factors, such as good health, are positively associated with Indigenous employment and labour force participation.
- Arrest and imprisonment were found to be negatively associated with Indigenous employment and labour force participation. A history of arrest was found to have a larger negative association with employment for women compared to men.
- Models that omit personal characteristics that might determine an individual's labour supply (such as ability, motivation and preferences) are likely to produce biased estimates of the effect of the human capital factors that are included in the model (such as education, health and disability).
 - One benefit of including variables in the model that represent cultural and social engagement is that they may act as proxies for unobserved personal characteristics, reducing the impact of this source of bias.
- The cultural and social engagement factors were found to have statistically significant associations with Indigenous labour market outcomes for women, but not for men.
 - For women there were positive associations between employment and labour force participation, and engagement in social cultural events and the provision of support outside the household.
- A greater understanding of the links between social capital and labour market outcomes could be explored using alternative econometric models. However, there are limits to the indicators that can be derived from the data.

Productivity in Electricity, Gas and Water: Measurement and Interpretation

Vernon Topp and Tony Kulys, April 2012

This staff working paper examined productivity trends in the Australian utilities industry and highlighted some significant issues relating to the measurement and interpretation of changes in measured productivity over time.

Key points from the paper included:

- Multifactor productivity (MFP) growth in Australia's market sector has been considerably below average since 2003-04. Utilities (Electricity, Gas, Water and Waste services), have played a significant role in this, with MFP growth being strongly negative between 1997-98 and 2009-10 (MFP falling, on average, by 3.2 per cent per year).
- To better understand why, this study examined MFP at the subdivision level, with a particular focus on the two largest subdivisions — Electricity supply (ES), and Water supply, sewerage and drainage services (WSSD). MFP growth between 1997-98 and 2009-10 was negative for both ES (on average, -2.7 per cent per year) and WSSD (-4.3 per cent per year).
- Around half of the MFP decline in ES was due to an increase in the ratio of peak to average electricity demand, which lowered average rates of capacity utilisation. This was largely attributable to rapid growth in household use of airconditioners.
 - Three other contributors were: cyclical investment in lumpy capital assets, which temporarily increased inputs ahead of growth in output; a shift to greater undergrounding of electricity cabling, which raised costs and the quality of output, but not the volume of measured output; and policy induced shifts away from coal-fired power to higher-cost, but less polluting, sources of new supply.
- In WSSD, two developments contributed around 80 per cent of the decline in MFP after 1997-98. First, restrictions on water demand in response to widespread drought conditions led to lower measured output. Second, stricter sewage treatment standards increased industry costs, but there was no adjustment to measured output to account for the quality improvement.
 - Two other contributing factors were cyclical investment patterns, and a shift to higher-cost sources of new water supplies, particularly desalination plants, to improve water security.

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- The negative influence on utilities MFP growth of two of these influences — the cyclical surge in new investment and the 2000s drought — is expected to be largely temporary. However, the remaining factors are structural, permanently raising input requirements in the industry (though in some cases bringing an increase in the quality of outputs).
 - This study highlights some of the challenges involved in measuring and interpreting estimates of MFP growth in utilities.
 - A particular concern is the influence of changes in capacity utilisation arising from either cyclical investment patterns, or changes in the structure of electricity demand.
 - Also, government policies, regulatory settings and external shocks (especially the weather) can impact on the quantity or quality of measured output, and on the choice of production technology, thereby influencing estimates of MFP.

Table E.1 Speeches and presentations by the Chairman, Commissioners and staff, 2011-12

<i>Organisation/event</i>	<i>Topic</i>	<i>Date</i>
Gary Banks, Chairman:		
40th Australian Conference of Economists Business Symposium, Canberra	Does Public Policy get the Economics it deserves?	July 2011
Australian Institute of Administrative Law Conference, Canberra	Independence and the Commission	July 2011
Launch of CIPHER, Sydney	Evidence and Health Policy	July 2011
APEC Residential Workshop on Structural Reform, Singapore	Successful reform – past lessons, future challenges	Aug 2011
COAG Reform Council Workshop: 'The National Statistical System', Canberra	Priorities for Statistics in the future	Aug 2011
Sydney Business Chamber Corporate Affairs Forum, Sydney	Pursuing productive reform in 'Interesting Times'	Nov 2011
Australian Institute of Company Directors Economic Forum, Sydney	Why regulation is important to economic performance	Sept 2011
Swinburne University Chancellors Lecture, Melbourne	Independent policy advice and the Commission	Sept 2011
Tax Forum, Canberra	Comments of Taxation and behaviour	Oct 2011
The Treasury Seminar Series, Canberra	Tricks and Traps of the Inquiry Trade	Nov 2011
OECD Regulatory Policy Conference, Paris	Reforming the Regulatory 'Stock'	Nov 2011
OECD Global Forum on Trade, Paris	The relationship of trade to employment and growth	Nov 2011
ACCI Annual Dinner, Canberra	Industry assistance in a 'patchwork economy'	Nov 2011
International CEO Forum, Melbourne	Pursuing productive reform in 'Interesting Times'	Feb 2012
CEDA 2012 Economic and Political Overview, Melbourne	Productivity Perspectives	Feb 2012
Science & Technology Australia meets Policymakers Forum, Canberra	Successful policy and (scientific) evidence	Feb 2012
Centre for Corporate Public Affairs 2012 Politics & Public Review, Canberra	Public policy priorities and the Productivity Commission	March 2012
CEDA's Productivity Series: Improving Australia's Scorecard, Sydney	Productivity and regulatory reform: what is needed?	March 2012
Melbourne Institute, Public Economics Forum, Canberra	Introduction on challenges of the 'three speed economy'	April 2012

Victorian Public Service Executive Leadership Program, Melbourne	Role of the public service – providing independent policy advice	May 2012
Deakin University Policy Forum, Melbourne	Challenges for the new Victorian Gambling and Alcohol Regulator: Setting the scene	May 2012
Minerals Council of Australia Annual Minerals Week Seminar, Canberra	Who's afraid of the Mining Boom?	May 2012
CEDA's State of the Nation 2012: Australia Unbound, Canberra	Whither Trans Tasman economic relations?	June 2012
Alfred Deakin Research Institute Policy Forum, Canberra	Australia's Productivity Performance and the Resources Sector	June 2012
Commissioners:		
Australian Social Policy Conference 2011, Sydney (Alison McClelland)	Opening remarks	July 2011
40 th Australian Conference of Economists, Canberra (Patricia Scott)	Commission's inquiry into Bilateral and regional trade agreements	Aug 2011
QCOSS Conference (Robert Fitzgerald)	Human services reform and not for profit	Aug 2011
Parliamentary Library Staff Seminar, Canberra (Mike Woods)	Commission's inquiry into Caring for Older Australians	Aug 2011
Catholic Health Australia Conference, Canberra (Robert Fitzgerald)	Reforms in the human services sector; impacts and opportunities for Catholic Providers.	Sept 2011
Philanthropy Australia Conference, Melbourne (Robert Fitzgerald)	Commission's study into the Contribution of the Not for Profit Sector	Sept 2011
National Catholic Education Conference, Canberra (Robert Fitzgerald)	In whose interests are we acting? Ethical, moral and pragmatic challenges for non profit school boards and leaders	Sept 2011
Korea Development Institute International Forum on the Service Sector Advancement, Korea (Mike Woods)	Service delivery to Australia's ageing society	Sept 2011
Community Services & Health Industry Skills Council National Conference, Brisbane (Robert Fitzgerald)	Commission's inquiry into Caring for Older Australians	Oct 2011
Local Government Professionals Aged and Disability Services Seminar, Melbourne (Robert Fitzgerald)	Commission's inquiry into Caring for Older Australians	Oct 2011

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Table E.1 (continued)

<i>Organisation/event</i>	<i>Topic</i>	<i>Date</i>
Brotherhood of St Laurence and Melbourne University Roundtable on Inclusive Growth in Australia, Melbourne (Alison McClelland)	How to have economic growth that benefits all Australians	Oct 2011
Consumers Health Forum of Australia 2011 Lecture in Honour of Dr Christopher Newell AM, Canberra (Robert Fitzgerald)	Aged Care Reform	Oct 2011
Australian Institute of Health and Welfare Conference, Canberra (Robert Fitzgerald)	Commission's inquiry into Caring for Older Australians	Nov 2011
Bridge Housing Ltd Annual General Meeting, Sydney (Robert Fitzgerald)	Guest speaker: Human services reforms	Nov 2011
Job Futures Chairs & CEOs' Forum, Sydney (Robert Fitzgerald)	Reforms to human services and not for profits	Nov 2011
AIHW conference: Welfare in a growing economy, Canberra (Robert Fitzgerald)	Reforming Australia human services: challenges & opportunities	Nov 2011
Australian Sustainability Awards, Melbourne (Robert Fitzgerald)	Keynote speaker: Commission's study into the Contribution of the Not for Profit Sector	Dec 2011
Victorian Water Industry Association Managing Directors Forum, Melbourne (Wendy Craik)	Commission's inquiries into Australian Urban Water Sector and the Barriers to Effective Climate Change adaptation	Feb 2012
Health Workforce Australia Reform, Adelaide (Mike Woods)	Caring for older people reform — tackling workforce challenges: how will we provide safe, quality care?	Feb 2012
ACCC Retreat, Melbourne (Angela MacRae)	Work and life balance	Feb 2012
Retail Leaders Forum, Sydney (Philip Weickhardt)	Commission's inquiry into Economic Structure and Performance of the Australian Retail Industry	March 2012
Australian Coastal Council Conference and Research Forum, Hobart (Wendy Craik)	Commission's inquiry in Barriers to Effective Climate Change Adaptation	March 2012
AHPA National Conference, Canberra (Robert Fitzgerald)	Keynote address on reforming human services, community wellbeing and wellness.	April 2012
IPANZ Rethinking Local Government Conference, New Zealand (Warren Mundy)	Local Government as a regulator: the Australia experience	April 2012
CEDA Trustee Luncheon, Melbourne (Mike Woods)	Commission's inquiry into Caring for Older Australians	April 2012

Australian New Zealand Leadership Forum, Sydney (Jonathan Coppel)	Australian and New Zealand: together in the Indo-Pacific Century	April 2012
Energy Networks Association CEO Forum, Brisbane (Philip Weickhardt)	Commission's inquiry into Electricity Network Regulation	April 2012
NCCARF/DCCEE/ANU Workshop, Canberra (Wendy Craik)	Commission's inquiry in Barriers to Effective Climate Change Adaptation	May 2012
Practical Responses to Climate Change National Conference, Canberra (Wendy Craik)	Commission's inquiry in Barriers to Effective Climate Change Adaptation	May 2012
Annual General Meeting for Early Childhood Management Services, Melbourne (Angela MacRae)	Commission's study into Early Childhood Development Workforce	May 2012
Policy Forum on Adaption in OECD Countries, Paris (Jonathan Coppel)	Commission's inquiry in Barriers to Effective Climate Change Adaptation	May 2012
The Homelessness NSW 2012 Conference, Newcastle (Robert Fitzgerald)	Getting results in Newcastle: the next era for the not for profit sector	May 2012
University of South Australia Chancellors' Council meeting, Adelaide (Mike Woods)	Productivity in Universities	May 2012
Australian National Institute for Public Policy course, Canberra (Wendy Craik)	Commission's inquiry in Barriers to Effective Climate Change Adaptation	May 2012
OECD Policy Seminar, Mexico (Mike Woods)	Peer review of the OECD review of regulatory policies in Mexico	July 2012
LGMA NSW Forum: tackling the issues, Sydney (Warren Mundy)	Commission's study into Performance Benchmarking of Australian Business Regulation: Role of Local Government as Regulator	June 2012
ALGA National General Assembly of Local Government, Canberra (Warren Mundy)	Commission's study into Performance Benchmarking of Australian Business Regulation: Role of Local Government as Regulator	June 2012
NCCARF Climate Adaptation in Action 2012: sharing knowledge to adapt, Melbourne (Wendy Craik)	Commission's inquiry in Barriers to Effective Climate Change Adaptation	June 2012

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Table E.1 (continued)

<i>Organisation/event</i>	<i>Topic</i>	<i>Date</i>
Staff: Parliamentary Library Staff Seminar, Canberra (Rosalie McLachlan & Anthony Housego)	Commission's inquiry into Caring for Older Australians	Aug 2011
Victorian Taxi Industry Inquiry, Melbourne (Alan Johnston)	Reform of the Victorian Taxi Industry	Sept 2011
Australian Economic Forum, Sydney (Dean Parham & Leo Soames)	Productivity Masterclass	Sept 2011
National Housing Supply Council, Melbourne (Sue Holmes & Rosalyn Bell)	Commission's study into Performance Benchmarking of Australian Business Regulation: Planning, Zoning and Development Assessments	Sept 2011
COAG Reform Council Conference on Objective for Cities – how are we faring, Melbourne (Sue Holmes)	What is evidence-based policy making? How do we get it?	Oct 2011
OECD international collaborative initiative for trade and employment conference, Paris (Patrick Jomini)	Interactions between trade and employment: Australia case study	Nov 2011
Reserve Bank of Bank, Sydney (Dean Parham & Leo Soames)	Productivity Masterclass	Nov 2011
The Treasury, Canberra (Dean Parham & Leo Soames)	Productivity Masterclass	Nov 2011
Forum of Federations public service benchmarking under localism and federalism, London (Lawrence McDonald)	Some Australian experiences in performance assessment	Feb 2012
Annual Economics Teachers' Conference, Melbourne (Clinton Pobke)	Overview of Commission's work on microeconomic reform	March 2012
Inaugural Homelessness Research Conference, Melbourne (Sophie Vassilios)	Report of Government Services	April 2012
Melbourne Institute's Intergen+10, Canberra (Ralph Lattimore)	The economic effects of ageing with an emphasis on the implications of productivity	May 2012

Table E.2 International delegations and visitors, 2011-12

<i>Organisation/delegation</i>	<i>Briefing/discussion purpose of visit</i>	<i>Date/location</i>
Professor Stephen Littlechild, University of Cambridge	Seminar to the Commission on the nature of competition and the evolving regulatory process	July 2011 (M)
Pascal Lamy	Discussion of Commission's role and trade policy developments	Aug 2011 (C)
Japanese Delegation	Study tour of carbon pricing scheme	Sept 2011 (C)
Chilean Delegation	Ministerial visit	Sept 2011 (C)
Indonesian Delegation	The Commission's role and activities and measuring productivity	Oct 2011 (C)
Dr Roberto Newell Garcia, President, Mexican Institute for Competitiveness	Richard Snape Lecture: Political economy of reform in Mexico	Oct 2011 (M)
Dr Suprijo De, Indian Ministry of Finance	The Commission's role and activities	Oct 2011 (C)
Professor Josef Konvitz	The Commission's role and activities	Oct 2011 (C)
Chinese Taiwan Delegation	The Commission's role and activities	Oct 2011 (C)
China State Council	The Commission's role and activities	Oct 2011 (C)
Jeroen Nijland	Regulatory reform and links with OECD	Oct 2011 (C)
China Ministry of Finance Delegation	The Commission's role and activities	Nov 2012 (C)
OECD Mission	Productivity (trends, details); Structural Change (incl. land use, zoning, housing); Reform Agenda (including health and productivity, infrastructure regulation).	Dec 2011 (C)
Greg Bounds and Nikolai Malyshev, OECD officials	The role of OECD Regulatory Policy Committee	Feb 2012 (M)
New Zealand Productivity Commission	Inaugural Meeting of the Australian and New Zealand Productivity Commissions	Feb 2012 (C)
Professor John Micklewright, University of London	Seminar to the Commission on the Great Recession and the distribution of household income	Mar 2012 (M)
Philippines National Economic and Development Authority (NEDA) Delegation	Discuss public private partnerships along with other aspects of economic planning in Australia	Mar 2012 (C)

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Table E.2 (continued)

<i>Organisation/delegation</i>	<i>Briefing/discussion purpose of visit</i>	<i>Date/location</i>
Singapore Delegation	Discuss carbon pricing mechanisms and policies to reduce emissions	Mar 2012 (M)
Professor Michael Enright, University of Hong Kong (CPA Australia)	Discuss CPA Australia and Australia's competitiveness research project	April 2012 (C)
New Zealand Minister for Health The Hon Tony Ryall,	Discuss Health sector, in particular hospital and primary health care productivity; Australian experiences and lessons that can be learnt	April 2012 (C)
Professor Mark Roberts, Pennsylvania State University	Seminar to the Commission on R&D, Innovation and Productivity in German Manufacturing Industries	May 2012 (C)
ANAO/NZ Audit Office	Discuss Productivity Commission work program	May 2012 (C)
Council of the Dutch Scientific Council for Government Policy, Professor Peter van Lieshout and Mr N Schermers,	Discuss long term (growth) strategy of Australia for his research on the best strategy for the future of the Netherlands.	June 2012 (C)
New Zealand Treasury officials	Economic growth and structural reform policy priorities	June 2012 (C)
Chinese National Development and Reform Commission	Briefing on the Carbon Pricing Study	June 2012 (M)

(C) Canberra (M) Melbourne

F Publications

This appendix provides a list of Commission inquiry and research reports, Commission research papers and major speeches by the Chairman in 2011-12. It also lists conference proceedings, staff working papers and other papers, in which the views expressed do not necessarily reflect those of the Commission. The Commission has a comprehensive website providing public access to nearly all of its publications. The availability of printed copies is detailed on the website.

Government-commissioned projects

Inquiries and commissioned studies — draft reports

Draft reports can be obtained from the Commission during the course of an inquiry or study and from the Commission's website. The dates listed are release dates.

- *Economic Structure and Performance of the Australian Retail Industry*, Draft Report, 4 August 2011
- *Economic Regulation of Airport Services*, Draft Report, 22 August 2011
- *Identifying and Evaluating Regulation Reforms*, Discussion Draft, 23 September 2011
- *Education and Training Workforce: Schools Workforce*, Draft Report, 17 November 2011
- *Impacts of COAG Reforms: Business Regulation and VET*, Discussion Draft, 20 December 2011
- *Australia's Export Credit Arrangements*, Draft Report, 22 February 2012
- *Barriers to Effective Climate Change Adaptation*, Draft Report, 27 April 2012
- *Performance Benchmarking of Australian Business Regulation Benchmarking: Role of Local Government as Regulator*, Draft Report, 2 April 2012
- *Default Superannuation Funds in Modern Award*, Draft Report, 29 June 2012

Inquiries and commissioned studies — final reports

Upon release by the Australian Government, copies of final reports can be obtained from the Commission's publications agent, CanPrint Communications and the Commission's website. The dates listed are signing dates. Publications marked with an asterisk (*) are yet to be released.

- *Caring for Older Australians*, Final Inquiry Report No. 53, 28 June 2011
- *Disability Care and Support*, Final Inquiry Report No. 54, 31 July 2011
- *Australia's Urban Water Sector*, Final Inquiry Report No. 55, 31 August 2011
- *Economic Structure and Performance of the Australian Retail Industry*, Final Inquiry Report No. 56, 4 November 2011
- *Education and Training Workforce: Early Childhood Development*, Research Report, 11 November 2011
- *Identifying and Evaluating Regulation Reforms*, Research Report, 2 December 2011
- *Carbon Emission Policies in Key Economies: Responses to Feedback on Certain Estimates for Australia*, Supplement to Research Report, December 2011
- *Education and Training Workforce: Schools Workforce*, Research Report, 20 April 2012
- *Economic Regulation of Airport Services*, Final Inquiry Report No. 57, 14 December 2011
- *Impacts of COAG Reforms: Business Regulation and VET*, Research Report, 31 April 2012
- *Australia's Export Credit Arrangements*, Final Inquiry Report No. 58, 31 May 2012

Performance reporting

Steering Committee for the Review of Government Service Provision

The Commission acts as the Secretariat for the COAG Steering Committee. Except where indicated, copies of these publications are available from the Commission's publications agent CanPrint Communications and from the Commission's website. Publications produced in 2010-11 and many Secretariat reports from previous years are also available on compact disk.

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- *Report on Government Services 2012*, Volume 1: Early Childhood, Education and Training, Justice, Emergency Management (January 2012)
 - *Report on Government Services 2012*, Volume 2: Health, Community Services, Housing and Homelessness (January 2012)
 - *Report on Government Services 2012: Indigenous Compendium* (April 2012)
 - *Supplement to 2010 Indigenous Expenditure Report* (September 2011)

Competitive neutrality complaints

Copies of previous investigations are available from the Commission and the websites of the Australian Government Competitive Neutrality Complaints Office (AGCNCO) and Productivity Commission.

- *NBN Co.*, AGCNCO Report No. 14, 24 November 2011
- *PETNET Australia*, AGCNCO Report No. 15, 20 March 2012

Supporting research and annual reporting

Unless otherwise indicated, copies of reports are available from the Commission's publications agent CanPrint Communications, and from the Commission's website. Requests for printed copies of publications marked with an asterisk (*) should be directed to the Commission.

Annual Reports

- *Annual Report 2010-11* (October 2011)
- *Trade & Assistance Review 2010-11* (June 2012)

Chairman's speeches

Copies of the following speeches by Gary Banks are available from the Commission's website.

- *Economics, Economists and Public Policy in Australia* (July 2011)
- *Independent Policy Advice and the Productivity Commission* (September 2011)
- *Industry Assistance in a 'Patchwork Economy'* (November 2011)
- *Whither trans-Tasman economic relations? Some emerging themes* (June 2012)

Richard Snape Lecture

The eighth Richard Snape Lecture was held on 22 November 2010. The lecture is available on the Commission's website.

- *Political Economy of Reform in Mexico*, Dr Roberto Newell (November 2011)

Staff working papers

Copies of these staff working papers are available from the Commission's website. These papers reflect the views of the authors and not necessarily those of the Commission.

- *Multifactor Productivity Growth Cycles at the Industry Level* (July 2011)
- *Influences on Indigenous Labour Market Outcomes* (December 2011)
- *Productivity in Electricity, Gas and Water: Measurement and Interpretation* (April 2012)

Visiting Research Paper

Copies of these staff working papers are available from the Commission's website. These papers reflect the views of the authors and not necessarily those of the Commission.

- *Australia's Productivity Growth Slump: Signs of Crisis, Adjustment or Both?* (April 2012)

Other publications

Copies of these publications are available from the Commission and its website.

- *PC Update*, a newsletter on Productivity Commission activities, covers key events on the work program, major activities, publications released, website and other news (May 2010; Issue 48, September 2010; Issue 49, May 2011, Issue 50, December 2011, Issue 51, May 2012)

G Financial statements

This appendix presents the audited financial statements for the Productivity Commission for 2011-12.

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INDEPENDENT AUDITOR'S REPORT

To the Assistant Treasurer

I have audited the accompanying financial statements of the Productivity Commission for the year ended 30 June 2012, which comprise: a Statement by the Chairman and Chief Finance Officer; Statement of Comprehensive Income; Balance Sheet; Statement of Changes in Equity; Cash Flow Statement; Schedule of Commitments; and Notes comprising a Summary of Significant Accounting Policies and other explanatory information.

Chairman's Responsibility for the Financial Statements

The Chairman of the Productivity Commission is responsible for the preparation of financial statements that give a true and fair view in accordance with the Finance Minister's Orders made under the *Financial Management and Accountability Act 1997*, including the Australian Accounting Standards, and for such internal control as is necessary to enable the preparation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on the financial statements based on my audit. I have conducted my audit in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards. These auditing standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Productivity Commission's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Productivity Commission's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the Chairman of the Productivity Commission, as well as evaluating the overall presentation of the financial statements.

GPO Box 707 CANBERRA ACT 2601
19 National Circuit BARTON ACT
Phone (02) 6203 7300 Fax (02) 6203 7777

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Independence

In conducting my audit, I have followed the independence requirements of the Australian National Audit Office, which incorporate the requirements of the Australian accounting profession.

Opinion

In my opinion, the financial statements of the Productivity Commission:

- (a) have been prepared in accordance with the Finance Minister's Orders made under the *Financial Management and Accountability Act 1997*, including the Australian Accounting Standards; and
- (b) give a true and fair view of the matters required by the Finance Minister's Orders including the Productivity Commission's financial position as at 30 June 2012 and of its financial performance and cash flows for the year then ended.

Australian National Audit Office



Michael J Watson

Group Executive Director

Delegate of the Auditor-General

Canberra

24 August 2012



Australian Government
Productivity Commission

GPO Box 1428
Canberra City ACT 2601
Telephone 02 6240 3202
Facsimile 02 6240 3300
www.pc.gov.au

*From the Chairman's
Office*

Statement by the Chairman and Chief Finance Officer

In our opinion, the attached financial statements for the year ended 30 June 2012 are based on properly maintained financial records and give a true and fair view of the matters required by the Finance Minister's Orders made under the *Financial Management and Accountability Act 1997*, as amended.

Gary Banks
Chairman

23 August 2012

Brian Scammell
Chief Finance Officer

23 August 2012

Statement of Comprehensive Income

for the period ended 30 June 2012

		2012	2011
	Notes	\$'000	\$'000
EXPENSES			
Employee benefits	3A	28,180	26,748
Supplier expenses	3B	7,468	9,437
Depreciation and amortisation	3C	933	997
Finance costs	3D	20	34
Losses from asset sales	3E	<u>22</u>	<u>64</u>
Total Expenses		<u>36,623</u>	<u>37,280</u>
LESS:			
OWN-SOURCE INCOME			
<i>Own-source revenue</i>			
Sale of goods and rendering of services	4A	<u>521</u>	<u>272</u>
Total own-source revenue		<u>521</u>	<u>272</u>
<i>Gains</i>			
Other gains	4B	<u>33</u>	<u>36</u>
Total gains		<u>33</u>	<u>36</u>
Total own-source income		<u>554</u>	<u>308</u>
Net cost of services		<u>36,069</u>	<u>36,972</u>
Revenue from Government	4C	<u>37,956</u>	<u>37,279</u>
Surplus		<u>1,887</u>	<u>307</u>
OTHER COMPREHENSIVE INCOME			
Changes in asset revaluation surplus		<u>-</u>	<u>-</u>
Total comprehensive income		<u>1,887</u>	<u>307</u>

The above statement should be read in conjunction with the accompanying notes.

Balance Sheet

as at 30 June 2012

		2012	2011
	Notes	\$'000	\$'000
ASSETS			
Financial Assets			
Cash and cash equivalents	5A	357	387
Trade and other receivables	5B	<u>20,139</u>	<u>15,873</u>
Total financial assets		<u>20,496</u>	<u>16,260</u>
Non-Financial Assets			
Leasehold improvements	6A	4,988	5,714
Property, plant and equipment	6B, D	777	726
Intangibles	6C, D	68	87
Other non-financial assets	6E	<u>628</u>	<u>555</u>
Total non-financial assets		<u>6,461</u>	<u>7,082</u>
Total Assets		<u>26,957</u>	<u>23,342</u>
LIABILITIES			
Payables			
Suppliers	7A	295	585
Other payables	7B	<u>3,633</u>	<u>3,527</u>
Total payables		<u>3,928</u>	<u>4,112</u>
Provisions			
Employee provisions	8A	11,721	10,180
Other provisions	8B	<u>406</u>	<u>386</u>
Total provisions		<u>12,127</u>	<u>10,566</u>
Total Liabilities		<u>16,055</u>	<u>14,678</u>
Net Assets		<u>10,902</u>	<u>8,664</u>
EQUITY			
Contributed equity		2,155	1,804
Reserves		2,154	2,154
Retained surplus		<u>6,593</u>	<u>4,706</u>
Total Equity		<u>10,902</u>	<u>8,664</u>

The above statement should be read in conjunction with the accompanying notes.

Statement of Changes in Equity

for the period ending 30 June 2012

<i>Item</i>	<i>Retained earnings</i>		<i>Asset revaluation surplus</i>		<i>Contributed equity</i>		<i>Total equity</i>	
	2012	2011	2012	2011	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Opening balance								
Balance carried forward from previous period	4,706	4,399	2,154	2,154	1,804	(2,341)	8,664	4,212
Adjustment for changes in accounting policies	-	-	-	-	-	-	-	-
Adjusted opening balance	4,706	4,399	2,154	2,154	1,804	(2,341)	8,664	4,212
Comprehensive Income								
Other comprehensive income	-	-	-	-	-	-	-	-
Surplus for the period	1,887	307	-	-	-	-	1,887	307
Total comprehensive income	1,887	307	-	-	-	-	1,887	307
Transactions with owners								
Distributions to Owners								
Other – net cash appropriations	-	-	-	-	-	-	-	-
Contributions by Owners								
Departmental capital budget	-	-	-	-	351	4,145	351	4,145
Sub-total transactions with owners	-	-	-	-	351	4,145	351	4,145
Closing balance as at 30 June	6,593	4,706	2,154	2,154	2,155	1,804	10,902	8,664

The above statement should be read in conjunction with the accompanying notes.

Cash Flow Statement

for the period ended 30 June 2012

		2012	2011
	Notes	\$'000	\$'000
OPERATING ACTIVITIES			
Cash received			
Appropriations		34,613	35,037
Sales of goods and rendering of services		584	598
Net GST received		1,011	663
Total cash received		36,208	36,298
Cash used			
Employees		26,537	25,464
Suppliers		8,603	9,850
Other		1,101	2,641
Total cash used		36,241	37,955
Net cash from (used by) operating activities	9	(33)	(1,657)
INVESTING ACTIVITIES			
Cash received			
Proceeds from sales of property, plant and equipment		3	5
Total cash received		3	5
Cash used			
Purchase of property, plant and equipment		252	3,464
Other		-	570
Total cash used		252	4,034
Net cash (used by) investing activities		(249)	(4,029)
FINANCING ACTIVITIES			
Cash received			
Contributed equity		252	3,404
Other		-	2,254
Total cash received		252	5,658
Net cash from financing activities		252	5,658
Net increase (decrease) in cash held		(30)	(28)
Cash and cash equivalents at the beginning of the reporting period		387	415
Cash and cash equivalents at the end of the reporting period	5A	357	387

The above statement should be read in conjunction with the accompanying notes.

Schedule of Commitments

as at 30 June 2012

	2012	2011
	\$'000	\$'000
BY TYPE		
Commitments receivable		
GST recoverable on commitments	<u>(2,342)</u>	<u>(2,632)</u>
Total commitments receivable	<u>(2,342)</u>	<u>(2,632)</u>
Commitments payable		
Other commitments		
Operating leases ¹	25,344	28,502
Other commitments ²	<u>420</u>	<u>450</u>
Total other commitments	<u>25,764</u>	<u>28,952</u>
Net commitments by type	<u>23,422</u>	<u>26,320</u>
BY MATURITY		
Commitments receivable		
Other commitments receivable		
One year or less	(321)	(312)
From one to five years	(1,300)	(1,281)
Over five years	<u>(721)</u>	<u>(1,039)</u>
Total other commitments receivable	<u>(2,342)</u>	<u>(2,632)</u>
Commitments payable		
Operating lease commitments		
One year or less	3,222	3,099
From one to five years	14,191	13,973
Over five years	<u>7,931</u>	<u>11,430</u>
Total operating lease commitments	<u>25,344</u>	<u>28,502</u>
Other commitments		
One year or less	310	335
From one to five years	110	115
Over five years	<u>—</u>	<u>—</u>
Total other commitments	<u>420</u>	<u>450</u>
Net commitments by maturity	<u>23,422</u>	<u>26,320</u>

Note: Commitments are GST inclusive where relevant.

¹ Operating leases included are effectively non-cancellable and comprise:

Leases for office accommodation and carparking

Lease payments are subject to a fixed percentage annual increase in accordance with the lease agreement. In Melbourne, the current lease expires on 31 May 2021, with a five year option. In Canberra the current lease expires on 30 April 2017, with a five year option.

Agreements for the provision of motor vehicles to senior executive officers

Lease payments are fixed at the commencement of each vehicle lease. Vehicles are returned on lease expiry.

² Other commitments are primarily contracts for office services.

The above schedule should be read in conjunction with the accompanying notes.

Notes to and forming part of the Financial Statements

Note	Description
1	Summary of Significant Accounting Policies
2	Events after the Reporting Period
3	Expenses
4	Income
5	Financial Assets
6	Non-Financial Assets
7	Payables
8	Provisions
9	Cash Flow Reconciliation
10	Contingent Liabilities and Assets
11	Senior Executive Remuneration
12	Remuneration of Auditors
13	Financial Instruments
14	Financial Assets Reconciliation
15	Appropriations
16	Compensation and Debt Relief
17	Reporting of Outcomes
18	Net Cash Appropriation Arrangements

Note 1: Summary of Significant Accounting Policies

1.1 Objectives of the Productivity Commission

The Productivity Commission (the Commission) is an Australian Government controlled entity. The Commission is the Australian Government's independent research and advisory body on a range of economic, social and environmental issues affecting the welfare of Australians. The Commission's work extends to the public and private sectors, including areas of State, Territory and local government, as well as federal responsibility.

The Commission is structured to meet one outcome:

Outcome 1: Well-informed policy decision-making and public understanding on matters relating to Australia's productivity and living standards, based on independent and transparent analysis from a community-wide perspective.

Activities contributing toward this outcome are classified as departmental. Departmental activities involve the use of assets, liabilities, income and expenses controlled or incurred by the Commission in its own right.

The continued existence of the Commission in its present form and with its present program is dependent on Government policy and on continuing funding by Parliament for the Commission's administration and program.

1.2 Basis of Preparation of the Financial Statements

The financial statements are general purpose financial statements and are required by section 49 of the *Financial Management and Accountability Act 1997*.

The financial statements have been prepared in accordance with:

- Finance Minister's Orders (FMOs) for reporting periods ending on or after 1 July 2011; and
- Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that apply for the reporting period.

The financial statements have been prepared on an accrual basis and in accordance with the historical cost convention, except for certain assets and liabilities at fair value. Except where stated, no allowance is made for the effect of changing prices on the results or the financial position.

The financial statements are presented in Australian dollars and values are rounded to the nearest thousand dollars unless otherwise specified.

Unless an alternative treatment is specifically required by an accounting standard or the FMOs, assets and liabilities are recognised in the Balance Sheet when and only when it is probable that future economic benefits will flow to the Commission or a future sacrifice of economic benefits will be required and the amounts of the assets or liabilities can be reliably measured. However, assets and liabilities arising under executor contracts are not recognised unless required by an accounting standard. Liabilities and assets that are unrecognised are reported in the Schedule of Commitments.

Unless alternative treatment is specifically required by an accounting standard, income and expenses are recognised in the Statement of Comprehensive Income when and only when the flow, consumption or loss of economic benefits has occurred and can be reliably measured.

1.3 Significant Accounting Judgements and Estimates

In the process of applying the accounting policies listed in this note, the Commission has made the following judgements that have the most significant impact on the amounts recorded in the financial statements:

- The fair value of leasehold improvements has been taken to be the fair value of similar leasehold improvements as determined by an independent valuer.
- The long service leave liability is calculated using the shorthand method developed by the Australian Government Actuary. This method is impacted by fluctuations in the Commonwealth Government 10 year Treasury Bond rate.

No accounting assumptions or estimates have been identified that have a significant risk of causing a material adjustment to carrying amounts of assets and liabilities within the next accounting period.

1.4 New Australian Accounting Standards

Adoption of New Australian Accounting Standard Requirements

No accounting standard has been adopted earlier than the application date as stated in the standard.

New standards, amendments to standards or interpretations that were issued prior to the sign-off date and are applicable to the current reporting period did not have a financial impact, and are not expected to have a future financial impact on the Commission.

Future Australian Accounting Standard Requirements

New standards, amendments to standards or interpretations that were issued by the Australian Accounting Standards Board prior to the sign-off date and are applicable for future reporting periods are not expected to have a future financial impact on the Commission.

1.5 Revenue

Revenue from Government

Amounts appropriated for departmental appropriations for the year (adjusted for any formal additions and reductions) are recognised as Revenue from Government when the Commission gains control of the appropriation, except for certain amounts that relate to activities that are reciprocal in nature, in which case revenue is recognised only when it has been earned.

Appropriations receivable are recognised at their nominal amounts.

Other Types of Revenue

Revenue from the sale of goods is recognised when:

- the risks and rewards of ownership have been transferred to the buyer;
- the Commission retains no managerial involvement or effective control over the goods;
- the revenue and transaction costs incurred can be reliably measured; and
- it is probable that the economic benefits associated with the transaction will flow to the Commission.

Revenue from rendering of services is recognised by reference to the stage of completion of contracts at the reporting date. The revenue is recognised when:

- the amount of revenue, stage of completion and transaction costs incurred can be reliably measured; and

-
- the probable economic benefits associated with the transaction will flow to the Commission.

The stage of completion of contracts at the reporting date is determined by reference to the proportion that costs incurred to date bear to the estimated total costs of the transaction.

Receivables for goods and services, which have 30 day terms, are recognised at the nominal amounts due less any impairment allowance account. Collectability of debts is reviewed at the end of the reporting period. Allowances are made when collectability of the debt is no longer probable.

Parental Leave Payments Scheme

Amounts received under the Parental Leave Payments Scheme by the Commission not yet paid to employees were presented gross as cash and a liability (payable). The total amount received under this scheme was \$31,828 (2011: nil).

1.6 Gains

Other Resources Received Free of Charge

Resources received free of charge are recognised as gains when, and only when, a fair value can be reliably determined and the services would have been purchased if they had not been donated. Use of those resources is recognised as an expense.

Resources received free of charge are recorded as either revenue or gains depending on their nature.

Contributions of assets at no cost of acquisition or for nominal consideration are recognised as gains at their fair value when the asset qualifies for recognition, unless received from another Government entity as a consequence of a restructuring of administrative arrangements (Refer to Note 1.7).

Sale of Assets

Gains from disposal of assets are recognised when control of the asset has passed to the buyer.

1.7 Transactions with the Government as Owner

Equity Injections

Amounts appropriated which are designated as ‘equity injections’ for a year (less any formal reductions) and Departmental Capital Budgets (DCBs) are recognised directly in contributed equity in that year.

Restructuring of Administrative Arrangements

Net assets received from or relinquished to another Australian Government entity under a restructuring of administrative arrangements are adjusted at their book value directly against contributed equity.

Other Distributions to Owners

The FMOs require that distributions to owners be debited to contributed equity unless it is in the nature of a dividend.

1.8 Employee Benefits

Liabilities for ‘short-term employee benefits’ (as defined in AASB 119 *Employee Benefits*) and termination benefits due within twelve months of the end of reporting period are measured at their nominal amounts.

The nominal amount is calculated with regard to the rates expected to be paid on settlement of the liability.

Other long-term employee benefits are measured as net total of the present value of the defined benefit obligation at the end of the reporting period minus the fair value at the end of the reporting period of plan assets (if any) out of which the obligations are to be settled directly.

Leave

The liability for employee benefits includes provision for annual leave and long service leave. No provision has been made for sick leave as all sick leave is non-vesting and the average sick leave taken in future years by employees of the Commission is estimated to be less than the annual entitlement for sick leave.

The leave liabilities are calculated on the basis of employees' remuneration at the estimated salary rates that applied at the time the leave is taken, including the Commission's employer superannuation contribution rates to the extent that the leave is likely to be taken during service rather than paid out on termination.

The liability for long service leave has been determined by use of the Australian Government Actuary's shorthand method using the Standard Commonwealth sector probability profile. The estimate of the present value of the liability takes into account attrition rates and pay increases through promotion and inflation.

Separation and redundancy

Provision is made for separation and redundancy benefit payments. The Commission recognises a provision for termination when it has developed a detailed formal plan for the terminations and has informed those employees affected that it will carry out the terminations. The amount of the provision is \$84,084 (2011: Nil).

Superannuation

The majority of staff at the Commission are members of the Commonwealth Superannuation Scheme (CSS), the Public Sector Superannuation Scheme (PSS) or the PSS accumulation plan (PSSap).

The CSS and PSS are defined benefit schemes for the Australian Government. The PSSap is a defined contribution scheme.

The liability for defined benefits is recognised in the financial statements of the Australian Government and is settled by the Australian Government in due course. This liability is reported in the Department of Finance and Deregulation's administered schedules and notes.

The Commission makes employer contributions to the employees' superannuation scheme at rates determined by an actuary to be sufficient to meet the current cost to the Government. The Commission accounts for the contributions as if they were contributions to defined contribution plans.

The liability for superannuation recognised as at 30 June represents outstanding contributions for the final fortnight of the year.

1.9 Leases

A distinction is made between finance leases and operating leases. Finance leases effectively transfer from the lessor to the lessee substantially all the risks and rewards incidental to ownership of leased assets. An operating lease is a lease that is not a finance lease. In operating leases, the lessor effectively retains substantially all such risks and benefits.

Where an asset is acquired by means of a finance lease, the asset is capitalised at either the fair value of the lease property, or, if lower, the present value of minimum lease payments at the inception of the contract and a liability is recognised at the same time and for the same amount.

The discount rate used is the interest rate implicit in the lease. Leased assets are amortised over the period of the lease. Lease payments are allocated between the principal component and the interest expense.

Operating lease payments are expensed on a straight-line basis, which is representative of the pattern of benefits derived from the leased assets.

1.10 Borrowing Costs

All borrowing costs are expensed as incurred.

1.11 Cash

Cash is recognised at its nominal amount. Cash and cash equivalents includes cash on hand, cash with outsiders, and demand deposits in bank accounts with an original maturity of 3 months or less that are readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

1.12 Financial Assets

The Commission classifies its financial assets in the following categories:

- financial assets as at fair value through profit or loss;
- held-to-maturity investments;
- available-for-sale financial assets; and
- loans and receivables.

The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. The Commission currently only holds financial assets of loans and receivables.

Financial assets are recognised and derecognised upon ‘trade date’.

Effective Interest Method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest rate basis except for financial assets that are recognised at fair value through profit or loss.

Loans and receivables

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as ‘loans and receivables’. Loans and receivables are measured at amortised cost using the effective interest method less impairment. Interest is recognised by applying the effective interest rate.

Impairment of financial assets

Financial assets are assessed for impairment at the end of each reporting period.

Financial assets held at amortised cost – if there is objective evidence that an impairment loss has been incurred for loans and receivables held at amortised cost, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows discounted at the asset’s original effective interest rate. The carrying amount is reduced by way of an

allowance account. The loss is recognised in the Statement of Comprehensive Income.

1.13 Financial Liabilities

Financial liabilities are classified as either financial liabilities ‘at fair value through profit or loss’ or other financial liabilities. The Commission only holds other financial liabilities.

Financial liabilities are recognised and derecognised upon ‘trade date’.

Other financial liabilities

Other financial liabilities, including supplier and other payables, are recognised at amortised cost. Liabilities are recognised to the extent that the goods or services have been received (and irrespective of having been invoiced).

1.14 Contingent Liabilities and Contingent Assets

Contingent liabilities and contingent assets are not recognised in the Balance Sheet but are reported in the relevant notes. They may arise from uncertainty as to the existence of a liability or an asset or represent an asset or liability in respect of which the amount cannot be reliably measured. Contingent assets are disclosed when settlement is probable but not virtually certain and contingent liabilities are disclosed when settlement is greater than remote.

Details of each class of contingent liabilities and contingent assets are disclosed in Note 10: Contingent Liabilities and Contingent Assets.

1.15 Acquisition of Assets

Assets are recorded at cost on acquisition except as stated below. The cost of acquisition includes the fair value of assets transferred in exchange and liabilities undertaken. Financial assets are initially measured at their fair value plus transaction costs where appropriate.

Assets acquired at no cost, or for nominal consideration, are initially recognised as assets and income at their fair value at the date of acquisition, unless acquired as a consequence of restructuring of administrative arrangements. In the latter case, assets are initially recognised as contributions by owners at the amounts at which

they were recognised in the transferor's accounts immediately prior to the restructuring.

1.16 Property, Plant and Equipment

Asset Recognition Threshold

Purchases of property, plant and equipment are recognised initially at cost in the Balance Sheet, except for purchases costing less than \$2,000, which are expensed in the year of acquisition (other than where they form part of a group of similar items which are significant in total).

The initial cost of an asset includes an estimate of the cost of dismantling and removing the item and restoring the site on which it is located. This is particularly relevant to 'make-good' provisions in property leases taken up by the Commission where there exists an obligation to 'make-good' premises. These costs are included in the value of the Commission's leasehold improvements with a corresponding provision for the 'make-good' recognised.

Revaluations

Fair values for each class of asset are determined as shown below:

<i>Asset class</i>	<i>Fair value measured at</i>
Leasehold improvements	Depreciated replacement cost
Property, plant and equipment	Market selling price

Following initial recognition at cost, property, plant and equipment are carried at fair value less subsequent accumulated depreciation and accumulated impairment losses. Valuations are conducted with sufficient frequency to ensure that the carrying amounts of assets do not differ materially from the assets' fair values at the reporting date. The regularity of independent valuations depends upon the volatility of movements in market values for the relevant assets. Assets were revalued by the Australian Valuation Office (AVO) as at 30 June 2010.

Revaluation adjustments are made on a class basis. Any revaluation increment is credited to equity under the heading of asset revaluation reserve except to the extent that it reverses a previous revaluation decrement of the same asset class that was previously recognised in surplus/deficit. Revaluation decrements for a class of

assets are recognised directly in the surplus/deficit except to the extent that they reverse a previous revaluation increment for that class.

Any accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the asset restated to the revalued amount.

Depreciation

Depreciable property, plant and equipment assets are written-off to their estimated residual values over their estimated useful lives to the Commission using, in all cases, the straight-line method of depreciation.

Depreciation rates (useful lives), residual values and methods are reviewed at each reporting date and necessary adjustments are recognised in the current, or current and future reporting periods as appropriate.

Depreciation rates applying to each class of depreciable asset are based on the following useful lives:

	2012	2011
Leasehold improvements and make-good	Lease term	Lease term
Plant and equipment	3 to 20 years	3 to 20 years
Intangibles (computer software)	5 years	5 years

Impairment

All assets were assessed for impairment at 30 June 2012. Where indications of impairment exist, the asset's recoverable amount is estimated and an impairment adjustment made if the asset's recoverable amount is less than its carrying amount.

The recoverable amount of an asset is the higher of its *fair value less costs to sell* and its *value in use*. *Value in use* is the present value of the future cash flows expected to be derived from the asset. Where the future economic benefit of an asset is not primarily dependent on the asset's ability to generate future cash flows, and the asset would be replaced if the Commission were deprived of the asset, its *value in use* is taken to be its depreciated replacement cost.

Derecognition

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

1.17 Intangibles

The Commission's intangibles comprise commercially purchased software for internal use. These assets are carried at cost less accumulated amortisation and accumulated impairment losses.

Software is amortised on a straight-line basis over its anticipated useful life. The useful lives of the Commission's software are 5 years (2011: 5 years).

All software assets were assessed for indications of impairment as at 30 June 2012.

1.18 Taxation

The Commission is exempt from all forms of taxation except Fringe Benefits Tax (FBT) and the Goods and Services Tax (GST).

Revenues, expenses and assets are recognised net of GST except:

- where the amount of GST incurred is not recoverable from the Australian Taxation Office; and
- for receivables and payables.

Note 2: Events after the Reporting Period

There was no subsequent event that had the potential to significantly affect the on-going structure and financial activities of the Commission.

Note 3: Expenses

Note 3A: Employee benefits

	2012	2011
	\$'000	\$'000
Wages and salaries	20,475	20,244
Superannuation:		
Defined contribution plans	989	857
Defined benefit plans	2,543	2,452
Leave and other entitlements	4,089	3,195
Separation and redundancies	84	-
Total employee benefits	28,180	26,748

Note 3B: Suppliers

	2012	2011
	\$'000	\$'000
Goods and Services		
Consultants	140	33
Contractors	229	562
Travel	1,217	1,342
IT services	636	671
Other	2,405	3,239
Total goods and services	4,627	5,847
Goods and services are made up of:		
Provision of goods – related entities	6	-
Provision of goods – external parties	245	242
Rendering of services – related entities	253	491
Rendering of services – external parties	4,123	5,114
Total goods and services	4,627	5,847
Other supplier expenses		
Operating lease rentals – external parties:		
Minimum lease payments	2,790	3,560
Workers compensation premiums	51	30
Total other supplier expenses	2,841	3,590
Total supplier expenses	7,468	9,437

Note 3C: Depreciation and Amortisation

	2012	2011
	\$'000	\$'000
Depreciation:		
Buildings - leasehold improvements	726	739
Property, plant and equipment	<u>175</u>	<u>226</u>
Total depreciation	<u>901</u>	<u>965</u>
Amortisation:		
Intangibles:		
Computer software	<u>32</u>	<u>32</u>
Total amortisation	<u>32</u>	<u>32</u>
Total depreciation and amortisation	<u><u>933</u></u>	<u><u>997</u></u>

Note 3D: Finance Costs

	2012	2011
	\$'000	\$'000
Unwinding of discount	<u>20</u>	<u>34</u>
Total finance costs	<u><u>20</u></u>	<u><u>34</u></u>

Note 3E: Losses from asset sales

	2012	2011
	\$'000	\$'000
Property, plant and equipment:		
Proceeds from sale	(3)	(5)
Carrying value of assets sold	21	63
Selling expense	4	6
Intangibles:		
Proceeds from sale	-	-
Carrying value of assets sold	-	-
Selling expense	<u>-</u>	<u>-</u>
Total losses from asset sales	<u><u>22</u></u>	<u><u>64</u></u>

Note 4: Income

Revenue

Note 4A: Sale of Goods and Rendering of Services

	2012	2011
	\$'000	\$'000
Provision of goods – related entities	–	–
Provision of goods – external parties	36	14
Rendering of services – related entities	436	179
Rendering of services – external parties	<u>49</u>	<u>79</u>
Total sales of goods and rendering of services	<u>521</u>	<u>272</u>

Gains

Note 4B: Other Gains

	2012	2011
	\$'000	\$'000
Resources received free of charge	<u>33</u>	<u>36</u>
Total other gains	<u>33</u>	<u>36</u>

Revenue from Government

Note 4C: Revenue from Government

	2012	2011
	\$'000	\$'000
Appropriations:		
Departmental appropriations	<u>37,956</u>	<u>37,279</u>
Total revenue from Government	<u>37,956</u>	<u>37,279</u>

Note 5: Financial assets

Note 5A: Cash and Cash Equivalents

	2012	2011
	\$'000	\$'000
Cash on hand or on deposit	<u>357</u>	<u>387</u>
Total cash and cash equivalents	<u>357</u>	<u>387</u>

Note 5B: Trade and Other Receivables

	2012	2011
	'000	'000
Goods and Services:		
Goods and services – related entities	-	36
Goods and services – external parties	<u>72</u>	<u>24</u>
Total receivables for goods and services	<u>72</u>	<u>60</u>
Appropriations receivable:		
For existing programs	<u>19,953</u>	<u>15,410</u>
Total appropriations receivable	<u>19,953</u>	<u>15,410</u>
Other receivables:		
GST receivable from the Australian Taxation Office	112	400
Other	<u>2</u>	<u>3</u>
Total other receivables	<u>114</u>	<u>403</u>
Total trade and other receivables	<u>20,139</u>	<u>15,873</u>

Receivables are expected to be recovered in:

No more than 12 months	<u>20,139</u>	<u>15,873</u>
More than 12 months	<u>-</u>	<u>-</u>
Total trade and other receivables	<u>20,139</u>	<u>15,873</u>

Receivables are aged as follows:

Not overdue	<u>20,137</u>	<u>15,389</u>
Overdue by:		
0 to 30 days	-	437
31 to 60 days	1	4
61 to 90 days	-	3
More than 90 days	<u>1</u>	<u>40</u>
Total receivables	<u>20,139</u>	<u>15,873</u>

Note 6: Non-Financial Assets

Note 6A: Leasehold improvements

	2012	2011
	\$'000	\$'000
Leasehold improvements:		
Fair value	6,077	6,116
Accumulated depreciation	<u>(1,089)</u>	<u>(402)</u>
Total leasehold improvements	<u>4,988</u>	<u>5,714</u>
Total land and buildings	<u>4,988</u>	<u>5,714</u>

No indicators of impairment were found for leasehold improvements.

No leasehold improvements are expected to be sold or disposed of within the next 12 months.

Note 6B: Property, plant and equipment

	2012	2011
	\$'000	\$'000
Other property, plant and equipment:		
Fair value	1,125	929
Accumulated depreciation	<u>(348)</u>	<u>(203)</u>
Total other property, plant and equipment	<u>777</u>	<u>726</u>
Total property, plant and equipment	<u>777</u>	<u>726</u>

No indicators of impairment were found for property, plant and equipment.

No property, plant or equipment is expected to be sold or disposed of within the next 12 months.

Revaluations of non-financial assets

All revaluations were conducted in accordance with the revaluation policy stated at Note 1. On 30 June 2010, an independent valuer from the Australian Valuation Office conducted the revaluations.

The revaluation increment for leasehold improvements and decrement for plant and equipment were credited and debited respectively to the asset revaluation reserve by asset class, and included in the equity section of the balance sheet; no increments or decrements were expensed.

Note 6C: Intangibles

	2012	2011
	\$'000	\$'000
Computer software:		
Purchased	573	562
Accumulated amortisation	<u>(505)</u>	<u>(475)</u>
Total intangibles	<u>68</u>	<u>87</u>

No indicators of impairment were found for intangible assets.

No intangibles are expected to be sold or disposed of within the next 12 months.

Note 6D: Analysis of property, plant and equipment, and intangibles

Reconciliation of the opening and closing balances of property, plant and equipment, and intangibles (2011-12)

	Leasehold improvements	Property, plant & equipment	Computer software purchased	Total
	\$'000	\$'000	\$'000	\$'000
As at 1 July 2011				
Gross book value	6,116	929	562	7,607
Accumulated depreciation / amortisation and impairment	<u>(402)</u>	<u>(203)</u>	<u>(475)</u>	<u>(1,080)</u>
Net book value 1 July 2011	<u>5,714</u>	<u>726</u>	<u>87</u>	<u>6,527</u>
Additions:				
By purchase	–	247	13	260
Revaluations and impairments recognised in other comprehensive income	–	–	–	–
Depreciation / amortisation expense	(726)	(175)	(32)	(933)
Disposals:				
Other	<u>–</u>	<u>(21)</u>	<u>–</u>	<u>(21)</u>
Net book value 30 June 2012	<u>4,988</u>	<u>777</u>	<u>68</u>	<u>5,833</u>
Net book value as of 30 June 2012 represented by:				
Gross book value	6,077	1,125	573	7,775
Accumulated depreciation/amortisation and impairment	<u>(1,089)</u>	<u>(348)</u>	<u>(505)</u>	<u>(1,942)</u>
Net book value as of 30 June 2012	<u>4,988</u>	<u>777</u>	<u>68</u>	<u>5,833</u>

Reconciliation of the opening and closing balances of property, plant and equipment, and intangibles (2010-11)

	<i>Leasehold improvements</i>	<i>Property, plant & equipment</i>	<i>Computer software purchased</i>	<i>Total</i>
	\$'000	\$'000	\$'000	\$'000
As at 1 July 2010				
Gross book value	2,972	666	544	4,182
Accumulated depreciation / amortisation and impairment	<u>—</u>	<u>—</u>	<u>(443)</u>	<u>(443)</u>
Net book value 1 July 2010	<u>2,972</u>	<u>666</u>	<u>101</u>	<u>3,739</u>
Additions:				
By purchase	3,481	349	18	3,848
Revaluations and impairments recognised in other comprehensive income	—	—	—	—
Depreciation / amortisation expense	(739)	(226)	(32)	(997)
Disposals:				
Other	<u>—</u>	<u>(63)</u>	<u>—</u>	<u>(63)</u>
Net book value 30 June 2011	<u>5,714</u>	<u>726</u>	<u>87</u>	<u>6,527</u>
Net book value as of 30 June 2011 represented by:				
Gross book value	6,116	929	562	7,607
Accumulated depreciation/amortisation and impairment	<u>(402)</u>	<u>(203)</u>	<u>(475)</u>	<u>(1,080)</u>
Net book value 30 June 2011	<u>5,714</u>	<u>726</u>	<u>87</u>	<u>6,527</u>

Note 6E: Other non-financial assets

	2012	2011
	\$'000	\$'000
Prepayments	<u>628</u>	<u>555</u>
Total other non-financial assets	<u>628</u>	<u>555</u>
Total other non-financial assets – are expected to be recovered in:		
No more than 12 months	628	555
More than 12 months	<u>—</u>	<u>—</u>
Total other non-financial assets	<u>628</u>	<u>555</u>

No indicators of impairment were found for other non-financial assets.

Note 7: Payables

Note 7A: Suppliers

	2012	2011
	\$'000	\$'000
Trade creditors and accruals	<u>295</u>	<u>585</u>
Total supplier payables	<u>295</u>	<u>585</u>
Supplier payables expected to be settled within 12 months:		
Related entities	38	17
External parties	<u>257</u>	<u>568</u>
Total supplier payables	<u>295</u>	<u>585</u>

Settlement is usually made within 30 days.

Note 7B: Other Payables

	2012	2011
	\$'000	\$'000
Salaries and wages	614	526
Superannuation	97	84
Prepayments received/unearned income	59	56
Rent (lease) payable	853	626
Lease incentive	<u>2,010</u>	<u>2,235</u>
Total other payables	<u>3,633</u>	<u>3,527</u>
Total other payables are expected to be settled in:		
No more than 12 months	995	891
More than 12 months	<u>2,638</u>	<u>2,636</u>
Total other payables	<u>3,633</u>	<u>3,527</u>

Note 8: Provisions

Note 8A: Employee provisions

	2012	2011
	\$'000	\$'000
Leave	11,637	10,180
Separations and redundancies	<u>84</u>	<u>-</u>
Total employee provisions	<u>11,721</u>	<u>10,180</u>
Employee provisions are expected to be settled in:		
No more than 12 months	2,941	2,716
More than 12 months	<u>8,780</u>	<u>7,464</u>
Total employee provisions	<u>11,721</u>	<u>10,180</u>

Note 8B: Other provisions

	2012	2011
	\$'000	\$'000
Provision for restoration obligations	<u>406</u>	<u>386</u>
Total other provisions	<u>406</u>	<u>386</u>
Other provisions are expected to be settled in:		
No more than 12 months	-	-
More than 12 months	<u>406</u>	<u>386</u>
Total other provisions	<u>406</u>	<u>386</u>

	Provision for restoration
	\$'000
Carrying amount 1 July 2011	386
Additional provisions made	-
Amounts used	-
Unwinding of discount or change in discount rate	<u>20</u>
Closing balance 2012	<u>406</u>

The Commission currently has 1 agreement for the leasing of premises which has a clause requiring the Commission to restore the premises to its original condition at the conclusion of the lease. The Commission has made a provision to reflect the present value of this obligation. (2011: 1 agreement)

Note 9: Cash Flow Reconciliation

	2012	2011
	\$'000	\$'000
Reconciliation of cash and cash equivalents as per Balance Sheet to Cash Flow Statement		
Cash and Cash Equivalents as per:		
Cash Flow Statement	357	387
Balance Sheet	<u>357</u>	<u>387</u>
Difference	<u><u>—</u></u>	<u><u>—</u></u>
Reconciliation of net cost of services to net cash from operating activities:		
Net cost of services	(36,069)	(36,972)
Add revenue from Government	37,956	37,279
Adjustments for non-cash items		
Depreciation / amortisation	933	997
(Gain) / loss on disposal of assets	22	64
Change in assets / liabilities:		
(Increase) / decrease in net receivables	(4,171)	(5,237)
(Increase) / decrease in prepayments	(73)	(33)
Increase / (decrease) in employee provisions	1,541	1,163
Increase / (decrease) in supplier payables	(298)	214
Increase / (decrease) in other payables	106	834
Increase / (decrease) in other provisions	<u>20</u>	<u>34</u>
Net cash from / (used by) operating activities	<u><u>(33)</u></u>	<u><u>(1,657)</u></u>

Note 10: Contingent Liabilities and Contingent Assets

At 30 June 2012, to the best of its knowledge, the Commission was not exposed to any unrecognised contingencies that would have any material effect on the financial statements. (2011: Nil)

The Commission had no significant remote contingencies.

Note 11: Senior Executive Remuneration

Note 11A: Senior executive remuneration expense for the reporting period

	2012	2011
	\$	\$
Short-term employee benefits:		
Salary	5,150,390	5,352,501
Annual leave accrued	424,434	425,247
Performance bonus	<u>162,955</u>	<u>205,766</u>
Total short-term employee benefits	<u>5,737,779</u>	<u>5,983,514</u>
Post-employment benefits:		
Superannuation	<u>807,829</u>	<u>828,175</u>
Total post-employment benefits	<u>807,829</u>	<u>828,175</u>
Other long-term benefits:		
Long-service leave	<u>138,383</u>	<u>129,030</u>
Total other long-term benefits	<u>138,383</u>	<u>129,030</u>
Total	<u>6,683,991</u>	<u>6,940,719</u>

Notes:

1. This note includes remuneration of members of the Commission and employees in the Senior Executive Service.
2. Note 11A was prepared on an accrual basis (therefore the performance bonus expenses disclosed above may differ from the cash 'Bonus paid' in Note 11B).
3. Note 11A excludes acting arrangements and part-year service where total remuneration expensed for a senior executive was less than \$150,000.
4. During the year the Commission paid nil in termination benefits to senior executives. (2011: nil)

Note 11B: Average annual reportable remuneration paid to substantive senior executives during the reporting period

	2012					Total
	Average annual reportable remuneration ¹	Senior Executives	Reportable Salary ²	Contributed Superannuation ³	Bonus paid ⁴	
		No.	\$	\$	\$	\$
Total remuneration						
(including part-time arrangements):						
Less than \$150,000		8	64,901	20,879	1,848	87,628
\$150,000 to \$179,999		5	124,768	33,830	1,838	160,436
\$180,000 to \$209,999		6	147,096	44,333	4,337	195,766
\$210,000 to \$239,999		6	180,393	36,004	9,357	225,754
\$240,000 to \$269,999		4	200,280	40,034	10,309	250,623
\$270,000 to \$299,999		2	249,655	34,111	8,596	292,362
\$300,000 to \$329,999		1	257,479	49,978	—	307,457
\$330,000 to \$359,999		2	247,969	82,499	6,590	337,058
\$450,000 to \$479,999		1	356,941	106,013	—	462,954
\$480,000 to \$509,999		1	441,903	65,537	—	507,440
Total		<u>36</u>				

2011

Average annual reportable remuneration ¹	Senior Executives	No.	Reportable	Contributed	Bonus paid ⁵	Total
			Salary ²	Superannuation ³		
			\$	\$	\$	\$
Total remuneration						
(including part-time arrangements):						
Less than \$150,000		4	108,123	16,014	1,617	125,754
\$150,000 to \$179,999		2	115,507	36,014	—	151,521
\$180,000 to \$209,999		7	150,603	43,258	8,595	202,456
\$210,000 to \$239,999		7	180,548	37,956	11,257	229,761
\$240,000 to \$269,999		2	183,875	54,555	16,714	255,144
\$270,000 to \$299,999		2	216,818	54,579	6,417	277,814
\$300,000 to \$329,999		4	225,249	77,257	3,517	306,023
\$330,000 to \$359,999		1	258,427	100,373	—	358,800
\$450,000 to \$479,999		—	—	—	—	—
\$480,000 to \$509,999		1	437,178	59,033	—	496,211
Total		<u>30</u>				

Notes:

- ¹ These tables report members of the Commission and substantive senior executives who received remuneration during the reporting period. Each row represents an averaged figure based on headcount for the individuals in the band.
- ² 'Reportable salary' includes the following:

 - a) gross payments (less any bonuses paid, which are separated out and disclosed in the 'bonus paid' column);
 - b) reportable fringe benefits (at the net amount prior to 'grossing up' to account for tax benefits); and
 - c) exempt foreign employment income.
- ³ The 'contributed superannuation' amount is the average actual superannuation contributions paid in respect of senior executives in that reportable remuneration band during the reporting period, including any salary sacrificed amounts, as per the individuals' payslips.
- ⁴ 'Bonus paid' represents average actual bonuses paid during the reporting period in that reportable remuneration band. The 'bonus paid' within a particular band may vary between financial years due to various factors such as individuals commencing with or leaving the Commission during the financial year.

Note 11C: Other highly paid staff

Average annual reportable remuneration ¹	2012				
	Staff No.	Reportable Salary ² \$	Contributed Superannuation ³ \$	Bonus paid ⁴ \$	Total \$
Total remuneration (including part-time arrangements):					
\$150,000 to \$179,999	23	126,734	32,254	–	158,988
\$180,000 to \$209,999	1	142,862	53,449	3,381	199,692
Total	<u>24</u>				

Average annual reportable remuneration ¹	2011				
	Staff No.	Reportable Salary ² \$	Contributed Superannuation ³ \$	Bonus paid ⁴ \$	Total \$
Total remuneration (including part-time arrangements):					
\$150,000 to \$179,999	11	129,330	27,725	–	157,055
\$180,000 to \$209,999	1	137,833	53,810	–	191,643
Total	<u>12</u>				

Notes:

¹ These tables report staff:

- a) who were employed by the Commission during the reporting period;
- b) whose reportable remuneration was \$150,000 or more for the financial period; and
- c) were not required to be disclosed in Tables A or B.

Each row is an averaged figure based on headcount for individuals in the band.

² 'Reportable salary' includes the following:

- a) gross payments (less any bonuses paid, which are separated out and disclosed in the 'bonus paid' column);
- b) reportable fringe benefits (at the net amount prior to 'grossing up' to account for tax benefits); and
- c) exempt foreign employment income.

³ The 'contributed superannuation' amount is the average actual superannuation contributions paid in respect of other highly paid staff in that reportable remuneration band during the reporting period, including any salary sacrificed amounts, as per the individuals' payslips..

⁴ 'Bonus paid' represents average actual bonuses paid during the reporting period in that reportable remuneration band. The 'bonus paid' within a particular band may vary between financial years due to various factors such as individuals commencing with or leaving the Commission during the financial year.

Note 12: Remuneration of Auditors

	2012	2011
	\$'000	\$'000
Financial statement audit services were provided free of charge to the Commission by the Australian National Audit Office (ANAO). The fair value of the services provided was:	<u>33</u>	<u>36</u>
	<u>33</u>	<u>36</u>

No other services were provided by the ANAO.

Note 13: Financial Instruments

Note 13A: Categories of financial instruments

	2012	2011
	\$'000	\$'000
Financial Assets		
Loans and receivables		
Cash and cash equivalents	357	387
Trade receivables	<u>72</u>	<u>60</u>
Carrying amount of financial assets	<u>429</u>	<u>447</u>
Financial Liabilities		
Other liabilities		
Payables – suppliers	<u>295</u>	<u>585</u>
Carrying amount of financial liabilities	<u>295</u>	<u>585</u>

Note 13B: Net income and expense from financial assets

There is no income or expense from financial assets – loans and receivables in the year ending 30 June 2012. (2011: nil)

Note 13C: Net income and expense from financial liabilities

There is no income or expense from other financial liabilities in the year ending 30 June 2012. (2011: nil)

Note 13D: Fair value of financial instruments

There are no financial instruments held at 30 June 2012 where the carrying amount is not a reasonable approximation of fair value. (2011: nil)

Note 13E: Credit Risk

The Commission is exposed to minimal credit risk as loans and receivables are cash and trade receivables. The maximum exposure to credit risk is the risk that arises from potential default of a debtor. This amount is equal to the total of trade receivables (2012: \$72,000 and 2011: \$60,000). The Commission has assessed that there is no risk of default on payment.

The Commission's credit risk is reduced as it mainly deals with other government agencies.

The Commission holds no collateral to mitigate against credit risk.

No financial instruments were impaired in 2012. (2011: nil)

Ageing of financial assets that are not past due nor impaired and past due but not impaired are shown at Note 5B.

Note 13F: Liquidity Risk

The Commission's financial liabilities are payables. The exposure to liquidity risk is based on the notion that the Commission will encounter difficulty in meeting its obligations associated with financial liabilities. This is highly unlikely due to appropriation funding and mechanisms available to the Commission (eg. Advance to the Finance Minister) and internal policies and procedures put in place to ensure there are appropriate resources to meet its financial obligations.

The Commission is appropriated funding from the Australian Government. The Commission manages its budgeted funds to ensure it has adequate funds to meet payments as they fall due. In addition, the Commission has policies in place to ensure timely payments are made when due and has no past record of default.

All financial liabilities mature within one year. (2011: one year)

The Commission has no derivative financial liabilities in either the current or prior year.

Note 13G: Market Risk

The Commission holds basic financial instruments that do not expose the Commission to certain market risks.

The Commission is not exposed to currency risk, other price risk or interest rate risk.

Note 14: Financial Assets Reconciliation

	2012	2011
	\$'000	\$'000
<u>Financial Assets</u>	Notes	
Total financial assets as per balance sheet	20,496	16,260
Less: non-financial instrument components:		
Appropriations receivable	19,953	15,410
Other receivables	<u>114</u>	<u>403</u>
Total non-financial instrument components	<u>20,067</u>	<u>15,813</u>
Total financial assets as per financial instrument note	<u>429</u>	<u>447</u>

Note 15: Appropriations

Table A: Annual Appropriations ('Recoverable GST' exclusive)

	2012 Appropriations					Appropriation applied in 2012 (current and prior years) \$'000	Variance \$'000
	Appropriation Act		FMA Act				
	Annual Appropriation \$'000	Appropriations reduced ^(a) \$'000	Section 30 \$'000	Section 31 \$'000	Total appropriation \$'000		
Departmental							
Ordinary annual services	37,956	-	-	1,101	39,057	34,643	4,414
Other services	-	-	-	-	-	-	-
Equity	-	-	-	-	-	-	-
Total departmental	37,956	-	-	1,101	39,057	34,643	4,414

Notes:

(a) Appropriations reduced under Appropriation Acts (No.1,3,5) 2011-12: sections 10, 11, 12 and 15 and under Appropriation Acts (No.2,4,6) 2011-12: sections 12,13, 14 and 17. Departmental appropriations do not lapse at financial year-end. However, the responsible Minister may decide that part or all of a departmental appropriation is not required and request that the Finance Minister reduce that appropriation. The reduction in the appropriation is effected by the Finance Minister's determination and is disallowable by Parliament.

Table A: Annual Appropriations ('Recoverable GST' exclusive) continued

	2011 Appropriations					Appropriation applied in 2011 (current and prior years) \$'000	Variance \$'000
	Appropriation Act		FMA Act		Total appropriation \$'000		
	Annual Appropriation \$'000	Appropriations reduced ^(a) \$'000	Section 30 \$'000	Section 31 \$'000			
Departmental							
Ordinary annual services	37,279	–	56	2,708	40,043	34,971	5,072
Other services	–	–	–	–	–	–	–
Equity							
Total departmental	37,279	–	56	2,708	40,043	34,971	5,072

Notes:

(a) Appropriations reduced under Appropriation Acts (No.1,3,5) 2010-11: sections 10, 11, 12 and 15 and under Appropriation Acts (No.2,4,6) 2010-11: sections 12,13, 14 and 17. Departmental appropriations do not lapse at financial year-end. However, the responsible Minister may decide that part or all of a departmental appropriation is not required and request that the Finance Minister reduce that appropriation. The reduction in the appropriation is effected by the Finance Minister's determination and is disallowable by Parliament.

Table B: Departmental Capital Budgets ('Recoverable GST' exclusive)

	2012 Capital Budget Appropriations		Capital Budget Appropriation applied in 2012 (current and prior years)			Variance \$'000	
	Appropriation Act		Total Capital Budget Appropriations \$'000	Payments for non-financial assets ³ \$'000	Payments for other purposes \$'000		Total payments \$'000
	Annual Capital Budget \$'000	Appropriations reduced ² \$'000					
Departmental Ordinary annual services Capital Budget ¹	351	-	351	252		252	99

Notes:

1. Departmental Capital Budgets are appropriated through Appropriation Acts (no.1,3,5). They form part of ordinary annual services, and are not separately identified in the Appropriation Acts. For more information on ordinary annual services appropriations, please see Table A: Annual appropriations.
2. Appropriations reduced under Appropriation Acts (No.1,3,5) 2011-12: sections 10, 11, 12 and 15 or via a determination by the Finance Minister.
3. Payments made on non-financial assets include purchases of assets, expenditure on assets which had been capitalised, costs incurred to make good an asset to its original condition, and the capital repayment component of finance leases.

	2011 Capital Budget Appropriations			Capital Budget Appropriation applied in 2011 (current and prior years)			
	<i>Appropriation Act</i>		Total Capital Budget Appropriations \$'000	Payments for non-financial assets ³ \$'000	Payments for other purposes \$'000	Total payments \$'000	
	Annual Capital Budget \$'000	Appropriations reduced ² \$'000					
Departmental Ordinary annual services Capital Budget ¹	4,145	-	4,145	3,404	-	3,404	741

Notes:

1. Departmental Capital Budgets are appropriated through Appropriation Acts (no.1,3,5). They form part of ordinary annual services, and are not separately identified in the Appropriation Acts. For more information on ordinary annual services appropriations, please see Table A: Annual appropriations.
2. Appropriations reduced under Appropriation Acts (No.1,3,5) 2010-11: sections 10, 11, 12 and 15 or via a determination by the Finance Minister.
3. Payments made on non-financial assets include purchases of assets, expenditure on assets which had been capitalised, costs incurred to make good an asset to its original condition, and the capital repayment component of finance leases.

Table C: Unspent Departmental Annual appropriations ('Recoverable GST exclusive')

Authority	2012 \$'000	2011 \$'000
Appropriation Act (No.1) 2010-11	741	15,797
Appropriation Act (No.1) 2011-12	<u>19,569</u>	<u>—</u>
Total as at 30 June	<u>20,310</u>	<u>15,797</u>

Section 83 of the Constitution provides that no amount may be paid out of the Consolidated Revenue Fund except under an appropriation made by law. The Department of Finance and Deregulation provided information to all agencies in 2011 regarding the need for risk assessments in relation to compliance with statutory conditions on payments from special appropriations, including special accounts. The Commission considers it has a low risk of non-compliance as it does not have a special appropriation. The Commission also does not have a special account as this was abolished in the 2010-11 financial year and there were no transactions.

Note 16: Compensation and Debt Relief

	2012	2011
	\$	\$
Departmental		
No 'Act of Grace' expenses were incurred during the reporting period. (2011: No expenses)	<u>—</u>	<u>—</u>
No waivers of amounts owing to the Australian Government were made pursuant to subsection 34(1) of the <i>Financial Management and Accountability Act 1997</i> . (2011: No waivers)	<u>—</u>	<u>—</u>
No payments were provided under the Compensation for Detriment caused by Defective Administration (CDDA) Scheme during the reporting period. (2011: No payments)	<u>—</u>	<u>—</u>
No ex gratia payments were provided for during the reporting period. (2011: No payments)	<u>—</u>	<u>—</u>
No payments were provided in special circumstances relating to APS employment pursuant to section 73 of the <i>Public Service Act 1999</i> (PS Act) during the reporting period. (2011: No payments)	<u>—</u>	<u>—</u>

Note 17: Reporting of Outcomes

Note 17A: Net Cost of Outcome Delivery

	<i>Outcome 1</i>	
	<i>2012</i>	<i>2011</i>
	<i>\$'000</i>	<i>\$'000</i>
Expenses		
Departmental	<u>36,623</u>	<u>37,280</u>
Total	<u>36,623</u>	<u>37,280</u>
Other own-source income		
Departmental	<u>554</u>	<u>308</u>
Total	<u>554</u>	<u>308</u>
Net cost of outcome delivery	<u>36,069</u>	<u>36,972</u>

Note 18: Net Cash Appropriation Arrangements

	<i>2012</i>	<i>2011</i>
	<i>\$'000</i>	<i>\$'000</i>
Total comprehensive income less depreciation/amortisation expenses previously funded through revenue appropriations ¹	<u>954</u>	<u>(690)</u>
Plus: depreciation/amortisation expenses previously funded through revenue appropriation	<u>933</u>	<u>997</u>
Total comprehensive income – as per the Statement of Comprehensive Income	<u>1,887</u>	<u>307</u>

¹ From 2010-11, the Government introduced net cash appropriation arrangements, where revenue appropriations for depreciation/amortisation expense ceased. Entities now receive a separate capital budget provided through equity appropriations. Capital budgets are to be appropriated in the period when cash payment for capital expenditure is required.

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