



**Australian Government**  
**Productivity Commission**

---

Productivity Commission

# Annual Report

## 2017-18



© Commonwealth of Australia 2018

ISSN 2205-5673 (Print)

ISSN 2205-5681 (Online)



Except for the Commonwealth Coat of Arms and content supplied by third parties, this copyright work is licensed under a Creative Commons Attribution 3.0 Australia licence. To view a copy of this licence, visit <http://creativecommons.org/licenses/by/3.0/au>. In essence, you are free to copy, communicate and adapt the work, as long as you attribute the work to the Productivity Commission (but not in any way that suggests the Commission endorses you or your use) and abide by the other licence terms.

### **Use of the Commonwealth Coat of Arms**

Terms of use for the Coat of Arms are available from the Department of the Prime Minister and Cabinet's website: <https://www.pmc.gov.au/government/commonwealth-coat-arms>

### **Third party copyright**

Wherever a third party holds copyright in this material, the copyright remains with that party. Their permission may be required to use the material, please contact them directly.

### **Attribution**

This work should be attributed as follows, *Source: Productivity Commission, Annual Report 2017-18*.

If you have adapted, modified or transformed this work in anyway, please use the following, *Source: based on Productivity Commission data, Annual Report 2017-18*

### **An appropriate reference for this publication is:**

Productivity Commission 2018, *Annual Report 2017-18*, Annual Report Series, Canberra.

### **Publications enquiries**

Media, Publications and Web, phone: (03) 9653 2244 or email: [mpw@pc.gov.au](mailto:mpw@pc.gov.au)

### **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.

Further information on the Productivity Commission can be obtained from the Commission's website ([www.pc.gov.au](http://www.pc.gov.au)).



13 September 2018

The Hon Josh Frydenberg MP  
Treasurer  
Parliament House  
CANBERRA ACT 2600

Dear Treasurer

We submit to you the Productivity Commission's annual report for 2017-18. 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

Peter Harris  
Chair

Robert Fitzgerald  
Commissioner

Karen Chester  
Deputy Chair

Stephen King  
Commissioner

Julie Abramson  
Commissioner

Paul Lindwall  
Commissioner

Ken Baxter  
Commissioner

Angela MacRae  
Commissioner

Jonathan Coppel  
Commissioner

Richard Spencer  
Commissioner

Jane Doolan  
Commissioner

John Madden  
Associate Commissioner





**Peter Harris AO**  
Chair



**Karen Chester**  
Deputy Chair



**Julie Abramson**  
Commissioner



**Ken Baxter**  
Commissioner



**Robert Fitzgerald**  
Commissioner



**Jonathan Coppel**  
Commissioner



**Jane Doolan**  
Commissioner



**Stephen King**  
Commissioner



**Paul Lindwall**  
Commissioner



**Angela MacRae**  
Commissioner



**Richard Spencer**  
Commissioner



**John Madden**  
Associate Commissioner



# Foreword

In 2017-18, the Productivity Commission started five inquiries and studies, and completed eight. The work completed included: an inquiry into competition in Australian financial system; an inquiry into reforms to human services; a study of transitioning regional economies; a study of National Disability Insurance Scheme (NDIS) costs; and inquiries into national water reform; Horizontal Fiscal Equalisation; and collection models for GST on low value imported goods.

It also included our first five-yearly Productivity Review, which resulted in the *Shifting the Dial* report. The report is a strategy document on how to engineer a lift in productivity sufficient to dial up national income growth. It focuses on education, health, and the shaping of urban investment and infrastructure. These are fast-growing areas of our economy, so are critical if the nation is to become a more sustainable economic growth machine. And they are areas where people can benefit personally from change. The report is now with the Australian, State and Territory governments to consider as basis for the change needed to boost living standards.

During the year, the Commission also produced important research on the rise of protectionism, and on trends in inequality. Our research program is now explicitly focused on evident weaknesses in the public policy debate, where a dispassionate look at data might assist policy makers and the community to consider the challenges from a sound, common information base.

New inquiries and studies put to us by the Government and ongoing at this time include those on compensation and rehabilitation for veterans; economic regulation of airports; and the national disability agreement review. And the Commission continued to work on superannuation.

2017-18 saw the release of the twenty-third edition of the Review of Government Services, an example of sustained Commonwealth-State co-operation in data release that is all too rare today.

Finally, we conducted our first survey to help gauge the relevance, analytical rigour and clarity of our work, as well as the effectiveness of our participatory processes, openness and transparency. The results were generally encouraging and inform our performance reporting in this Annual Report.

As this reporting period is my last as Chair, I would like to thank our staff and my fellow Commissioners for their dedication and for the high quality of work produced over this and previous years. Keep going.

Peter Harris AO  
Chairman





# Contents

<b>Foreword</b>	<b>vii</b>
<b>Abbreviations</b>	<b>xi</b>
<b>Annual Performance Statement</b>	<b>1</b>
<b>1 Review of Commission activities and performance</b>	<b>5</b>
Overview	6
Year in review	8
Policy and wider impacts	13
Transparency and community engagement	16
Timeliness and cost effectiveness	18
Commission Capabilities, Linkages and Networks	19
<b>2 Management and accountability</b>	<b>21</b>
Overview	21
Governance	23
External and internal scrutiny	26
Management of human resources	27
Financial performance	31
Annual reporting requirements and aids to access	34
Annex A	35
Annex B	38
Annex C	39
Annex D	40
<b>A Financial statements</b>	<b>43</b>
<b>Index</b>	<b>71</b>



# Abbreviations

ABS	Australian Bureau of Statistics
ACCC	Australian Competition and Consumer Commission
AGCNCO	Australian Government Competitive Neutrality Complaints Office
AIHW	Australian Institute of Health and Welfare
ANAO	Australian National Audit Office
APS	Australian Public Service
COAG	Council of Australian Governments
HFE	Horizontal Fiscal Equalisation
IMF	International Monetary Fund
NCP	National Competition Policy
OECD	Organisation for Economic Cooperation and Development
OHS	Occupation health and safety
PGPA Act	Public Governance, Performance and Accountability Act 2013
ROGS	Report on Government Services
SES	Senior Executive Service
WHS	Work Health and Safety



# Annual Performance Statement

## Introductory statement

This annual performance statement is for s39(1)(a) of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act) for the 2017-18 financial year, and accurately reflects the entity's performance in accordance with s39(2) of the PGPA Act.

## Entity purpose

The Commission's purpose, as embodied in the *Productivity Commission Act 1998*, is to provide governments and the Australian community with information and advice that better informs policy decisions to improve Australians' wellbeing. The Commission applies robust, transparent analysis, and adopts a community-wide perspective.

## Results

In 2017-18, the Commission has sought to complete projects and publish reports that are of a high quality, and are useful and timely.

As outlined in the 2017-18 Portfolio Budget Statements, and the Commission's 2017–21 Corporate Plan, indicators of performance include: the Commission's work being widely referenced in public policy forums; projects and reports being completed in accordance with commissioned timelines; and independent and transparent processes being followed. Performance against impact and delivery criteria encompassing these indicators is summarised below, with analysis presented in more detail in the chapter 'Review of Commission activities and performance'.

Assessment of the Commission's performance is complicated by it being one contributor among many to any policy outcomes, and that the nature, scope and timing of commissioned projects varies from year to year. Also, as its inquiry and research outputs contribute, over periods of years, to public debate and policy development across a range of complex and often contentious issues, the Commission's contribution is best considered over the medium term. Given the nature of its work, the Commission relies mainly on qualitative indicators of performance, with quantitative indicators helping to inform the assessment in some areas.

In 2017-18, the Commission conducted a qualitative survey of stakeholders to help gauge the relevance, analytical rigour and clarity of its work, as well as the effectiveness of its participatory processes, its openness and transparency. The Commission intends to undertake such surveys every three years to assist in assessing performance.

## Impact Criterion: The Productivity Commission is a valuable source of evidence-based analysis to inform public policy in Australia.

In 2017-18, the demand for the Commission to undertake work on complex policy issues continued from the high level set in the previous year. The Commission received references from the Government for five new projects, and completed eight government-commissioned inquiries and studies on a diverse set of topics. One of these was the Commission's first 5-year Productivity Review, *Shifting the Dial* — a strategy document on how to generate a lift in productivity and participation sufficient to dial up national income growth.

The Commission also continued to provide secretariat, research and report preparation services to the Steering Committee for the Review of Government Service Provision. In 2017-18, this included publication of the *Indigenous Expenditure Report* which provides estimates of Australian, State and Territory government expenditure for Aboriginal and Torres Strait Islander Australians, as well as the annual *Report on Government Services*.

In 2017-18, the Commission also published its first update of the Performance Reporting Dashboard, which provides a single, streamlined source of information on progress towards the Council of Australian Government's (COAG's) key commitments.

In addition, the Commission continued its annual reporting of assistance to industry by the Australian Government.

The Commission's contribution to public policy and clarity of evidence-based analysis were considered key strengths of its work amongst respondents in the 2017-18 survey. In addition to a range of positive commentary on the thoroughness and rigour evident in its work, a significant proportion of respondents agreed that the Commission always or mostly based its findings on evidence (84%), and explained its findings well (78%).

## Impact Criterion: The Productivity Commission generates effective public debate.

The Commission's work was widely referenced in public debate in 2017-18. Contributions to parliamentary debate and the extent of media coverage indicate public interest in the Commission's work and its potential influence.

Around 94 members and senators referred to around 42 different Commission reports or inquiries, or to the Commission's role in policy processes. And during the 2017-18 sittings of state and territory parliaments, around 160 members referred to 36 different Commission publications or inquiries, the *Report on Government Services*, or to the Commission's role.

The Commission used social media during 2017-18 to raise awareness of, and promote participation in, its work. In 2017-18, the Commission commenced live streaming some of its public hearings to provide a further means for interested parties to access its processes and to encourage public debate.

The Commission rated an average of 160 mentions a month in national print media.

Participants' perception of the Commission as effectively generating public debate was largely positive in the 2017-18 survey. In respect of public inquiry and research work, 80% of respondents either agreed or strongly agreed that the Commission generated valuable public debate, and 82% that the Commission enhanced the information used in the debate.

**Impact Criterion: The Productivity Commission is recognised as a model for evidence-based policy analysis worthy of consideration by other governments.**

There continues to be interest from other governments in the institutional arrangements for Australia's Productivity Commission and how it approaches its work. The Commission responded during the year to requests for briefings to visiting officials and delegations from five countries. The OECD and IMF cited the Commission's work in numerous reports published throughout the year.

In 2017-18, the NSW and South Australian governments announced that they would establish their own Productivity Commissions.

**Delivery Criterion: The Productivity Commission engages effectively with the community.**

In 2017-18, the Commission's processes continued to provide for extensive public input and feedback through hearings, workshops and other consultative forums, including meetings in regional Australia, and through the release of draft reports and preliminary findings.

The Commission conducted public hearings, and/or roundtable discussions with parties of interest, for most of the major projects commissioned by government. For most projects, a paper was published outlining issues and calling for public submissions shortly after the reference was received, and in the case of public inquiries, there was generally an opportunity for interested parties to make submissions in advance of public hearings, and following the issue of a draft report.

Through the 2017-18 survey results, the Commission found that participants were largely positive about how it engages with the community and that its consultative approach is seen as a strength. 71% of respondents agreed that the Commission either always or mostly provided the opportunity for engagement with people in the respondent's community of interest, with a further 75% agreeing that the Commission showed awareness of the arguments made by their community.

## **Delivery Criterion: The Productivity Commission's processes are open and transparent.**

The Commission operates under the powers, protection and guidance of its own legislation. Its independence is formally exercised under the *Productivity Commission Act 1998* through the Chair and Commissioners, who are appointed by the Governor-General for fixed periods.

It has its own budgetary allocation and small permanent staff, operating at arm's-length from other government agencies. While the Government initiates the Commission's inquiries and studies, the Commission's findings and recommendations are based on its own analysis and judgments.

The Commission's processes are one of its crucial differentiating factors from other inquiry processes. These are critical to delivering high quality advice by ensuring analysis and judgements are scrutinised and draw on public input. A number of participants commentary in the 2017-18 survey pointed to the Commission's objectivity and independence as key strengths of its work, with a high number of respondents (79%) agreeing that the Commission was open and transparent.

The Commission's advice to government, and the information and analysis on which it is based, continued to be open to public scrutiny in 2017-18. As noted above, the Commission's processes provided for extensive public input and feedback through hearings, workshops and other consultative forums, and through the release of draft reports and preliminary findings. In addition, key data sets and modelling are made publicly available following the release of reports.

## **Delivery Criterion: The Productivity Commission delivers reports within agreed timeframes.**

All of the major projects completed in 2017-18 were done so within the timeframes originally commissioned by Government, or as subsequently varied by Government. The timing of tabling of commissioned inquiry reports, following completion of a project, is a matter for Government.



# 1 Review of Commission activities and performance

## **Some highlights from 2017-18**

- completed the first of a cycle of five-yearly Productivity Reviews looking at 'shifting the dial' on productivity-enhancing reforms
- published other government-commissioned reports on a range of key topics, including:
  - ... Reforms to Human Services
  - ... Horizontal Fiscal Equalisation
  - ... Competition in the Australian Financial System (Draft)
  - ... National Water Reform
  - ... Collection Models for GST on Low Value Imported Goods
  - ... Transitioning Regional Economies
  - ... Review of NDIS Costs
  - ... Superannuation: Assessing Competitiveness and Efficiency (Draft)
- completed a landmark Commission research paper on rising protectionism
- undertook research on trends in inequality
- commenced work on the first review of nationally significant sector-wide agreements
- published the Commission's first update of the COAG performance dashboard

## **Some areas of focus for 2018-19**

- current inquiries and government-commissioned research:
  - ... Superannuation (Stage 3)
  - ... Murray-Darling Basin Plan: Five-year assessment
  - ... Compensation and Rehabilitation for Veterans
  - ... Economic Regulation of Airports
  - ... National Disability Agreement Review
- annual Report on Government Services (RoGS)
- initial reviews on 'what works' to improve service outcomes

## 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. Its remit covers all sectors of the economy, with a view to better informing policy making to raise national productivity and living standards.

The Productivity Commission's outcome objective 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.

This is pursued in four broad work streams:

- government-commissioned inquiries or studies
- other research projects and a statutory analysis of industry support
- performance reporting and related analysis of Commonwealth and State service provision
- competitive neutrality complaints (figure 1.1).

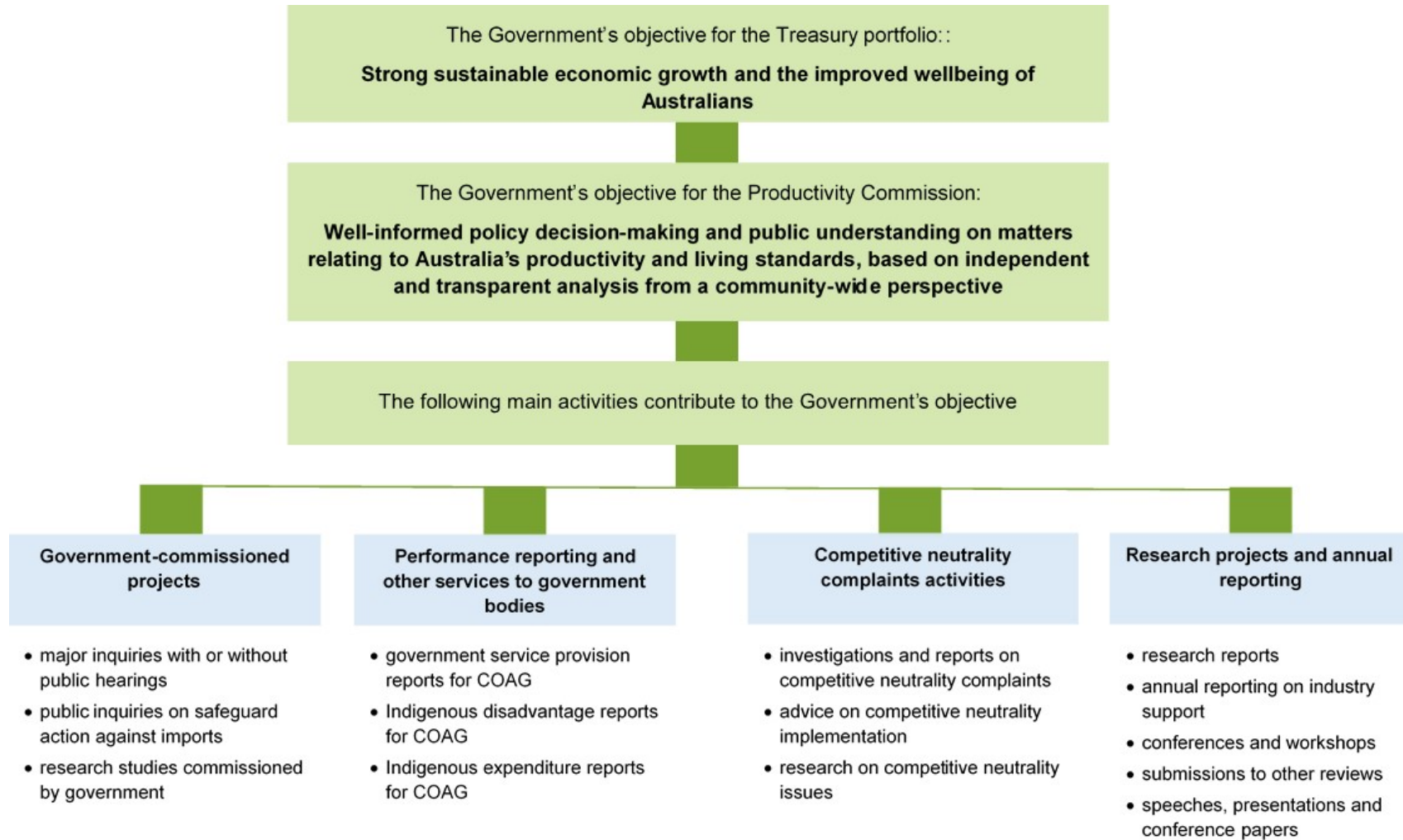
Over the year, the Commission completed a broad range of government-commissioned inquiries and studies, and undertook research, on a diverse set of topics.

The Commission also continued to provide assistance to all Australian governments and COAG through a mix of standing reporting responsibilities and specific projects. In 2017-18, the Commission provided secretariat, research and report preparation services to the intergovernmental Steering Committee for the Review of Government Service Provision. The Commission commenced the first review of nationally significant sector-wide agreements between the Australian, State and Territory governments and published its first update of the COAG performance reporting dashboard.

During this reporting period, the Commission also commenced its first five-yearly assessment on the Murray-Darling Basin Plan and water resource plans.

A further new stream of work on Indigenous policy evaluation is expected to commence in 2018-19, following with the passage of enabling legislation through the Australian Parliament in early 2018. The Commission is to develop and implement a whole-of-government evaluation strategy for policies and programs that affect Aboriginal and Torres Strait Islander Australians, which all Australian Government agencies will report against. This work is to be assisted by the appointment of a new Commissioner with experience in dealing with policies and programs that affect Indigenous Australians.

Figure 1.1 Productivity Commission main activities 2017-18



## Year in review

### Public inquiries and commissioned studies

The Commission commenced five new projects at the request of the Australian Government in 2017-18. This follows the commissioning of nine new projects in 2016-17.

- The Government asked the Commission to commence in July 2017 an inquiry into competition in the Australian Financial System. The inquiry looked at the provision of financial services and the interaction of market participants, issues facing the consumers of financial services and the functions and activities of the regulators. The report was sent to Government in late June 2018 and publicly released in early August 2018.
- Under the *Water Act 2007 (Cth)*, the Commission is required to undertake five-yearly assessments of the effectiveness of the implementation of the Murray-Darling Basin Plan and water resource plans. The Commission commenced the first of these assessments in March 2018, and is due to provide a final report to Government in December 2018.
- In March 2018, the Government commissioned a 15-month inquiry into Compensation and Rehabilitation for Veterans. This inquiry is to consider how well the system of compensation and rehabilitation for military veterans (serving and ex-serving Australian Defence Force members) is meeting its aims, and whether the system is likely to effectively and efficiently support veterans in the future.
- In May 2018, the Commission was asked to undertake an eight-month review into the National Disability Agreement. This is the first review of the Commission's reviews of nationally significant sector-wide agreements between the Australian, State and Territory governments. The Commission will review the Agreement, including by examining progress against the performance framework in the Agreement and the extent to which it has supported improved outcomes for people with disability, their families and carers.
- In June 2018, the Australian Government asked the Commission to investigate whether the economic regulation of airport services promotes the efficient operation of airports and related industries. The focus of the inquiry is the provision of passenger and freight services at the main passenger airports in Australia's major cities. A final report is to be handed to government in June 2019.

There were ten public inquiries and three research studies underway at some point during 2017-18 (table 1.1 and figure 1.2).

Eight inquiries or studies were completed in 2017-18: the first five-yearly Productivity Review; an inquiry on Reforms to Human Services; a report on National Water Reform; Horizontal Fiscal Equalisation; Collection Models for GST on Low Value Imported Goods; Competition in the Australian Financial System; a review of NDIS costs; and a study on Transitioning Regional Economies.

Work also continued during the year on the third stage of the Commission’s work on superannuation – an inquiry assessing the competitiveness and efficiency of the Australian superannuation system.

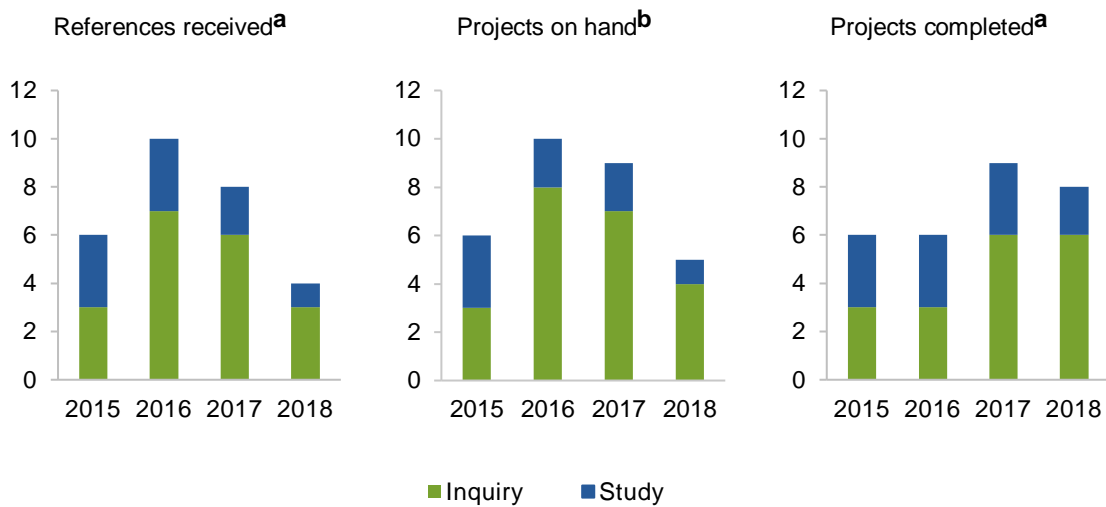
Further information on public inquiries and commissioned studies undertaken during 2017-18 is available on the Commission’s website. Trends in public inquiry activity and participation over the past five years are shown in figure 1.2 and table 1.2.

**Table 1.1 Program of public inquiries and other government-commissioned projects<sup>a</sup>**

	2016-17					2017-18						2018-19													
	J	F	M	A	M	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D		
<b>Public inquiries:</b>																									
Data Availability and Use																									
Telecommunications Universal Service Obligation																									
Superannuation: Alternative Default Fund Models (Stage 2) <sup>b</sup>																									
Productivity Review																									
Reforms to Human Services																									
National Water Reform																									
Horizontal Fiscal Equalisation																									
Collection Models for GST on Low Value Imported Goods																									
Superannuation: Assessing Competitiveness and Efficiency (Stage 3)																									
Competition in the Australian Financial System																									
Murray-Darling Basin Plan: Five-year assessment																									
Compensation and Rehabilitation for Veterans																									
Economic Regulation of Airports																									
<b>Commissioned research studies:</b>																									
Consumer Law Enforcement and Administration																									
Review of NDIS Costs																									
Transitioning Regional Economies																									
National Disability Agreement Review																									

<sup>a</sup> Shaded area indicates the approximate duration of the project in the period covered by the table. <sup>b</sup> The Commission received a joint study (Stage 1) and inquiry (Stage 2) reference into superannuation in February 2016; the inquiry component – to examine alternative models for a formal competitive process for allocating default fund members to products- commenced in September 2016. In the context of receiving the terms of reference for the inquiry into Assessing Competitiveness and Efficiency (Stage 3), the Government agreed that the Stage 2 inquiry be incorporated into, and finalised as part of, Stage 3.

Figure 1.2 **Projects commenced, on hand and completed**



<sup>a</sup> Figures are for financial years <sup>b</sup>As at 30 June.

## Performance reporting and other services to government bodies

The Commission provides secretariat services to the Steering Committee for the Review of Government Service Provision, and has done so 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 major outputs: the *Report on Government Services*; the *Overcoming Indigenous Disadvantage: Key Indicators* report; and the *Indigenous Expenditure Report*.

### Report on Government Services

The *Report on Government Services 2018* was the twenty-third in this series. The Report provides comparative performance information on 17 government service delivery areas that contribute to the wellbeing of Australians — spanning child care, education and training, health, justice, community services, emergency management, housing and homelessness. The services covered in the 2018 Report collectively account for \$224 billion of government recurrent expenditure, equivalent to about 13 per cent of GDP.

Complementary to the national performance reporting on government services, the first review on what works to improve service outcomes is underway. The review relates to the aged care service area and is due for completion during 2018-19. A second review is to be undertaken in 2018-19.

**Table 1.2 Public inquiry and other commissioned project activity, 2012-13 to 2017-18**

	2013-14	2014-15	2015-16	2016-17	2017-18
<b>Public inquiries</b>					
Inquiry references received <sup>a</sup>	5	3	7	6	3
Issues papers released <sup>b</sup>	8	3	6	5	5
Public hearings (sitting days) <sup>c</sup>	35	14	19	20	23
Organisations/people visited	441	205	594	626	519
Submissions received	1674	941	955	1302	610
Draft reports <sup>d</sup>	6	3	3	7	4
Inquiry reports completed	7	3	3	6	6
Inquiries on hand (at 30 June)	3	3	8	7	4
<b>Research studies</b>					
References received	2	3	3	2	1
Submissions received	154	131	72	544	210
Draft reports <sup>d</sup>	3	1	2	4	0
Research reports completed	3	3	3	3	2
Studies on hand (at 30 June)	2	3	2	2	1
<b>Total references<sup>e</sup></b>					
Total references received	7	6	10	8	4
Total references completed	10	6	6	9	8
Total references on hand (at 30 June)	5	6	10	9	5

<sup>a</sup> The financial system inquiry reference received in May 2017 for commencement in July 2017 is reflected in 2016-17. <sup>b</sup> Includes Issues papers or equivalents, such as discussion papers and guidance notes. <sup>c</sup> Excludes forums and roundtable discussions. <sup>d</sup> Includes all types of draft reports. <sup>e</sup> Includes the superannuation study and superannuation inquiry as separate references.

## Overcoming Indigenous Disadvantage: Key Indicators

The *Overcoming Indigenous Disadvantage: Key Indicators* (OID) report, commissioned by COAG in 2002, measures the wellbeing of Aboriginal and Torres Strait Islander Australians. The latest report was the seventh edition and released in November 2016.

## Indigenous Expenditure Report

COAG agreed to the reporting of Indigenous expenditure in 2007, with the Productivity Commission assuming secretariat responsibilities in November 2008. The *Indigenous Expenditure Report* contributes to governments' understanding of the levels and patterns of expenditure on services for Aboriginal and Torres Strait Islander Australians across over 150 expenditure categories. The report does not attempt to assess the adequacy, effectiveness or efficiency of government expenditure. The latest Indigenous Expenditure Report was published in October 2017, and was the fourth in a series following publications in 2010, 2012 and 2014.

## National Agreement reporting

The Commission supports the provision of information to assess performance against the six National Agreements agreed by COAG under the Intergovernmental Agreement on Federal Financial Relations. During 2017-18, the Steering Committee collated performance information for the National Indigenous Reform Agreement, and incorporated applicable indicators and data from the other five National Agreements in its Report on Government Services.

## Performance Reporting Dashboard

In addition to the reports the Commission publishes on behalf of the Steering Committee for the Review of Government Service provision, the Commission also maintains the COAG Performance Reporting Dashboard. In 2017-18, the Commission published its first update of the Dashboard, which provides a single, streamlined source of information on progress towards COAG's key commitments.

## Competitive neutrality complaints activities

Competitive neutrality policy seeks to ensure that government businesses do not have advantages (or disadvantages) relative to their private sector competitors 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 two formal written complaints in 2017-18. One complaint, after preliminary investigations, was found to fall outside the remit of competitive neutrality policy. The other, against Australian Hearing, was within the scope of competitive neutrality and that complaint was accepted by the AGCNCO. The investigation report was published in May 2018.

The Office also provides informal advice on, and assists agencies in, implementing competitive neutrality requirements. During 2017-18, the Office provided advice, on average, about once every week to government agencies or in response to private sector queries. The Office also liaised with the Treasury Secretariat conducting a review of the Australian Government's competitive neutrality policy, its implementation and competitive neutrality complaints handling process.

## Other research activities and annual reporting

The Commission is required under its Act to undertake research to complement its other activities. It undertakes research to support its 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. It must also report annually on the effects of assistance and regulation.

The Commission's research program is guided by government statements on policy priorities, including potential commissioned work; parliamentary debate and committee work; and informal and formal consultations with Australian Government departments, business, community and environmental groups, union bodies and academics.

During the year, the Commission released a major research paper on the challenges, threats and opportunities of rising protectionism for Australia. It also undertook work on trends in inequality, and commenced a research project on higher education access and outcomes. Work was also completed during the year on the *Trade and Assistance Review 2016-17* which was published in April 2018.

## **Policy and wider impacts**

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 can be complicated by it being one contributor among many to any policy outcome. Its contribution is best considered over the medium term. 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, and in providing data that is a source of reference for future policy makers.

The Commission monitors reaction to its work in order to improve its performance and its contribution to public understanding and policy making.

Recipients of reports and users of the Commission's website are provided with the opportunity to provide feedback.

As part of development of the Commission's performance-reporting framework, the Commission conducted the first of its three-yearly major qualitative surveys of stakeholders in 2017-18. The surveys are to help gauge the relevance, analytical rigour and clarity of its work, as well as the effectiveness of its participatory processes, openness and transparency.

## **Generating effective debate**

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. Taken together with media mentions, mentions in

Parliaments and downloads of reports, the degree of acceptance of recommendations indicate the Commission's success in generating public debate.

Internal review across the eight inquiries and studies for which final reports were completed in 2017-18 indicates that five projects generated a high level of public debate (the Productivity Review, Horizontal Fiscal Equalisation, Reforms to Human Services, Competition in the Australian Financial System and the Review of NDIS Costs), with particularly high interest in Horizontal Fiscal Equalisation. Two reports generated a medium level of debate (Transitioning Regional Economies and National Water Reform), while there was relatively low levels of debate for Collection Models for GST on Low Value Imported Goods.

At 30 June 2018, Government responses to most of the reports published in 2017-18 were still pending. Horizontal Fiscal Equalisation (HFE), which was released on 5 July 2018, was an exception. The Australian Government provided its interim response on releasing the report. The response provided *inter alia* support, subject to consultation with the States and Territories, to all but one of the nine report recommendations.


During the year, the Australian Government also announced the following decisions on Commission reports released in previous years.

- On 20 December 2017, the Government released its response to the Commission's 2017 report Telecommunications Universal Service Obligation. In its response, the Government acknowledged that it will commence work to establish a future Universal Service Guarantee in line with the report.
- The Australian Government released its response to the Commission's 2017 report into Data Availability and Use on 1 May 2018. The response, which addressed 28 out of 41 recommendations, included a range of measures to implement Commission recommendations including a new consumer data right, a national data Commissioner, and new legislative and governance arrangements.

In addition, the Government announced policy actions consistent with recommendations in previous Commission reports.

- The introduction of a new national independent Aged Care Quality and Safety Commission drew on a recommendation from the Commission's 2011 *Caring for Older Australians* report to establish a new independent regulatory agency.
- The Australian Government's childcare and early childhood learning package released on 1 July 2018 included changes recommended in the Commission's 2015 report on *Childcare and Early Childhood Learning*, including introduction of hourly rate caps, a single child based subsidy and a means-tested subsidy rate. In addition, the Government announced simplified visa requirements for au pairs.

Commission inquiry and research reports also continue to be used frequently by parliamentarians in debates and questions. During the 2017-18 *sittings of the Federal Parliament* around 94 members and senators referred to around 42 different Commission reports or inquiries, or to the Commission's role in policy processes.



In addition, there were at least 165 mentions of the Commission and its work in the Hansard proceedings of *Federal Parliamentary Committees* in 2017-18. The most frequent mentions were of reports on Horizontal Fiscal Equalisation, Review of NDIS Costs and the Productivity Review.

The Commission's inquiry and research reports were also used extensively in debate and questions by *state and territory parliamentarians*. During the 2017-18 sittings of the eight state and territory parliaments, 160 members referred to around 36 different Commission publications or inquiries, the Report on Government Services, or to the Commission's role in policy processes. In about 49 per cent of the 301 mentions the Commission was cited as an authoritative source, while 11 per cent of mentions were critical of a particular finding, report or Commission attribute. The Report on Government Services was mentioned most frequently, with the Commission's reports on Horizontal Fiscal Equalisation and the Productivity Review also featuring prominently.

The Report on Government Services also contributed significantly to public debate, with a large amount of file requests from external users (17 249 and 26 837 for the 2017 and 2018 reports).


The Commission's website continued to receive a high number of report downloads from external users in 2017-18. There were more than 86 000 report downloads of inquiries and government-commissioned research studies in 2017-18. The projects of most interest were the Productivity Review, Review of NDIS Costs and the Report on Government Services 2018.

During 2017-18, the Commission rated an average of 160 mentions a month in national print media and was referred to in 530 regional media articles. The reports of most interest across a range of social and print media were Horizontal Fiscal Equalisation, the Productivity Review and Review of NDIS Costs.

The many invitations to give briefings and present papers to parliamentary, business and community groups and to conferences provides another indicator of the Commission's role in generating public debate. In 2017-18, there were around 80 presentations given by the Chairman, Commissioners and staff during the year to ministerial councils, industry and community groups, and conferences. These were across the range of the Commission's inquiry, research and performance reporting work, with particular interest in the Productivity Review, Reforms to Human Services, National Water Reform and Superannuation.

The international recognition of the Commission as a model for evidence-based policy is also an indicator of the Commission's impact. The Commission briefed five international delegations and visitors during 2017-18, with a focus on the Commission's role and activities and related policy matters. This included visiting officials and delegations from Columbia, Argentina, Namibia, Philippines and Japan.

The OECD and IMF cited the Commission's work in 14 of their reports published throughout the year. This included reports that referred to aspects of the Commission's recent work,



such as the IMF's *Article IV: Australia Summary* report which referred to some of the Commission's proposed structural reforms outlined in the Productivity Review.

Recognition of the contribution of the Commission's work to policy formulation and debate was also evident in the results of the stakeholder survey.

The Commission's contribution to public policy and clarity of evidence-based analysis were considered key strengths of its work amongst survey respondents. In addition to a range of positive commentary on the thoroughness and rigour evident in its work, a significant proportion of respondents agreed that the Commission always or mostly based its findings on evidence (84%), and explained its findings well (78%).


Participants' perception of the Commission as effectively generating public debate was largely positive. In respect of public inquiry and research work, 80% of respondents either agreed or strongly agreed that the Commission generated valuable public debate, and 82% that the Commission enhanced the information used in the debate.

## **Transparency and community engagement**

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

The Commission conducts public hearings, allows public access to the submissions made to its inquiries, and publishes draft and final inquiry reports. The Commission has adapted its processes to suit the variety of projects commissioned by the Government, and these processes provide a range of opportunities for participants and experts to comment on its analytic frameworks, preliminary findings and, where relevant, draft recommendations. Roundtables, workshops and other forums provide valuable opportunities to access wider sources of expertise in its inquiries and research.

A range of opportunities was provided for public participation in each of the inquiries and studies completed in 2017-18, including through public hearings, forums, workshops and the release of papers for public comment. For the majority of inquiries and studies completed in 2017-18, an issues paper was released, a draft report or equivalent was issued and two submission rounds were held to allow written participation from interested parties, as well as a range of forums for engagement. The exceptions were the Productivity Review and Collection Models for GST on Low Value Imported Goods, for which processes were tailored to the nature of the inquiry.



Examples of consultative processes in the past year are illustrated in box 1.1, with varied approaches to ensure that a diverse range of views and experiences could be taken into account; in particular in 2017-18, in regional areas. The Commission also commenced live streaming some of its public hearings to provide another means for interested parties to access its processes and to encourage public debate.

The Commission also provided opportunities for public participation in its government performance reporting and analysis work through the ability to provide feedback via the Commission's website.

Overall, during its inquiry activities, the Commission met with approximately 600 organisations or groups, held 23 days of public hearings, and received around 610 submissions. And for studies in total, the Commission received around 210 submissions in 2017-18.

In its government performance reporting work in 2017-18, there was also extensive consultation with all Australian governments through processes agreed by the Steering Committee for the Review of Government Service Provision.

As part of its open and transparent processes, the Commission also makes key data sets and modelling available. In 2017-18, these included new material and modelling from the study on Transitioning Regional Economies and the Horizontal Fiscal Equalisation inquiry.

Participants in the 2017-18 stakeholder survey were largely positive about how the Commission engages with the community, and its consultative approach is seen as a strength. 71% of respondents agreed that the Commission either always or mostly provided the opportunity for engagement with people in the respondent's community of interest, with a further 75% agreeing that the Commission showed awareness of the arguments made by their community. Commentary from survey respondents pointed to the Commission's objectivity and independence as key strengths of its work, with a high number of respondents (79%) agreeing that the Commission was open and transparent.

### Box 1.1 Participative processes

Several Commission inquiries and studies undertaken during the year had a pronounced regional focus, including the Commission's inquiries on national water reform, transitioning regional economies and rehabilitation and compensation for veterans. In these cases, the Commission undertook extensive consultation in regional areas and employed a range of consultation settings and formats. For example, for the inquiry into national water reform, the Commission met with individuals and groups in a diverse range of settings, including roundtables, formal meetings, town hall meetings and public hearings. A Stakeholder Working Group was also established, as required under the *Water Act 2007 (Cth)*. This provided a further important avenue for consultation, and provided a forum to exchange information and views on issues relevant to the inquiry.

There was also extensive and diverse engagement, including in the regions, for the Commission's inquiry into rehabilitation and compensation for veterans. In addition to submissions, roundtables and meetings, the Commission has thus far visited military bases and training facilities in Wagga, Wodonga and Townsville, with plans to conduct further visits to such facilities. The Commission has also conducted extensive consultation with Ex Service Organisations, with individual veterans and their families, and with a range of other interested parties. Further extensive consultation is planned for the duration of the inquiry, which is due to report in mid-2019.

## Timeliness and cost effectiveness

In 2017-18, all of the Commission's inquiry and study reports, as well as all reports produced as part of the Commission's performance reporting and other functions, met the timeframes originally set by Government, or as subsequently varied by Government. The timing of tabling of commissioned inquiry reports, following completion of a project, is a matter for Government.

The Commission endeavours to conduct projects efficiently, 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 inquiries and government-commissioned research studies completed in 2017-18 are shown in table 1.3.

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.

**Table 1.3 Cost of public inquiries and other government commissioned projects completed in 2017-18<sup>a</sup>**

<i>Government-commissioned project</i>	<i>Total cost</i>
	\$'000
Productivity Review	1 370
Reforms to Human Services	1 749
National Water Reform	1 984
Horizontal Fiscal Equalisation	1 300
Collection Models for GST on Low Value Imported Goods	198
Competition in the Australian Financial System	2 105
Review of NDIS Costs	1 314
Transitioning Regional Economies	1 215

<sup>a</sup> Includes estimated overheads and staffing.

## Commission Capabilities, Linkages and Networks

The Commission seeks to maintain a capability that provides rigour of analysis, transparency of process, and independence and balance in its conclusions. Particular attention is paid to the quality of recruitment, in-house and external training and diversity in work experience.

There is an active seminar program involving external experts on a range of policy issues relevant to the Commission's 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. During the year, there were seminars on topics as diverse as the future of the public service, energy policy, banks and financial instruments, and the effect of zoning on housing prices.

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. In 2017-18, a number of Commissioners were also members of various boards, committees and non-profit organisations, including the Western Water Authority, Canberra Symphony Orchestra, Coordinare, Social Ventures Australia, and Melbourne Institute.





## 2 Management and accountability

### Overview

#### Role and structure

The Commission comprises its Chair and between four and 12 other Commissioners, appointed by the Governor-General for periods of up to five years. Associate Commissioners can be appointed by the 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*.

During 2017-18, the *Productivity Commission Act 1998* was amended to provide for the appointment of an additional Commissioner to oversee the work of the Commission relating to the evaluation of policies and programs that have an impact on Indigenous Australians.

The Commission's structure and senior staff at 30 June 2018 are shown in figure 2.1.

#### Commissioners

At 30 June 2018, there were eleven members of the Commission, including the Chair. Five Commissioners held part-time appointments.

No new Commissioner appointments were made during 2017-18. The Chair, Peter Harris, was re-appointed for the six month period to 10 September 2018.

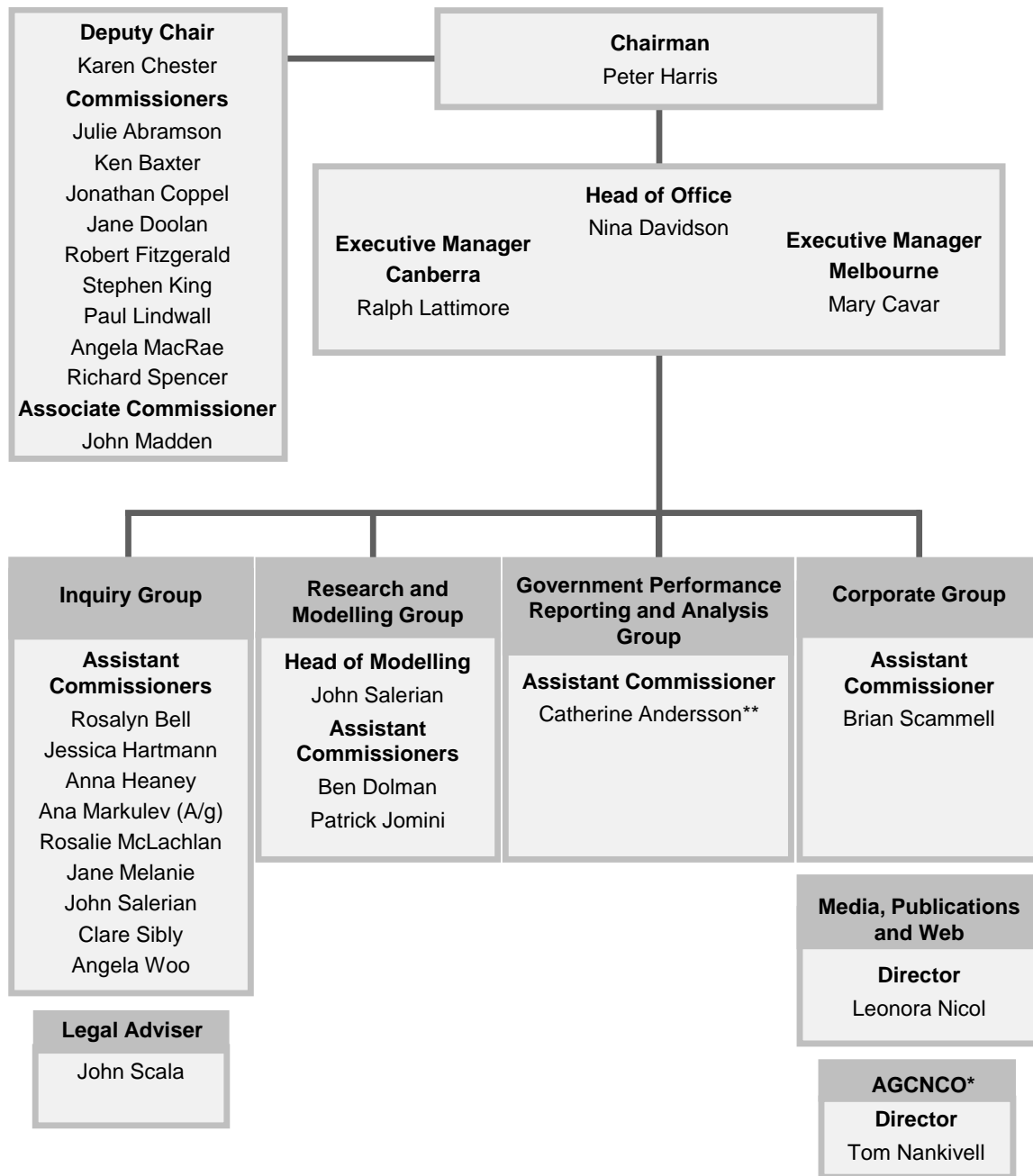
Commissioner Melinda Cilento resigned on 25 August 2017 to take up the position of Chief Executive at the Committee for Economic Development of Australia.

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

#### Associate Commissioners

At 30 June 2018, there was one Associate Commissioner appointment continuing from the prior year (table A1.2 of Annex A).

Figure 2.1 Commission structure and senior staff, 30 June 2018



\* Australian Government Competitive Neutrality Complaints Office

\*\* On extended leave at 30 June 2018, with the Head of Office overseeing the work of the Group.

## Staff

The average staffing level during 2017-18 was 165 compared to 167 in 2016-17.

The Commission recruited 25 staff during the year, including five through its graduate recruitment program. Staff turnover was approximately 17 per cent.

Statistical information on staffing is provided in tables 2 to 5 of Annex A.

## Outcome objective and resources

The financial and staffing resources devoted to achieving the Government's outcome objective for the Commission are summarised in table 2.1. An agency resource statement for 2017-18 is included at Annex B.


Table 2.1 **Financial and staffing resources summary**

	Budget * 2017-18	Actual 2017-18	Variation
	\$'000	\$'000	\$'000
<b>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</b>	(a)	(b)	(a-b)
<b>Program 1.1 Productivity Commission</b>			
Departmental Expenses			
Ordinary annual services (Appropriation Bill No. 1)	34 304	30 848	3 456
Revenues from independent sources (Section 74)	370	405	(35)
Expenses not requiring appropriation in the Budget year	1 103	1 148	(45)
<b>Total for Outcome 1</b>	<b>35 777</b>	<b>32 401</b>	<b>3 376</b>
	2016-17	2017-18	
Average Staffing Level (number)	167	165	

\* Full-year budget, including any subsequent adjustment made to the 2017-18 Budget.

## Governance

The Commission's governance arrangements are designed to achieve efficient, effective and ethical use of resources in delivering 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 Chair is responsible for the overall management and governance of the Commission, its reputation and public handling of issues, and the quality of its output.

He is assisted in these tasks by the Head of Office and a Management Committee that addresses matters of strategic direction, organisational development, policies and practices, monitoring of performance and resource allocation. Management Committee comprises the Chair (as chair), the Deputy Chair, the Head of Office, the Executive Managers of the Melbourne and Canberra offices, and the Assistant Commissioner responsible for Corporate Group. It meets monthly, or more frequently as needed.

The Research Committee oversees the Commission's self-initiated research program to ensure delivery of high-quality, policy-relevant research in a timely way. It also oversees data analysis, and modelling capability and development to promote fit-for-purpose model use that is quality assured. It meets monthly and comprises the Chair (as chair), the Deputy Chair, a Commissioner, the Head of Office, the Executive Managers, the Head of the Modelling and an Assistant Commissioner Research.

Commissioners are responsible for the conduct and quality of the individual inquiries, studies or other activities to which they are assigned by the Chair, and the overall quality of Commission work via their contributions to the monthly Commission meetings.

## **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:

- responsible Commissioners on government-commissioned projects report monthly on significant issues and progress against key milestones
- monthly reports are provided 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 Chair of the Commission, are reported on a quarterly basis
- a Commissioner designated with responsibility for competitive neutrality issues reports to the Commission biannually
- the Head of Office provides monthly updates 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 (a Commissioner) and two external members. 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. Senior management and the Audit Committee review the plan annually.

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 Framework. No instances of fraud were reported during 2017-18. The Chair's certification in respect of fraud control is at Annex C.

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, Employment Principles and Code of Conduct.
- Senior managers are encouraged to set an example through the ethical and prudent use of Commonwealth resources.

The Commission has a number of specific policies relating to ethical standards that 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, and updated as required. Staff awareness and training sessions are offered periodically on these topics.

## External and internal scrutiny

The Commission's processes, which provide for high levels of transparency and community participation in its work, are a key means of promoting external scrutiny. These processes are outlined in detail in Chapter 1.

External scrutiny is also promoted through the Commission's extensive reporting, in various publications, of different aspects of its work.

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 2017-18 in respect of either charter.

The Auditor-General issued an unqualified independent audit report on the Commission's 2017-18 financial statements.

*Internal Audit:* The Commission engages an accounting firm to undertake a program of internal audit reviews. Internal audit reviews conducted in 2017-18 focused on implementation of recommendations from previous audits and the Commission's preparedness for the introduction of the Privacy Code

*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
- scrutiny of the Commission's risk management assessment and plan
- reviews of relevant ANAO reports.

The use of Commission reports by Federal parliamentary committees during the year is discussed in Chapter 1. The Commission is 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 2017-18 with appearances by the Chair, Deputy Chair and senior staff before the Senate Standing Committee on Economics on 26 October 2017, 1 March 2018 and 30 May 2018.

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 2017-18, the Commission continued to develop its use of social media to raise awareness of its work and promote participation in its public inquiries. The use of infographics and videos to highlight and promote aspects of the Commission's work also continued. In 2017-18, the Commission live streamed some of its public hearings to provide a further means for interested parties to access its processes.

## 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, including through standing reports to its monthly meetings.

### Workforce planning

Management Committee plays the key role in 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. The Commission also reviews its graduate recruitment process annually with a view to increasing the awareness of graduating university students of the Commission as a potential employer. Five new employees were engaged during 2017-18 through the graduate recruitment program.

An important input to workforce planning is the information obtained from departing employees through exit questionnaires and, where possible, 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

Remuneration for the Chair and Commissioners is set directly by the Remuneration Tribunal in determinations that are publicly available on the Tribunal's website.


The Commission's 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 Remuneration Report published by the Australian Public Service Commission.

Information on key management personnel remuneration is set out in Note 1(c) to the Financial Statements (appendix A).

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

Table 4 in Annex A provides details of salary ranges at 30 June 2018.

The remuneration and terms and conditions of the Commission's non-SES employees are covered by the Enterprise Agreement 2017-2020, which came into effect on 5 September



2017. The agreement includes a number of provisions aimed at providing work-life balance and a satisfying and rewarding environment for employees. At 30 June 2018, three individual flexibility agreements were in place, mainly addressing allowances and working hour arrangements.

## **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 occur at six-monthly intervals — training is conducted for employees and 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. Performance bonuses are not a feature of remuneration for Commission employees.

## **Consultative arrangements**

The formal employee consultative mechanism is the Productivity Commission Consultative Committee. The committee comprises elected employee representatives, a CPSU representative, and management representatives. Following the conclusion of enterprise bargaining, new employee representatives were nominated. The committee subsequently met twice in 2017–2018.

In addition, there is direct consultation between management and employees, including through regular team meetings.

## **Learning and development**

The Commission encourages employees to undertake learning and development across 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.

In December 2017, the Commission launched its Learning and Development Strategy and Action Plan for 2018–2020. This sets out a range of priorities and activities to foster and maintain a vibrant learning culture, and support our work and employees’ career development. In 2018, ten internal learning and development activities were introduced or expanded as part of this strategy, including critical thinking, partial equilibrium modelling,, privacy training and cultural capability training.

The Commission continued to provide access to specific training and development activities for individuals, including 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.

Employees may also seek to access studies assistance (in the form of paid leave and/or assistance with fees) in the pursuit of tertiary qualifications.

## **Work health & safety (WHS)**


A Work Health and Safety (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 three times during 2017-18.

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 2017-18.

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

WHS activities and offerings during the year included:

- Commission-funded flu vaccinations for 93 staff;
- a general health check, with 33 staff participating;
- skin cancer screening program, with 63 staff participating;
- ergonomic work station assessments, as required; and
- regular workplace hazard inspections conducted by members of the WHS Committee.



An indicator of the effectiveness of the Commission's WHS programs is Comcare's workers' compensation rate. The Commission's rate for 2017-18 was 0.17 per cent of payroll, compared to an overall scheme premium rate of 1.23 per cent. There was one claim for injury that was accepted in 2017-18.

## **Employee Assistance Program**

The Commission offers its employees independent, confidential and professional counselling, consultation and training assistance for work-related or personal issues.

## **Workplace diversity**

The Commission is committed to building and maintaining a workplace culture that values and serves people with different backgrounds, experiences and perspectives. The Commission continues to foster a culture that is supportive of employees achieving their potential and which values employee diversity.

In 2017-18, 54 Commission employees participated in cultural capability development, to increase their knowledge and understanding of issues affecting Indigenous people, and to assist in communicating effectively with people in Indigenous communities.

As at 30 June 2018, two ongoing employees identified as Indigenous.

## **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](http://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 the National Disability Strategy 2010–2020, which sets out a ten-year national policy framework to improve the lives of people with disability, promote participation and create a more inclusive society. A high-level two-yearly report will track progress against each of the six outcome areas of the Strategy and present a picture of how people with disability are faring. The first of these progress reports was published in 2014, and can be found at [www.dss.gov.au](http://www.dss.gov.au).

## Financial performance

The Productivity Commission is a listed entity under the *Public Governance, Performance and Accountability Act 2013*.

Revenue from government increased in 2017-18 to \$34.3 million (\$33.4 million in 2016-17). Revenue from other sources decreased to \$0.5 million (\$1.0 million in 2016-17).

Operating expenses decreased marginally in 2017-18 to \$32.4 million (\$33.1 million in 2016-17). The major expenses in 2017-18 were \$24.6 million in respect of employee expenses, \$6.7 million relating to supplier payments, and \$1.1 million in asset depreciation, amortisation and related expenses.

Under the Australian Government's net cash appropriation arrangements, individual agencies are not funded for depreciation or amortisation expenses through appropriation revenue. The operating result for 2017-18 was a \$3.5 million surplus, after excluding those depreciation and amortisation expenses.

Table 2.1 (above) provides a summary of financial and staffing resources. The agency resource statement is provided at Annex B. The audited financial statements for 2017-18 are shown in appendix A, and include commentary on major budget variances.

## Purchasing

The Commission applies the Commonwealth Procurement Rules. The Commission's purchases of goods and services during 2017-18 were consistent with the 'value-for-money' principle underpinning those rules.

The Commission did not enter into any contracts or standing offers that were exempt from AusTender publication. Contracts of \$100 000 or more (inclusive of GST) let during 2017-18 included a provision for the ANAO to have access to the contractor's premises if required.

The Commission supports small business participation in the Commonwealth Government procurement market by, for example, use of the Commonwealth Contracting suite for low-risk procurements valued under \$200 000 and communication in clear, simple language in accordance with the Small Business Engagement Principles. Small and Medium Enterprises (SME) and Small Enterprise participation statistics are available on the Department of Finance's website.

## Consultancies

The Commission continued to utilise the services of a small 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 2017-18, the Commission entered into 10 new consultancy contracts involving total actual expenditure of \$0.063 million. There was one ongoing consultancy contract active involving total actual expenditure of \$0.035 million during the 2017-18 year.

Table 2.2 provides information on expenditure on consultants in the five years to 2017-18.

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](http://www.tenders.gov.au).

Table 2.2 Expenditure on consultancies, 2013-14 to 2017-18

	2013-14	2014-15	2015-16	2016-17	2017-18
	\$'000	\$'000	\$'000	\$'000	\$'000
Expenditure	29	42	95	98	98


## 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. Commission reports on: *Regulation of the Australian Marine Fisheries and Aquaculture Sectors* and *Regulation of Agriculture* are examples of work undertaken



requiring integration of complex economic, social and environmental considerations. Aspects of ESD were also considered as part of the public inquiry completed in 2017-18 into progress with the reform of Australia's water resources sector.

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 it 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.

During 2017-18, the Commission recorded energy usage of 4619 MJ/person/annum (2016-17: 8339 MJ/person/annum) against the Government's energy target of 7500 MJ/person/annum for tenant light and power usage in office buildings. The Commission has an office in Melbourne and Canberra in buildings that have 4.5 star NABERS Energy ratings.

## **Freedom of information**

Entities 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’. But it does publicise 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 (as required by our Act), regular distribution of *PC News*, press releases, email alerts, notification on the Commission’s website and via social media, and distribution of Commission circulars.

A total of \$27 662 was paid for advertising (including recruitment advertising) in 2017-18 to Dentsu Mitchell Media Australia Pty 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 2011*, section 46 of the *Public Governance, Performance and Accountability Act 2013* 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 Finance. A compliance index is provided in Annex D.

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

Assistant Commissioner  
Corporate Services  
Productivity Commission  
Locked Bag 2, Collins Street East Post Office  
MELBOURNE VIC 8003  
Telephone: (03) 9653 2251  
Facsimile: (03) 9653 2304

The Commission’s internet home page is <http://www.pc.gov.au>

This annual report can be found at <http://www.pc.gov.au/about/governance/annual-reports>.  
Inquiries about any Commission publication can be made to:

Director  
Media, Publications and Web  
Productivity Commission  
GPO Box 1428  
CANBERRA CITY ACT 2601  
Telephone: (02) 6240 3239  
Email: [mpw@pc.gov.au](mailto:mpw@pc.gov.au)

## Annex A

### Commissioner and employee statistics

Table A1.1 **Chair and Commissioners, 30 June 2018**

	<i>Current period of appointment</i>	
	<i>From</i>	<i>To</i>
Mr P Harris AO (Chair) (M)	11 Mar 2013	10 Sep 2018
Ms K Chester (Deputy Chair) (M)	12 Dec 2013	11 Dec 2018
Ms J Abramson (M) (p/t)	10 Dec 2015	9 Dec 2020
Mr K Baxter (S) (p/t)	30 Apr 2015	29 Apr 2020
Mr J Coppel (M)	28 Jul 2011	27 Jul 2021
Prof J Doolan (M) (p/t)	8 Dec 2016	7 Dec 2021
Mr R Fitzgerald AM (C)	27 Jan 2014	26 Jan 2019
Prof S King (M)	1 Jul 2016	30 Jun 2021
Mr P Lindwall (C)	1 Jan 2015	31 Dec 2019
Ms A MacRae (M) (p/t)	10 Dec 2015	9 Dec 2020
Mr R Spencer (S) (p/t)	27 Oct 2016	26 Oct 2021

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

Table A1.2 **Associate Commissioners, 30 June 2018**

	<i>Inquiry/Study</i>	<i>Period of appointment</i>	
		<i>From</i>	<i>To</i>
Mr J Madden	Water (National Water Reform and Murray darling Basin Plan: Five-year assessment)	2 Jan 2017	31 Dec 2018

**Table 2 Employees by location and gender, 30 June 2018**

Level	Melbourne			Canberra			Total		
	Female	Male	Total	Female	Male	Total	Female	Male	Total
SES Band 3	1	0	1	0	0	0	1	0	1
SES Band 2	1	0	1	0	1	1	1	1	2
SES Band 1	3	3	6	5	1	6	8	4	12
Staff Level 4	8	15	23	4	9	13	12	24	36
Staff Level 3	14	11	25	3	4	7	17	15	32
Staff Level 2	20	17	37	6	5	11	26	22	48
Staff Level 1	7	4	11	4	2	6	11	7	16
<b>Total<sup>b</sup></b>	<b>54</b>	<b>50</b>	<b>104</b>	<b>22</b>	<b>22</b>	<b>44</b>	<b>76</b>	<b>72</b>	<b>148</b>
Corresponding totals at 30 June 2016 <sup>a</sup>	60	49	109	26	32	58	86	81	167

<sup>a</sup> Totals exclude 1 inoperative employee at 30 June 2017. <sup>b</sup> Totals exclude 4 inoperative employees at 30 June 2018; 2018 totals include one acting SES Band 1, six Staff Level 4s and two Staff Level 2s.

**Table 3 Employees by employment status, 30 June 2018**

Level	Female			Male			Total		
	F/t	P/t	Total	F/t	P/t	Total	F/t	P/t	Total
SES Band 3	1	0	1	0	0	0	1	0	1
SES Band 2	1	0	1	1	0	1	2	0	2
SES Band 1	6	2	8	4	0	4	10	2	12
Staff Level 4	9	3	12	23	1	24	32	4	36
Staff Level 3	8	9	17	14	1	15	22	10	32
Staff Level 2	18	8	26	21	1	22	39	9	48
Staff Level 1	4	7	11	6	0	6	10	7	17
<b>Total<sup>b</sup></b>	<b>47</b>	<b>29</b>	<b>76</b>	<b>69</b>	<b>3</b>	<b>72</b>	<b>116</b>	<b>32</b>	<b>148</b>
Corresponding totals at 30 June 2016 <sup>a</sup>	57	29	86	80	1	81	137	30	167

<sup>a</sup> Totals exclude 1 inoperative employee at 30 June 2017. <sup>b</sup> Totals exclude 4 inoperative employees at 30 June 2018; 2018 totals include one acting SES Band 1, six Staff Level 4s and two Staff Level 2s..



**Table 4 Salary ranges, 30 June 2018<sup>a</sup>**

<i>Level</i>	<i>Minimum (\$)</i>	<i>Maximum(\$)</i>
SES Band 2	260 538	280 130
SES Band 1	187,331	234 419
Staff Level 4 <sup>b</sup>	117 354	147 217
Staff Level 3	96 787	122 569
Staff Level 2	70 132	93 230
Staff Level 1	48 507	76 411

<sup>a</sup> The major non-salary benefit is superannuation, which is not included in the table. During 2017-18, the Commission employed one SES Band 3 employee not included in this table. The above salary ranges for SL1 to SL4 are those available under the Commission's current Enterprise Agreement. Due to 'grandfathering' of provisions from a previous agreement, some employees continue to receive a higher salary – the maximum salaries actually paid at each level are: SL1 \$76 411; SL2 \$94 748; SL3 \$126 667; SL4 \$168 756. <sup>b</sup> Under the Commission's Enterprise Agreement, progression to a maximum of \$155 167 is available at the SL4 level in limited circumstances (not through incremental advancement).

**Table 5 Employees by level and reason for separation, 2017-18**

<i>Level</i>	<i>Promotion</i>	<i>Transfer</i>	<i>Resignation</i>	<i>Invalidity Retirement</i>	<i>RP<sup>a</sup></i>	<i>Other</i>	<i>Total</i>
SES	0	1	1	0	0	0	2
Staff Level 4	0	4	3	0	0	0	7
Staff Level 3	0	5	2	0	1	1	9
Staff Level 2	0	3	6	0	1	0	10
Staff Level 1	0	0	0	0	0	0	0
<b>Total</b>	<b>0</b>	<b>13</b>	<b>12</b>	<b>0</b>	<b>2</b>	<b>1</b>	<b>28</b>
Corresponding totals at 30 June 2017	1	6	10	0	0	0	17

<sup>a</sup> Redundancy Package.

## Annex B

### Agency Resource Statement — 2017-18

	<i>Actual Available Appropriation 2017-18</i>	<i>Payments Made 2017-18</i>	<i>Balance Remaining</i>
	\$'000	\$'000	\$'000
	(a)	(b)	(a-b)
<b>Ordinary Annual Services</b>			
<b>Departmental appropriation<sup>1</sup></b>			
Prior year Departmental appropriation	29 555		
Departmental appropriation 2016-17	35 134	32 617	
<b>S.74 Relevant agency receipts<sup>2</sup></b>	1 009	1 009	
<b>Total ordinary annual services</b>	65 698	33 626	32 072
<b>Total Resourcing and Payments</b>	65 698	33 626	32 072

<sup>1</sup> Appropriation Bill (No.1) 2016-17.

<sup>2</sup> Receipts received under section 74 of the *Public Governance, Performance and Accountability Act 2013*.<sup>a</sup>  
A note. <sup>b</sup> A note.

## Annex C



Australian Government  
Productivity Commission

Locked Bag 2  
Collins Street East  
Melbourne VIC 8003  
Telephone 03 9653 2100  
Facsimile 03 9653 2199  
[www.pc.gov.au](http://www.pc.gov.au)

23 August 2018

*From the Chairman's Office*

### Annual Report 2017-18 – Fraud Control Certification

In accordance with the subsection 17AG(2)(b) of the *Public Governance, Performance and Accountability Rule 2014* and the *Commonwealth Fraud Control Framework 2017*, 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, investigation, reporting mechanisms that meet the specific needs of the Commission; and
- taken all reasonable measures to appropriately deal with fraud relating to the Commission.

A handwritten signature in blue ink, appearing to read 'Peter Harris AO'.

Peter Harris AO

## Annex D

### Compliance index

This table is included as an aid of access, as required by the PGPA Rule.

<i>Part of Report</i>	<i>Description</i>	<i>Page location</i>
Letter of transmittal		iii
Aids to access		
	Table of contents	ix
	Index	71
	Glossary	x
	List of requirements	40
	Contact officer	34
	Internet addresses	34
Review by accountable authority		
	Review by the accountable authority	vii, 8
Overview of the entity		
	Role and functions of the Commission	21
	Organisational structure	22
	Outcomes and programmes	7
	Purpose of the Commission as included in corporate plan	1
	Outline of the structure of the portfolio of the entity	Not applicable
	Changes in outcomes or programs administered by the Commission	Not applicable
Report on the Performance of the entity		
<b>Annual performance Statements</b>		
	Annual performance statement	1
<b>Report on Financial Performance</b>		
	Discussion and analysis of financial performance	31
	Table summarising total resources and total payments	23
	Significant changes in the financial results	Not applicable
Management and Accountability		
<b>Corporate Governance</b>		
	Information on fraud control	25
	Fraud control certification	39
	Governance structures	24
	Non compliance with Finance law	Not applicable

<i>Part of Report</i>	<i>Description</i>	<i>Page location</i>
<b>External Scrutiny</b>		
	Significant developments in external scrutiny	26
	Judicial decisions and decisions of administrative tribunals and by the Australian Information Commissioner .	Not applicable
	Reports on operations of the Commission by the Auditor-General), a Parliamentary Committee, or the Commonwealth Ombudsman.	26
	Information on any capability reviews on the entity that were released during the period.	Not applicable
<b>Management of Human Resources</b>		
	Effectiveness in managing and developing employees	27-30
	Statistics on staffing	36
	Employees who identify as Indigenous	30
	Information on workplace agreements	27
	Salary ranges available by classification level	37
	Description of non-salary benefits	28
	Performance pay	Not applicable
<b>Assets Management</b>		
	Effectiveness where asset management is a significant part of the entity's activities	Not applicable
<b>Purchasing</b>		
	An assessment of performance against the <i>Commonwealth Procurement Rules</i>	31
<b>Consultants</b>		
	New and ongoing consultancies	32
<b>Australian National Audit Office (ANAO) Access Clauses</b>		
	Contracts > \$100 000 excluding ANAO access	Not applicable
<b>Exempt contracts</b>		
	Contracts > \$10 000 exempted from being published in AusTender	Not applicable
<b>Small business</b>		
	Procurement initiatives in support of small business	31
<b>Financial Statements</b>		
	Financial statements	Appendix A
Other Mandatory Information		
	Advertising	34
	Grants	Not applicable
	Disability reporting	30
	Information Publication scheme statement	34
	Correction of material errors in previous annual report	Not applicable

*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 1
s.10(2)	matters referred to the Commission	Chapter 2
s.10(4)	competitive neutrality complaints	12



# A Financial statements

This appendix presents the audited financial statements for the Productivity Commission for 2017-18.

## Contents

Independent Audit Report	44
Certification	46
Statement of Comprehensive Income	47
Statement of Financial Position	48
Statement of Changes in Equity	49
Cash Flow Statement	51
Overview	52
Notes to the Financial Statements	54



## INDEPENDENT AUDITOR'S REPORT

To the Treasurer

### Opinion

In my opinion, the financial statements of the Productivity Commission for the year ended 30 June 2018:

- (a) comply with Australian Accounting Standards – Reduced Disclosure Requirements and the *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015*; and
- (b) present fairly the financial position of the Productivity Commission as at 30 June 2018 and its financial performance and cash flows for the year then ended.

The financial statements of the Productivity Commission, which I have audited, comprise the following statements as at 30 June 2018 and for the year then ended:

- Statement by the Chairman and Chief Finance Officer;
- Statement of Comprehensive Income;
- Statement of Financial Position;
- Statement of Changes in Equity;
- Cash Flow Statement; and
- Notes to and forming part of the financial statements, comprising a summary of significant accounting policies and other explanatory information.

### Basis for Opinion

I conducted my audit in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the Productivity Commission in accordance with the relevant ethical requirements for financial statement audits conducted by the Auditor-General and his delegates. These include the relevant independence requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) to the extent that they are not in conflict with the *Auditor-General Act 1997*. I have also fulfilled my other responsibilities in accordance with the Code. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

### Accountable Authority's Responsibility for the Financial Statements

As the Accountable Authority of the Productivity Commission the Chairman is responsible under the *Public Governance, Performance and Accountability Act 2013* for the preparation and fair presentation of annual financial statements that comply with Australian Accounting Standards – Reduced Disclosure Requirements and the rules made under that Act. The Chairman is also responsible for such internal control as the Chairman determines is necessary to enable the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chairman is responsible for assessing the Productivity Commission's ability to continue as a going concern, taking into account whether the entity's operations will cease as a result of an administrative restructure or for any other reason. The Chairman is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the assessment indicates that it is not appropriate.

GPO Box 707 CANBERRA ACT 2601  
19 National Circuit BARTON ACT  
Phone (02) 6203 7300 Fax (02) 6203 7777



### Auditor's Responsibilities for the Audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian National Audit Office Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with the Australian National Audit Office Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit 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 entity's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Accountable Authority;
- conclude on the appropriateness of the Accountable Authority's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern; and
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

Australian National Audit Office



Colin Bienke  
Senior Director

Delegate of the Auditor-General

Canberra  
23 August 2018



**Australian Government**  
**Productivity Commission**

Locked Bag 2  
Collins Street East  
Melbourne VIC 8003  
Telephone 03 9653 2100  
Facsimile 03 9653 2199  
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 2018 comply with subsection 42(2) of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act), and are based on properly maintained financial records as per subsection 41(2) of the PGPA Act.

In our opinion, at the date of this statement, there are reasonable grounds to believe that the Productivity Commission will be able to pay its debts as and when they fall due.

A handwritten signature in blue ink, appearing to read 'Peter Harris'.

Peter Harris AO  
Chairman

23 August 2018

A handwritten signature in blue ink, appearing to read 'Brian Scammell'.

Brian Scammell  
Chief Finance Officer

23 August 2018

## Statement of Comprehensive Income

for the period ended 30 June 2018

		2018	2017	Original Budget
	Notes	\$'000	\$'000	\$'000
<b>NET COST OF SERVICES</b>				
<b>Expenses</b>				
Employee benefits	1A	24,616	25,624	27,565
Suppliers	2A	6,664	6,291	6,968
Depreciation and amortisation	4A	1,098	1,148	1,053
Finance costs		11	37	19
Losses from asset sales		<u>12</u>	<u>6</u>	<u>-</u>
<b>Total Expenses</b>		<b><u>32,401</u></b>	<b><u>33,106</u></b>	<b><u>35,605</u></b>
<b>Own-Source Income</b>				
Sale of goods and rendering of services	5B	405	952	272
Resources received free of charge		<u>50</u>	<u>50</u>	<u>50</u>
<b>Total own-source income</b>		<b><u>455</u></b>	<b><u>1,002</u></b>	<b><u>322</u></b>
<b>Net cost of contribution by services</b>		<b><u>31,946</u></b>	<b><u>32,104</u></b>	<b><u>35,283</u></b>
Revenue from Government		<u>34,304</u>	<u>33,388</u>	<u>34,230</u>
<b>Surplus / (Deficit)</b>		<b><u>2,358</u></b>	<b><u>1,284</u></b>	<b><u>(1,053)</u></b>
<b>OTHER COMPREHENSIVE INCOME</b>				
Changes in asset revaluation surplus	4A	-	(995)	-
Assets transferred	4A	<u>-</u>	<u>2,108</u>	<u>-</u>
Total other comprehensive income		<u>-</u>	<u>1,113</u>	<u>-</u>
<b>Total comprehensive income</b>		<b><u>2,358</u></b>	<b><u>2,397</u></b>	<b><u>(1,053)</u></b>

The above statement should be read in conjunction with the accompanying notes.

### Budget Variances Commentary

The main budget variance is in expenses, which were lower than the Original Budget mainly due to lower than forecast employee related expenses. Employee expenses were lower primarily as a consequence of lower staffing levels due to higher than anticipated separations and outward secondments.

## Statement of Financial Position

as at 30 June 2018

		2018	2017	Original Budget
	Notes	\$'000	\$'000	\$'000
<b>ASSETS</b>				
<b>Financial Assets</b>				
Cash and cash equivalents		337	428	364
Trade and other receivables	5A	157	126	334
Appropriation receivables	3B	<u>31,735</u>	<u>29,134</u>	<u>26,586</u>
<b>Total financial assets</b>		<b><u>32,229</u></b>	<b><u>29,688</u></b>	<b><u>27,284</u></b>
<b>Non-Financial Assets</b>				
Leasehold improvements	4A	3,225	3,875	2,605
Plant and equipment	4A	1,027	1,096	1,021
Computer software	4A	89	142	144
Prepayments		<u>751</u>	<u>541</u>	<u>606</u>
<b>Total non-financial assets</b>		<b><u>5,092</u></b>	<b><u>5,654</u></b>	<b><u>4,376</u></b>
<b>Total Assets</b>		<b><u>37,321</u></b>	<b><u>35,342</u></b>	<b><u>31,660</u></b>
<b>LIABILITIES</b>				
<b>Payables</b>				
Suppliers	2B	344	229	532
Other payables	2C	<u>1,608</u>	<u>2,038</u>	<u>1,442</u>
<b>Total payables</b>		<b><u>1,952</u></b>	<b><u>2,267</u></b>	<b><u>1,974</u></b>
<b>Provisions</b>				
Employee provisions	1B	10,695	11,600	11,903
Other provisions	2D	<u>580</u>	<u>569</u>	<u>570</u>
<b>Total provisions</b>		<b><u>11,275</u></b>	<b><u>12,169</u></b>	<b><u>12,473</u></b>
<b>Total Liabilities</b>		<b><u>13,227</u></b>	<b><u>14,436</u></b>	<b><u>14,447</u></b>
<b>Net Assets</b>		<b><u>24,094</u></b>	<b><u>20,906</u></b>	<b><u>17,213</u></b>
<b>EQUITY</b>				
Contributed equity		7,630	6,800	5,522
Reserves		1,593	1,593	2,588
Retained surplus		<u>14,871</u>	<u>12,513</u>	<u>9,103</u>
<b>Total Equity</b>		<b><u>24,094</u></b>	<b><u>20,906</u></b>	<b><u>17,213</u></b>

The above statement should be read in conjunction with the accompanying notes.

### Budget Variances Commentary

The main budget variance in respect of the financial position is a higher level of appropriation receivables (Revenue from Government) as a consequence of lower expenses in 2017-18 (refer to the commentary under the Statement of Comprehensive Income) and a higher than forecast opening balance.

## Statement of Changes in Equity

for the period ended 30 June 2018

		2018	2017	Original Budget
	Notes	\$'000	\$'000	\$'000
<b>CONTRIBUTED EQUITY</b>				
<b>Opening balance</b>				
Balance carried forward from previous period		6,800	3,854	4,692
<b>Comprehensive Income</b>				
Other comprehensive income	4A	-	2,108	-
<b>Total comprehensive income</b>		-	2,108	-
<b>Transactions with owners</b>				
<b>Contributions by Owners</b>				
Departmental capital budget	3A	830	838	830
<b>Total transactions with owners</b>		830	838	830
<b>Closing balance as at 30 June</b>		7,630	6,800	5,522
<b>RETAINED EARNINGS</b>				
<b>Opening balance</b>				
Balance carried forward from previous period		12,513	11,229	10,156
<b>Comprehensive Income</b>				
Surplus/(Deficit) for the period		2,358	1,284	(1,053)
<b>Total comprehensive income</b>		2,358	1,284	(1,053)
<b>Closing balance as at 30 June</b>		14,871	12,513	9,103
<b>ASSET REVALUATION RESERVE</b>				
<b>Opening balance</b>				
Balance carried forward from previous period		1,593	2,588	2,588
<b>Comprehensive Income</b>				
Other comprehensive income		-	(995)	-
<b>Total comprehensive income</b>		-	(995)	-
<b>Closing balance as at 30 June</b>		1,593	1,593	2,588

		<b>2018</b>	<b>2017</b>	<i>Original Budget</i>
	<b>Notes</b>	<b>\$'000</b>	\$'000	\$'000
<b>TOTAL EQUITY</b>				
<b>Opening balance</b>				
Balance carried forward from previous period		<b>20,906</b>	17,671	17,436
<b>Comprehensive Income</b>				
Other comprehensive income		-	1,113	-
Surplus/(Deficit) for the period		<b>2,358</b>	1,284	(1,053)
<b>Total comprehensive income</b>		<b>2,358</b>	2,397	(1,053)
<b>Transactions with owners</b>				
<b>Contributions by Owners</b>				
Departmental capital budget		<b>830</b>	838	830
<b>Total transactions with owners</b>		<b>830</b>	838	830
<b>Closing balance as at 30 June</b>		<b>24,094</b>	20,906	17,213

The above statement should be read in conjunction with the accompanying notes.

#### **Budget Variances Commentary**

The variation against budget in respect of retained earnings reflects the higher than anticipated operating surpluses in the current and prior year (refer to the commentary under the Statement of Comprehensive Income). The variances in the opening and closing balances for Contributed Equity and Asset Revaluation Reserve reflect actual closing balances in the prior year.

## Cash Flow Statement

for the period ended 30 June 2018

	2018	2017	Original Budget
	\$'000	\$'000	\$'000
<b>OPERATING ACTIVITIES</b>			
<b>Cash received</b>			
Appropriations	33,772	34,236	33,559
Sales of goods and rendering of services	131	1,361	272
Net GST received	<u>706</u>	<u>950</u>	<u>-</u>
<b>Total cash received</b>	<b><u>34,609</u></b>	<b><u>36,547</u></b>	<b><u>33,831</u></b>
<b>Cash used</b>			
Employees	25,536	25,298	27,345
Suppliers	7,580	8,614	7,046
Section 74 receipts transferred to OPA	<u>1,584</u>	<u>2,571</u>	<u>-</u>
<b>Total cash used</b>	<b><u>34,700</u></b>	<b><u>36,483</u></b>	<b><u>34,391</u></b>
<b>Net cash from (used by) operating activities</b>	<b><u>(91)</u></b>	<b><u>64</u></b>	<b><u>(560)</u></b>
<b>INVESTING ACTIVITIES</b>			
<b>Cash used</b>			
Purchase of property, plant and equipment	<u>338</u>	<u>1,576</u>	<u>270</u>
<b>Total cash used</b>	<b><u>338</u></b>	<b><u>1,576</u></b>	<b><u>270</u></b>
<b>Net cash (used by) investing activities</b>	<b><u>(338)</u></b>	<b><u>(1,576)</u></b>	<b><u>(270)</u></b>
<b>FINANCING ACTIVITIES</b>			
<b>Cash received</b>			
Contributed equity	<u>338</u>	<u>1,576</u>	<u>830</u>
<b>Total cash received</b>	<b><u>338</u></b>	<b><u>1,576</u></b>	<b><u>830</u></b>
<b>Net cash from financing activities</b>	<b><u>338</u></b>	<b><u>1,576</u></b>	<b><u>830</u></b>
<b>Net increase (decrease) in cash held</b>	<b>(91)</b>	64	-
Cash and cash equivalents at the beginning of the reporting period	<u>428</u>	<u>364</u>	<u>364</u>
<b>Cash and cash equivalents at the end of the reporting period</b>	<b><u>337</u></b>	<b><u>428</u></b>	<b><u>364</u></b>

The above statement should be read in conjunction with the accompanying notes.

### Budget Variances Commentary

The variation in total cash received and used mainly reflects lower employee related expenses (refer to the commentary under the Statement of Comprehensive Income) and a different (higher) level of aggregation of line items in the Original Budget.

## Overview

### The Basis of Preparation

The financial statements are general purpose financial statements and are required by section 42 of the *Public Governance, Performance and Accountability Act 2013*.

The financial statements have been prepared in accordance with:

- *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015* (FRR); and
- Australian Accounting Standards and Interpretations – Reduced Disclosure Requirements 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.

### New Accounting Standards

All new standards, revised 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 material effect on the Productivity Commission's (Commission's) financial statements.

### Cash

Cash is recognised at its nominal amount. Cash and cash equivalents includes cash on hand, 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.

### Prepayments

Prepayments are expected to be consumed in no more than 12 months.





## **Taxation**

The Commission is exempt from all forms of taxation except Fringe Benefits Tax (FBT) and the Goods and Services Tax (GST).

## **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.

## Notes to and forming part of the Financial Statements

### **1 Employee Related**

- 1A Employee Benefits (Expense)
- 1B Employee Provisions
- 1C Key Management Personnel Remuneration
- 1D Related Party Disclosures

### **2 Supplier Related**

- 2A Suppliers (Expense)
- 2B Suppliers (Liability)
- 2C Other Payables
- 2D Other Provisions

### **3 Funding from Government and Other Sources**

- 3A Appropriations
- 3B Appropriations Receivable

### **4 Property, Plant and Equipment**

- 4A Analysis of Property, Plant and Equipment, and Intangibles
- 4B Fair Value Measurement

### **5 Other Financial Assets and Own Source Income**

- 5A Trade and Other Receivables
- 5B Own-Source Income - Sale of Goods and Rendering of Services

### **6 Other Information**

- 6A Contingent Assets and Liabilities
- 6B Financial Instruments

## Note 1: Employee Related

### Note 1A: Employee Benefits (Expense)

	2018	2017
	\$'000	\$'000
Wages and salaries	19,332	19,711
Superannuation:		
Defined contribution plans	1,266	1,272
Defined benefit plans	2,073	2,255
Leave and other entitlements	1,944	2,234
Separation and redundancies	<u>1</u>	<u>152</u>
<b>Total employee benefits</b>	<b><u>24,616</u></b>	<b><u>25,624</u></b>

### Note 1B: Employee Provisions

	2018	2017
	\$'000	\$'000
Leave	10,695	11,448
Redundancy	<u>-</u>	<u>152</u>
<b>Total employee provisions</b>	<b><u>10,695</u></b>	<b><u>11,600</u></b>
Employee provisions expected to be settled		
No more than 12 months	1,877	2,134
More than 12 months	<u>8,818</u>	<u>9,466</u>
<b>Total employee provisions</b>	<b><u>10,695</u></b>	<b><u>11,600</u></b>

## Accounting Policy


Liabilities for 'short-term employee benefits' (as defined in AASB 119 *Employee Benefits*) and termination benefits expected to be settled within twelve months of the end of reporting period are measured at their nominal amounts.

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.

The leave liabilities are calculated on the basis of employees' remuneration at the estimated salary rates that will be 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 staff turnover rates and expected pay increases. This method is impacted by fluctuations in the Commonwealth Government 10 year Treasury Bond rate.

### 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 terminations and has informed those employees affected that it will carry out the terminations.

### 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'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 financial year.

## Note 1C: Key Management Personnel Remuneration

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity. The Commission has determined the key management personnel to be the Chair, Deputy Chair, Head of Office, Executive Managers and Assistant Commissioner Corporate. Key management remuneration is reported in the table below:

	2018	2017
	\$'000	\$'000
Short-term employee benefits	1,856	1,637
Post-employment benefits	298	264
Other long-term employee benefits	<u>203</u>	<u>176</u>
<b>Total key management personnel remuneration expenses</b>	<b><u>2,357</u></b>	<b><u>2,077</u></b>

The total number of key management personnel that are included in the above table are 6 (2017: 6).

1. The above key management personnel remuneration excludes the remuneration and other benefits of the Portfolio Minister. The Portfolio Minister's remuneration and other benefits are set by the Remuneration Tribunal and are not paid by the Commission.

## Note 1D: Related Party Disclosures

### Related party relationships:

The Commission is an Australian Government controlled entity. Related parties to the Commission are Key Management Personnel, the Portfolio Minister and Executive, and other Australian Government entities.

### Transactions with related parties:

Given the breadth of Government activities, related parties may transact with the government sector in the same capacity as ordinary citizens. Such transactions are the payment or refund of taxes, receipt of Medicare rebate or higher education loans. These transactions have not been disclosed in this note.

The Commission transacts with other Australian Government controlled entities consistent with normal day-to-day business operations provided under normal terms and conditions, including payment of workers compensation and insurance premiums; transfer of employee entitlements; purchase of statistical data; and other payments required by/according to Government policy or regulations. These are not considered individually significant to warrant separate disclosure as related party transactions.

## Note 2: Supplier Related

### Note 2A: Suppliers (Expense)

	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
<b><i>Goods and services supplied or rendered</i></b>		
Consultants	91	90
Contractors	454	108
Travel	959	885
IT services	835	902
Other administration expenses	<u>1,723</u>	<u>1,799</u>
<b><i>Total goods and services supplied or rendered</i></b>	<b><u>4,062</u></b>	<b><u>3,784</u></b>
Goods supplied	384	305
Services rendered	<u>3,678</u>	<u>3,479</u>
<b><i>Total goods and services supplied or rendered</i></b>	<b><u>4,062</u></b>	<b><u>3,784</u></b>
<b><i>Other supplier expenses</i></b>		
Operating lease rentals	2,551	2,434
Workers compensation expenses	<u>51</u>	<u>73</u>
<b><i>Total other supplier expenses</i></b>	<b><u>2,602</u></b>	<b><u>2,507</u></b>
<b><i>Total supplier expenses</i></b>	<b><u>6,664</u></b>	<b><u>6,291</u></b>

### ***Leasing commitments***

Lease payments for office accommodation and carparking are subject to a fixed percentage annual increase in accordance with the lease agreement. The Commission may exercise option clauses in accordance with the terms of the lease.

Operating lease payments are expensed on a straight-line basis which is representative of the pattern of benefits derived from the leased assets.

Lease payments / agreements for the provision of motor vehicles to senior executive officers are fixed at the commencement of each vehicle lease. Vehicles are returned on lease expiry.

	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
<b><i>Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:</i></b>		
Within 1 year	3,217	3,111
Between 1 to 5 years	8,982	10,867
More than 5 years	<u>5,912</u>	<u>7,238</u>
<b><i>Total operating lease commitments</i></b>	<b><u>18,111</u></b>	<b><u>21,216</u></b>

Note: Commitments are GST inclusive where relevant.

## Note 2B: Suppliers (Liability)

	2018	2017
	\$'000	\$'000
Trade creditors and accruals	<u>344</u>	<u>229</u>
<b>Total suppliers payables</b>	<b><u>344</u></b>	<b><u>229</u></b>

All Supplier payables are expected to be settled within 12 months.

Settlement was usually made within 30 days.

Liabilities are recognised to the extent that the goods or services have been received (and irrespective of having been invoiced).

## Note 2C: Other Payables

	2018	2017
	\$'000	\$'000
Wages and salaries	154	162
Superannuation	26	27
Prepayments received/unearned income	-	294
Rent (lease) payable	771	672
Lease incentive	<u>657</u>	<u>883</u>
<b>Total other payables</b>	<b><u>1,608</u></b>	<b><u>2,038</u></b>
Other payables expected to be settled		
No more than 12 months	523	776
More than 12 months	<u>1,085</u>	<u>1,262</u>
<b>Total other payables</b>	<b><u>1,608</u></b>	<b><u>2,038</u></b>

## Note 2D: Other Provisions

	<b>Provision for restoration \$'000</b>
<b>Carrying amount 1 July 2017</b>	<b>569</b>
Unwinding of discount or change in discount rate	<u>11</u>
<b>Closing balance 30 June 2018</b>	<b><u>580</u></b>

The Commission currently has agreements for the leasing of premises which have provisions requiring the Commission to restore the premises to its original condition at the conclusion of the lease. The Commission has made provision to reflect the present value of these obligations.

### Note 3: Funding from Government and Other Sources

Note 3A: Appropriations

Note 3A-1: Appropriations – Annual Appropriations ('Recoverable GST exclusive')

#### *Annual Appropriations for 2018*

	Annual Appropriation <sup>1</sup> \$'000	Adjustment to appropriation <sup>2</sup> \$'000	Total appropriation \$'000	Appropriation applied in 2018 (current and prior years) \$'000	Variance <sup>3</sup> \$'000
<b>Departmental</b>					
Ordinary annual services	34,304	1,009	35,313	33,288	2,025
Capital Budget <sup>4</sup>	830	-	830	338	492
<b>Total departmental</b>	<b>35,134</b>	<b>1,009</b>	<b>36,143</b>	<b>33,626</b>	<b>2,517</b>

#### **Notes:**

1. Departmental appropriations do not lapse at financial year-end.
2. The adjustment to appropriation was PGPA Act Section 74 receipts.
3. The variance shown above excludes any section 51 determination reduction.
4. The 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.



Note 3A-1: Appropriations – Annual Appropriations ('Recoverable GST exclusive') continued

**Annual Appropriations for 2017**

	Annual Appropriation <sup>1</sup> \$'000	Adjustment to appropriation <sup>2</sup> \$'000	Total appropriation \$'000	Appropriation applied in 2017 (current and prior years) \$'000	Variance <sup>3</sup> \$'000
<b>Departmental</b>					
Ordinary annual services	33,395	1,702	35,097	33,303	1,794
Capital Budget <sup>4</sup>	838	-	838	1,576	(738)
<b>Total departmental</b>	34,233	1,702	35,935	34,879	1,056

**Notes:**

1. Departmental appropriations do not lapse at financial year-end.
2. The adjustment to appropriation was PGPA Act Section 74 receipts.
3. The variance shown above excludes any section 51 determination reduction.
4. The 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.

Note 3A-2: Appropriations – Unspent Departmental Annual Appropriations  
(‘Recoverable GST exclusive’)

	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Authority</b>		
Appropriation Act (No.1) 2014-15	-	289
Appropriation Act (No.1) 2015-16	<b>8</b>	8
Appropriation Act (No.1) 2016-17	<b>93</b>	29,562
Appropriation Act (No.1) 2017-18	<u><b>31,986</b></u>	<u>-</u>
<b>Total as at 30 June</b>	<u><b>32,087</b></u>	<u><b>29,859</b></u>

**Accounting Policy**

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.

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.

Note 3B: Appropriations Receivable

	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Appropriations receivable</b>		
Appropriation receivable	<u><b>31,735</b></u>	<u>29,134</u>
<b>Total appropriations receivable</b>	<u><b>31,735</b></u>	<u><b>29,134</b></u>

## Note 4: Property, Plant and Equipment

### Note 4A: Analysis of Property, Plant and Equipment, and Intangibles

*Reconciliation of the opening and closing balances of property, plant and equipment, and intangibles (2017-18)*

	<i>Leasehold improvements</i>	<i>Plant &amp; equipment</i>	<i>Computer software</i>	<i>Total</i>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>As at 1 July 2017</b>				
Gross book value	3,875	1,096	901	5,872
Accumulated depreciation / amortisation and impairment	<u>-</u>	<u>-</u>	<u>(759)</u>	<u>(759)</u>
<b>Net book value 1 July 2017</b>	<b><u>3,875</u></b>	<b><u>1,096</u></b>	<b><u>142</u></b>	<b><u>5,113</u></b>
Additions:				
By purchase	-	327	11	338
Depreciation / amortisation expense	(650)	(384)	(64)	(1,098)
Disposals	<u>-</u>	<u>(12)</u>	<u>-</u>	<u>(12)</u>
<b>Net book value 30 June 2018</b>	<b><u>3,225</u></b>	<b><u>1,027</u></b>	<b><u>89</u></b>	<b><u>4,341</u></b>
<b>Net book value as of 30 June 2018 represented by:</b>				
Gross book value	3,818	1,372	597	5,787
Accumulated depreciation/amortisation and impairment	<u>(593)</u>	<u>(345)</u>	<u>(508)</u>	<u>(1,446)</u>
<b>Net book value as of 30 June 2018</b>	<b><u>3,225</u></b>	<b><u>1,027</u></b>	<b><u>89</u></b>	<b><u>4,341</u></b>

No indicators of impairment were found for leasehold improvements, and plant and equipment, and intangible assets.

The fair value of leasehold improvements has been taken to be the depreciated replacement cost of similar leasehold improvements as determined by an independent valuer.

There are no capital commitments to acquire any property, plant, equipment, and intangible assets as at balance date.

There are no plans to dispose of any property, plant equipment or intangibles in the next 12 months.

## **Accounting Policy**

### **Asset Recognition Threshold**

Purchases of property, plant and equipment and software are recognised initially at cost in the statement of financial position, 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**

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 Jones Lang LaSalle Advisory Services Pty Ltd as at 30 June 2017. The revaluation decrement for leasehold improvements and increment for plant and equipment were debited and credited respectively to the asset revaluation reserve by asset class, and included in the equity section of the statement of financial position.

Management reviewed the valuation at 30 June 2018 and concluded that the fair value does not differ materially from the carrying amount; and is satisfied that the carry amount does not exceed the recoverable amount.

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 and Amortisation**

Depreciable property, plant and equipment assets and intangible 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 and amortisation 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 and amortisation rates applying to each class of depreciable asset are based on the following useful lives:

	<b>2018</b>	<b>2017</b>
Leasehold improvements and make-good	<b>Lease term</b>	Lease term
Plant and equipment	<b>3 to 20 years</b>	3 to 20 years
Intangibles (computer software)	<b>5 years</b>	5 years

### Impairment

All assets were assessed for impairment at 30 June 2018. 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 and software is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

### Intangibles

The Commission's intangibles comprise purchased software. These assets are carried at cost less accumulated amortisation and accumulated impairment losses.

## Note 4B: Fair Value Measurement

	Fair value measurements at the end of reporting period	
	2018	2017
	\$'000	\$'000
<b>Non-financial assets</b>		
Leasehold improvements	3,225	3,875
Other property, plant and equipment	<u>1,027</u>	<u>1,096</u>
<b>Total fair value measurements of assets in the statement of financial position</b>	<u><u>4,252</u></u>	<u><u>4,971</u></u>

## Note 5: Other Financial Assets and Own Source Income

### Note 5A: Trade and Other Receivables

	2018	2017
	\$'000	\$'000
<b>Goods and services receivables</b>		
Goods and services	<u>37</u>	<u>48</u>
<b>Total goods and services receivables</b>	<u>37</u>	<u>48</u>
<b>Other receivables:</b>		
GST receivable from the Australian Taxation Office	114	78
Other	<u>6</u>	<u>-</u>
<b>Total other receivables</b>	<u>120</u>	<u>78</u>
<b>Total trade and other receivables (gross)</b>	<u><u>157</u></u>	<u><u>126</u></u>

All receivables are not overdue and are expected to be recovered within 12 months.

Credit Terms for goods and services were within 30 days (2017: 30 days)

## Accounting Policy

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.

Note 5B: Own Source Income - Sale of Goods and Rendering of Services

	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
Sale of goods	1	1
Rendering of services	<u>404</u>	<u>951</u>
<b>Total sales of goods and rendering of services</b>	<b><u>405</u></b>	<b><u>952</u></b>

### Accounting Policy

Revenue from the sale of goods is recognised when:

- a) the risks and rewards of ownership have been transferred to the buyer;
- b) the Commission retains no managerial involvement or effective control over the goods;
- c) the revenue and transaction costs incurred can be reliably measured; and
- d) 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:

- a) the amount of revenue, stage of completion and transaction costs incurred can be reliably measured; and
- b) 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.

## Note 6: Other Information

### Note 6A: Contingent Assets and Liabilities

At 30 June 2018, 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. (2017: Nil)

Contingent assets and contingent liabilities are not recognised in the statement of financial position but are reported in the notes. They may arise from uncertainty as to the existence of a liability or 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.

### Note 6B: Financial Instruments

#### Note 6B-1: Financial Instruments - Categories of financial instruments

	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Financial Assets</b>		
Loans and receivables		
Cash and cash equivalents	<b>337</b>	428
Trade receivables	<u><b>37</b></u>	<u>48</u>
<b>Carrying amount of financial assets</b>	<u><b>374</b></u>	<u>476</u>
<b>Financial Liabilities</b>		
At amortised cost:		
Payables – suppliers	<u><b>344</b></u>	<u>229</u>
<b>Carrying amount of financial liabilities</b>	<u><b>344</b></u>	<u>229</u>



## **Accounting Policy**

### **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.

### **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).

#### **Note 6B-2: Financial Instruments - 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 2018. (2017: nil)

#### **Note 6B-3: Financial Instruments - Net income and expense from financial liabilities**

There is no income or expense from other financial liabilities in the year ending 30 June 2018. (2017: nil)



# Index

- audited financial statements, 43
- Australian Government Competitive Neutrality Complaints Office (AGCNCO), 12
- Australian National Audit Office (ANAO), 26, 31
  
- Commissioners, 21
- Commissioners, Associate, 21
- compensation and rehabilitation for veterans inquiry, 8
- competition in the Australian financial system inquiry, 8
- competitive neutrality complaints activities, 12
- compliance index, 40-41
- Council of Australian Governments (COAG), 2, 6, 11, 12
  
- Department of the Treasury, 12, 56
  
- economic modelling, 4, 17, 24, 29
- economic regulation of airports inquiry, 8
- enterprise agreement, 27, 37
  
- financial and staffing resources summary, 31, 38
- financial system inquiry, 5, 8, 11, 14, 19
- five-yearly productivity review, 8
- fraud control certificate, 39
- Freedom of Information, 33
- Freedom of Information Act 1982*, 34
  
- government-commissioned projects, 8-10
  
- Indigenous Australians, 10-12
  - expenditure reporting, 11
  - Overcoming Indigenous Disadvantage report, 11



marine fisheries and aquaculture inquiry, 32

media coverage of the Commission, 2, 17

Murray-Darling basin plan: five-year assessment inquiry, 8

National Agreement reporting, 12

national disability agreement review, 8

parliamentary committees, 14-15

performance reporting activities, 10-12

Productivity Commission,

- activities in 2017-18, 5-19

- appointments, 21-23

- competitive neutrality complaints activities, 12

- consultancies let, 32

  - alignment of tender threshold with procurement guidelines, 32

- consultative processes, 16-18

- external and internal scrutiny, 26

- disability strategy, 30

- feedback on activities, 5-19

- financial statements, 43-70

- governance arrangements, 23-24

- government-commissioned projects, 5-19

- government responses to reports, 14

- management of human resources, 27-30

- organisation chart, 22

- outcome objective, 1,7

- performance management and pay, 28

- performance reporting activities, 10-12

- program performance, 5-19

- role, 6

- staffing statistics, 36-37

- research networks, 19

- training, 27-30

- visiting officials, 15

- workplace diversity, 30

Productivity Commission Act 1998, 1

Public Service Act 1999, 21



references to Commission work

- in Federal Parliament, 14-15

- in House of Representatives and Senate committee reports, 15

- in Parliamentary Library reports, 15

- in State and Territory parliaments, 15

- in the media, see media coverage of the Commission

Report on Government Services, 10

Review of Government Service Provision, 10

service charters, 26

service provision, see Review of Government Service Provision,

Steering Committee for the Review of Government Service Provision, 6

visiting officials, 15

workplace diversity, 30