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**The Productivity Commission**

The Productivity Commission, an independent Commonwealth agency, is the Government's principal review and advisory body on microeconomic policy and regulation. It conducts public inquiries and research into a broad range of economic and social issues affecting the welfare of Australians.

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.

Information on the Productivity Commission, its publications and its current work program can be found on the World Wide Web at [www.pc.gov.au](http://www.pc.gov.au) or by contacting Media and Publications on (03) 9653 2244.

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5 October 2001

The Treasurer  
Parliament House  
CANBERRA ACT 2600

Dear Treasurer

We submit to you the Productivity Commission's annual report for 2000-01. The report is prepared in accordance with section 10 of the *Productivity Commission Act 1998*. The Commission's Act requires that a copy of this report be tabled within 15 sitting days of each House of Parliament after the day of receipt of the report.

Yours sincerely

Gary Banks  
Chairman

Richard Snape  
Deputy Chairman

Neil Byron  
Commissioner

David Robertson  
Commissioner

John Cosgrove  
Commissioner

Judith Sloan  
Commissioner

Helen Owens  
Commissioner

Michael Woods  
Commissioner



# Chairman and Commissioners



Mike Woods, Gary Banks (Chairman) and John Cosgrove



David Robertson and Judith Sloan



Helen Owens, Richard Snape (Deputy Chairman) and Neil Byron

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## Acknowledgment

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

## Annual report series

The Commission is also releasing the following companion publications as part of the annual report series:

*Regulation and its Review 2000-01*

This report assesses compliance with the Commonwealth Government's requirements for the making and review of regulation and reports on the activities of the Office of Regulation Review.

*Trade & Assistance Review 2000-01*

This report reviews trade policy and assistance developments and contains the Commission's latest estimates of assistance to Australian industry.

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# Contents

<b>Abbreviations</b>	<b>X</b>
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## **CHAPTERS**

<b>1 Better regulation of infrastructure</b>	<b>1</b>
The role of pro-competition regulation	4
Competition a means, not an end	7
Investment matters too	10
The importance of statutory guidance	13
Refining pro-competition regulation of infrastructure	15
<b>2 Commission activities</b>	<b>17</b>
Year in review	19
Transparent and consultative processes	25
Feedback on the Commission's work	28
Associated reporting	33

## **APPENDICES**

<b>A Resources and management</b>	<b>37</b>
<b>B Program performance</b>	<b>69</b>
<b>C Commissioned projects</b>	<b>113</b>
<b>D Competitive neutrality complaints</b>	<b>129</b>
<b>E Supporting research and related activities</b>	<b>133</b>
<b>F Publications</b>	<b>163</b>
<b>G Financial statements</b>	<b>169</b>

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<b>Compliance index</b>	<b>68</b>
<b>References</b>	<b>197</b>
<b>Index</b>	<b>201</b>
<b>ATTACHMENTS</b>	
A1 Commissioner and staffing statistics	56
A2 Commonwealth Disability Strategy: outcomes against mandatory performance indicators	59
A3 Consultancies let in 2000-01	61
A4 Freedom of Information Statement	65
A5 Compliance Index	68
<b>BOXES</b>	
1.1 Poor infrastructure performance: ‘the way it was’	3
1.2 The pro-competition elements of national competition policy	5
1.3 A continuing role for access and price regulation of infrastructure, but modifications are needed	6
1.4 Assessing market power	9
1.5 Effects of regulation on infrastructure investment	11
2.1 Commission publications in 2000-01	18
2.2 Compliance with RIS guidelines in 2000-01	22
2.3 Research on the conservation of biodiversity	24
2.4 Microeconomic reform and the environment	27
2.5 Increasing use of the Commission’s website	29
B.1 Performance indicators for Commission outputs	71
B.2 The longer term influence of Commission reports	73
B.3 Charter of the Office of Regulation Review	96
B.4 Database measures: reporting on ORR performance	98
B.5 Supporting research program and annual reporting, 2000-01 publications	108
B.6 Supporting research projects underway at 30 June 2001	109



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## FIGURES

A.1	Productivity Commission structure and senior staff, 30 June 2001	38
B.1	Productivity Commission outcome/output framework 2000-01	70

## TABLES

A.1	Performance bonuses paid for 2000-01	42
A.2	Financial and staffing resources summary	46
A.3	Summary of consultancies let in 2000-01	50
A1.1	Chairman and Commissioners, 30 June 2001	56
A1.2	Associate Commissioners appointed to inquiries, 2000-01	56
A1.3	Staffing by location and gender, 30 June 2001	57
A1.4	Staffing by employment status, 30 June 2001	57
A1.5	Staff by level and reason for separation, 2000-01	58
B.1	Use of Commission outputs in recent parliamentary committee reports	76
B.2	Program of public inquiries and other government-commissioned projects	81
B.3	Public inquiry activity, 1997-98 to 2000-01	82
B.4	Cost of public inquiries completed in 2000-01	82
B.5	Direct administrative expenditure on public inquiries and other government-commissioned projects, 1997-98 to 2000-01	82
B.6	Views on the quality of information in the Report on Government Services	91
B.7	Views on the usefulness of information in the Report on Government Services	93
B.8	Formal competitive neutrality complaints, 1998-99 to 2000-01	103
C.1	Stage of completion of commissioned projects and government responses to Commission reports	114
E.1	Speeches and presentations by the Chairman, Commissioners and staff, 2000-01	156
E.2	Visits from international organisations and foreign delegations, 2000-01	161

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# Abbreviations

ABS	Australian Bureau of Statistics
ACCC	Australian Competition and Consumer Commission
ANU	Australian National University
APEC	Asia Pacific Economic Cooperation (forum)
APS	Australian Public Service
CCNCO	Commonwealth Competitive Neutrality Complaints Office
COAG	Council of Australian Governments
ESD	Ecologically sustainable development
GDP	Gross domestic product
GTEs	Government trading enterprises
IC	Industry Commission
IMF	International Monetary Fund
NCC	National Competition Council
NCP	National competition policy
OECD	Organisation for Economic Co-operation and Development
ORR	Office of Regulation Review
PC	Productivity Commission
RIS	Regulation Impact Statement
SES	Senior Executive Service
US	United States of America
WTO	World Trade Organization

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# 1 Better regulation of infrastructure

**Australia's economic infrastructure is subject to a wide range of regulation, including access regimes and price oversight, which are designed to promote efficient outcomes. The way in which these regulatory regimes operate is of considerable importance to Australian consumers and businesses.**

**The Commission has found that there is an important, continuing role for pro-competition regulation of infrastructure to enhance economic welfare and to curtail abuses of market power. However, refinements are necessary to reduce the risks of regulatory failure. Most important of these is the risk of deterring investment in efficient infrastructure facilities, which would be to the long-term detriment of users and consumers, and of living standards generally.**

Infrastructure facilities such as electricity, gas, water and sewerage, transport and communications systems, play a pivotal role in Australia's economic and social development. The efficient provision and use of such essential infrastructure — its location, availability and pricing — contribute to economic growth and living standards.

Infrastructure services to households are essential to the quality of life. While these services directly account for only some 5 per cent of consumer spending, this understates the importance which the community attaches to them — graphically illustrated when power blackouts and scares over the quality of drinking water occur. Infrastructure also forms the 'platform' upon which most businesses depend to produce and market their outputs and to develop innovative goods and services. Indeed, 70 per cent of the total demand for infrastructure services comes from Australian businesses. Infrastructure places major demands on Australia's capital resources, accounting for about 20 per cent of Australia's total capital stock. Given that there are few or no alternative uses for infrastructure once investments have been made, inefficiencies in infrastructure investment can impose substantial costs on the community.

A significant determinant of the efficiency and performance of Australia's infrastructure is the extensive regulation and ownership arrangements under which it operates. Although much remains to be done, governments have radically

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transformed regulatory, governance and ownership arrangements for such infrastructure over the past decade and a half. This has been part of a broader effort by Australian governments to improve the performance of the economy through reforms in financial, labour and product markets.

Demands for cheaper, more reliable and better quality infrastructure services were precipitated by increased competitive pressures on Australian industries as barriers to international trade and investment declined. Australia's export and import-competing firms realised that lack of efficiency within power, freight and communications industries were inflating their costs and handicapping their competitiveness.

The need to improve the performance of government business enterprises, in particular, became increasingly evident following a number of policy reviews undertaken during the 1980s. Their conclusions were reinforced by a series of benchmarking studies that demonstrated significant performance gaps compared with international best practice (box 1.1).

Poor performance of our infrastructure was manifest in excessive and sometimes inappropriate capital investment, overmanning, problems of timeliness, quality and lack of innovation in service delivery, poor financial returns and a mounting debt burden for taxpayers. Prices for some services (for example, telecommunications, electricity and rail freight) bore little relation to those which would apply if efficient production techniques were used. At the same time, prices for some other infrastructure services (for example, irrigation water and urban rail services) fell well short of costs. Complicating the story, cross-subsidies which typically favoured households at the expense of business were common.

A recurring theme of official reviews was that because many government business enterprises were statutory monopolies — with competition expressly prohibited or suppressed — they lacked incentives to be cost conscious and innovative. Managers had limited operational flexibility, and unclear and conflicting directions, as governments pursued efficiency and social objectives in ways which cut across the achievement of both. Government ownership and restrictions on competition had long been politically favoured ways of providing subsidised access to infrastructure for particular groups. As the reviews found, however, attempting to achieve social objectives by those means had come at great expense to productivity, cost and innovative service delivery. A central feature was recognition that less costly and more transparent instruments are available to achieve social goals.

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### Box 1.1 Poor infrastructure performance: ‘the way it was’

What might be termed the ‘Robin Hood’ principle would seem to be rampant within the public sector in New South Wales. This has led to a system of pricing which charges one group excessively in order to subsidise another group. (NSW Commission of Audit 1988, p. 38)

In recent months public attention has been drawn to some of the more acute maintenance problems of public infrastructure which have had, or could have, serious consequences ... This is a legacy of spending on new assets in response to political, industrial and departmental pressures while neglecting maintenance. The State has new dams but decaying sewerage mains ... new rolling stock but neglected tracks, lines and signalling. Maintenance has been seen by government as dispensable and has not been accompanied by any performance management regime to ensure that it is done to adequate standards. (Victorian Commission of Audit 1993, pp. 261–2)

There appears to have been some *over-investment* in the past (eg in electricity, some airports and ports, local roads, irrigation works, grain storage capacity); and some questionable decisions have been made about the location, pricing and operation of existing infrastructure (eg ports, roads, water supply), although many of these problems (eg on the waterfront) are now being addressed. (EPAC 1988, p. 2)

... key areas of our economy remain balkanised. The limited arrangements which do exist to share electricity between States are hamstrung by inefficient pricing restrictions, hidden cross-subsidies between different consumers and planning decisions which seem to accept State borders as market barriers ... and our railways remain burdened with the legacy of differences between our colonial engineers. A cargo container being sent by rail between Sydney and Perth may be subjected to: 3 non-integrated rail systems; 4 changes of locomotives; 5 different safe working systems; 6 different sizes of loading gauge; 10 different engineering standards of the basic standard gauge rail track; 12 or more hours at sidings or junctions for crew changes, refuelling, inspections. (Hawke 1990)

... Elcom’s reputation has not been high with major plant failures at Liddell Power Station in 1981 ... Elcom is considered to be an ‘effective’ organisation from a technical point of view with good standards of electricity supply. However, the ‘efficiency’ of the organisation can be questioned and costs of supply could be lower ... some 25 per cent [of Elcom’s capacity] represents a surplus investment in the order of \$2bn of assets earning no return. (NSW Commission of Audit 1988, appendix A.1)

... we have been trying to operate a modern transport system with horse-and-buggy work practices. These work practices must be wiped out in the interest of the person who ultimately pays all our wages — the customer. (V/Line 1986, p. 3)

... operating efficiency performance gaps appear to be largest for rail freight and least for road freight. Electricity, the waterfront and telecommunications appear to lie in that order, between the two performance extremes of rail freight and road freight ... Significant performance gaps also exist for many customer-oriented performance indicators. For instance, Australian port authority and ancillary charges are several times higher than for comparable overseas ports. For some infrastructure industries a mixed picture emerges across the range of indicators. Electricity prices, for example, are relatively low in Australia but electricity industry labour productivity and reserve plant margins do not compare favourably with international best practice. (BIE 1994, p. 73)

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While there were diverse approaches to reform among jurisdictions and sectors in the 1990s, key elements were to:

- improve incentives for efficient infrastructure investment and use by promoting competition, including through the structural separation of some natural monopoly elements (such as transmission grids) from more contestable activities (such as electricity generation);
- address social and regional concerns more directly and efficiently through budget subsidies rather than cross-subsidies which penalised certain users; and
- endeavour to make those enterprises which remained in government hands more commercial and accountable, with less political and bureaucratic interference in their day-to-day operations.

With the backdrop of the historic agreement to establish a national competition policy in April 1995 — following the Hilmer Review — all Australian governments moved to implement a more coordinated and systematic approach to developing an open, integrated domestic market for goods and services. All governments reaffirmed their commitment to the key elements of national competition policy in November 2000 (COAG 2000).

## **The role of pro-competition regulation**

Far from allowing unconstrained market forces, governments have directly addressed the potential for firms to misuse market power by strengthening existing, and establishing new, regulatory frameworks to promote overall economic welfare. Left unchecked, infrastructure service providers with enduring market power — large incumbents operating in previously legislated monopolies and public and private firms operating with natural monopoly characteristics or in poorly contested markets — have incentives to seek high profits or operate in ways which may be inconsistent with the interests of the community.

Most notably, national competition policy strengthened pro-competition regulation (box 1.2). Pro-competition regulation was also embedded, at least as a transition measure, in arrangements for specific sectors such as telecommunications, where the initial lack of competition and the fast pace of change meant that the Government was reluctant to rely on general trade practices law.

Pro-competition regulation is not, however, without cost or risk and there is wide agreement that the ‘devil is in the detail’. In addition to the obvious compliance and administrative costs, it can produce its own inefficiencies, not least due to information limitations and because the tools available to regulators are usually

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imperfect. Regulatory regimes are potentially subject to various forms of bias and can also encourage wasteful strategic behaviour as parties attempt to manipulate the processes and rules to their advantage.

Because regulation has both benefits and costs, it was envisaged at the outset that there would need to be independent reviews of the new regulatory arrangements after a few years. The recent suite of Commission inquiries — encompassing reviews of the national access regime, telecommunications competition regulation, airport services pricing, rail reform and the Prices Surveillance Act — has provided the chance to take stock of key elements of the pro-competition regulation governing Australia’s economic infrastructure.

Unsurprisingly, the Commission found that there are legitimate grounds for maintaining regulatory oversight in these areas and that much of the current regulatory framework remains broadly appropriate (box 1.3). Nevertheless, it also found that modifications and refinements are needed to reduce the risk of regulatory error and overreach and to ensure a long-term pay-off to the community.

As those inquiries have shown, pro-competition regulation of economic infrastructure raises issues of a conceptual and practical nature that are both complex and contentious. Although some of the reforms of the mid-1990s are still being bedded down, the Commission’s reviews of the current regulatory environment have yielded some important messages for policy makers if Australia is to make the most of its infrastructure.

**Box 1.2      The pro-competition elements of national competition policy**

The Competition Principles Agreement strengthened pro-competition regulation by:

- amending longstanding rules against anti-competitive conduct in the Trade Practices Act and extending them to all State and local government business enterprises and unincorporated businesses;
- enhancing competitive disciplines on government business enterprises through the application of competitive neutrality principles and procedures for the structural reform of public monopolies;
- establishing in each jurisdiction a system to carry out surveillance of prices charged by utilities and other corporations with high levels of monopoly power; and
- establishing rules to enable potential competitors to gain access to the services of nationally significant infrastructure facilities that could not be duplicated economically and providing for the endorsement of State and Territory access regimes that met agreed principles.

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**Box 1.3 A continuing role for access and price regulation of infrastructure, but modifications are needed**

The Commission considers that the ***national access regime*** has brought net benefits and that its retention is warranted, at least for the medium term. Apart from providing a route for businesses to secure access to essential infrastructure facilities where no effective arrangements apply, the regime provides a discipline on the various industry-specific access regimes. As such, it can help to discourage any unwarranted divergence among the industry regimes.

In the Commission's view, special features of ***telecommunications*** — the speed of market and technological changes combined with the significance of network connectivity in an industry in which a major facility (the local loop) is dominated by one firm — justify the retention of a telecommunications-specific access regime for the present. The regime should converge with the principles and processes of the national access regime wherever possible.

In both of these inquiries, however, the Commission proposed changes to limit the potential for inappropriate application of regulation, and to allow the regulations to operate more effectively and rapidly where they can improve on market outcomes.

The ***Prices Surveillance Act*** was found to have substantial deficiencies. It does not have clearly defined objectives and it is easy to implement price notification — an indirect form of price control — without sufficient investigation. Moreover, inquiries under the Act are not required to consider relevant policy options and there is insufficient guidance as to the role of price monitoring. The Commission therefore argued that the existing Act needed to be repealed and new inquiry and monitoring functions be written into a new part of the Trade Practices Act. Price monitoring would require nominated businesses to provide price, cost and profit data to the regulator periodically, but would not allow the regulator to make price determinations. Implementation of any price control would need to be through industry-specific legislation.

In its draft report, the Commission concluded that continued regulatory oversight was warranted for the seven major ***airports*** in Australia which are judged to have a degree of market power. Any market power of other airports was judged not to warrant special regulatory action. However, current price regulation of the major airports should be replaced by a five-year probationary period of less obtrusive price and conduct monitoring. Towards the end of the period, the conduct of all parties should be subject to an independent review to see whether further regulation is necessary.



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## Competition a means, not an end

National competition policy and other related competition policies are based on the evidence that, by and large, competition leads to greater productivity, lower costs and improved service, and so eventually to higher incomes and standards of living. Price signals in competitive markets generally guide the allocation of the community's capital and labour to the development and production of those goods and services which consumers and users value most highly. Competition places discipline on firms to constrain the costs of producing goods and services and to pass those cost savings to consumers in lower prices. And the constant threat of losing market share to competitors helps to ensure that firms, whether large or small, respond to changing circumstances in meeting consumer needs.

However, the promotion of competition for its own sake is not the overriding objective. The aim is to use resources efficiently and productively so as to enhance community welfare. As the Hilmer National Competition Policy Review noted at the start of this phase of reform:

Competition policy is not about the pursuit of competition *per se*. Rather, it seeks to facilitate effective competition to promote efficiency and economic growth while accommodating situations where competition does not achieve efficiency or conflicts with other social objectives. These accommodations are reflected in the content and breadth of application of pro-competitive policies, as well as the sanctioning of anti-competitive arrangements on public benefit grounds. (Hilmer et al. 1993, p. xvi)

There are some well-known forms of 'market failure' where competition will not produce the best results for the community as a whole. For example, in an open access resource such as fisheries, unrestrained competition can lead to excessive fishing effort and over-exploitation of fish stocks. Other examples are the patent and copyright systems — which can be justified on the basis that there would be insufficient incentives to develop new products and ideas without some statutory limitation on competitors' rights, at least for a period of time. The Trade Practices Act itself allows anti-competitive arrangements to be authorised where they can be shown to be in the public interest.

### The natural monopoly problem

In relation to infrastructure, the most widely recognised situation in which simply removing barriers to competition will not be sufficient to promote economic welfare is where there are elements of enduring natural monopoly — typically in the transmission and distribution networks of infrastructure services. Where total market demand can be supplied at lowest cost by a single provider, because of economies of scale and scope or reduced transaction costs, there is likely to be room

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for only one firm to survive and this can be the most efficient outcome. To achieve effective competition in markets that rely on that infrastructure, however, the shared use of such ‘bottleneck’ facilities at cost-reflective prices may be necessary.

Infrastructure operators who are vertically integrated, providing upstream or downstream services, have particular opportunities to earn monopoly profits from those services by denying access to their facilities or by making the terms and conditions of access so unattractive that competitors are disadvantaged. In telecommunications, for example, Telstra owns the local loop and provides retail services to customers. As a result, Telstra has an incentive to restrict the development of competitors’ services using the local loop where this would improve its overall profitability. While owners of bottleneck facilities without upstream or downstream activities have incentives to maximise use of their facilities, they still might be expected to use market power to extract high profits where market circumstances allow.

While natural monopoly is rightly the focus of pro-competition regulation, regulation has also appropriately been aimed at reducing the continuing and substantial market power provided to incumbents by the legacy of government ownership and statutory protection from competition. Government ownership of infrastructure has often lessened the discipline which competition in the market for capital imposes on private sector firms to be cost-conscious and innovative. Market structures in transition, in many cases, require regulation to ensure that evolving competition is not stifled by such powerful incumbents.

However, in developing regulatory regimes, the ‘problem’ of market power should not be overstated (box 1.4). Even in the case of natural monopoly, there may be circumstances in which the prices charged are structured in ways which have little impact on efficiency (although potentially having distributional implications). Moreover, while a natural monopolist may face no credible rivals today, increases in demand or changes in technology can render its market power inoperative in the future. Natural monopoly is not necessarily permanent. The existence of market power, whether related to natural monopoly or not, needs to be tested carefully and reviewed periodically so that regulation can be rescinded where it is no longer likely to provide efficiency benefits.

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### Box 1.4     **Assessing market power**

Defining what constitutes the relevant ‘market’ has a major bearing on the assessment of a firm’s power. The key to assessing market power is how much business a firm would eventually lose if it sustained a price increase.

- The availability of substitutes limits the exercise of market power. For example, though rail track providers are typically sole suppliers, for most traffic they face intense competition from other transport modes. Airports in close proximity or which service basically the same market — such as Launceston and Hobart, and Alice Springs and Yulara — compete vigorously with each other. There is less choice though for people wanting to use regular air services where their destination is Sydney or Melbourne.
- Technological advances can also increase competitive pressures. For example, microwave, satellite and other spectrum-based telecommunications platforms offer the prospect of undermining the dominance of fixed wires and cables, though not necessarily in all uses.
- Where barriers to entry are not insurmountable, even sole suppliers will find it difficult to maintain high prices and earn excess profits for a sustained period. High profitability and/or productive inefficiency will generally encourage the entry of other suppliers to contestable markets. Governments can act to reduce entry barriers. For example, Commission analysis indicates that creating transferable ownership of telephone numbers reduces the reluctance of customers to change telecommunications providers and, even though there are costs attached, is likely to promote efficiency.
- Even where market power appears to exist, it is not clear that there will always be incentives to use it. The Commission’s airport services inquiry judged that commercial opportunities, particularly relating to non-aeronautical activities such as retailing and car parking, could be expected to constrain the exercise of market power in aeronautical services at major airports.
- The countervailing power of major users can also be a constraint on monopoly behaviour. While airlines and airports hold strongly opposing views on whether airlines have countervailing power, available evidence suggests that the scope for competition in the aviation market will limit, though not eliminate, this power. Airline market power is likely to be strongest in dealings with smaller airports that have less commercial clout and a greater reliance on price-sensitive holiday markets.

Market power cannot be gauged merely by the number of suppliers or market shares. Taken on their own, such conventional indicators can be misleading as to the efficiency of outcomes over time. While competition can be strong with even just a few players, it is evident that in some markets, the existence of even a large number of competitors does not guarantee effective competition. In telecommunications, for example, while the number of carriers has increased from three to more than 70 since 1997, Telstra still has 95 per cent of local access services and nearly 90 per cent of retail local telephony revenue. On the other hand, while the three major players have 98 per cent of the wholesale mobile market, that market is reasonably competitive.

*Sources:* Commission inquiries on progress in rail reform, telecommunications competition regulation and price regulation of airport services.

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## Investment matters too

While access and price regulation can improve efficiency where natural monopoly is a problem and/or markets are in transition, the regulatory challenge is to ensure that prices are set neither too high nor too low. There are dangers both ways. Given the legacy of government ownership and control of vertically integrated monopolies, it is not surprising that much of the initial regulatory focus has been on reducing prices. This has been to the direct benefit of consumers and using industries and has led to market innovations and expanded choice.

However, the major risk associated with the regulation of essential infrastructure is that setting prices too low could deter new investment in the facilities themselves. Access and price regulation can involve a significant intrusion into the property rights of facility owners and affect their investment behaviour. While available evidence of adverse impacts on past investment is largely anecdotal and difficult to verify, the potential risks of adverse consequences from regulatory action appear to be looming larger (box 1.5).

There is a potential tension between the efficient use of existing facilities and incentives to build new ones. Once investments have been made, the actual costs of running transmission and distribution networks are relatively low. With capital effectively having no alternative uses, it makes sense for the community, from a static or short-term efficiency perspective, to have prices set to recover only marginal costs. However, this would deny the firm the opportunity to recover its fixed costs. While the service would continue to be provided for the asset's economic life, such a pricing policy would destroy incentives for new investment.

No firm, including existing facility owners, will commit to major new capital outlays without the expectation of a profit commensurate with the commercial risk involved. Realised returns can be affected by unforeseen delays and costs during the construction phase, unanticipated changes in market demand, uncertainty about how an untried technology will perform or the possible emergence of a superior competing technology. So even without regulatory risk, the expected profitability need not be assured. For investments which are particularly risky, or that have only normal expected returns allowing for such risk, the potential for regulatory action to deter or even stop the investment is heightened. In the long term, consumers and business users will be worse off without an essential infrastructure service than if the service is provided at higher prices.

In the case of access regulation, there may also be incentives for investors to build smaller than optimal facilities so as to ensure that there is little spare capacity beyond their own requirements, and thereby remove the threat that they would be required to grant access at prices they consider too low.

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### Box 1.5      **Effects of regulation on infrastructure investment**

Recent Commission inquiries heard claims that access and price regulation are damaging infrastructure investment in Australia. These claims were, however, disputed by others and establishing proof one way or the other is difficult. Isolating the effects of regulation from other factors, including cyclical influences, is problematic and it is difficult to determine what would happen to investment in the absence of regulation. Nevertheless, the potential for adverse impacts is a cause for concern.

The Australian Council for Infrastructure Development (AusCID) stated that the ACCC determined that a planned investment in resurfacing a second runway at Perth Airport did not qualify as 'necessary new investment' under current regulatory arrangements, precluding the airport recovering the investment cost through higher charges. AusCID went on to comment that as a result:

... the investment will not go ahead. Perth Airport has issued a 'Notice to Airmen', stopping planes larger than 737 size from landing on the runway. Perth Airport is only doing minimal maintenance on the runway, which will eventually have to be replaced, at great expense.

TransGrid said that low regulated rates of return for electricity transmission facilities have contributed to insufficient investment in network interconnections. By expanding the size of transmission networks, such interconnections can play an important role in reducing the market power of particular electricity generators.

The Australian Gas Association said that regulatory uncertainty was one factor contributing to the deferral of the Central Ranges pipeline from Dubbo to Tamworth.

Building gas pipelines with spare capacity can be the most efficient way of catering for future demand growth. However, Epic Energy said that the proposed Darwin to Moomba pipeline will be built to meet only the requirements of foundation shippers so as to reduce the threat of regulated access. It also said that 'looping' arrangements for the Moomba to Adelaide pipeline and an enhancement to the Dampier to Bunbury pipeline had been constructed solely to meet the needs of incremental contract volume.

Freight Australia commented that, in the light of the decision of the Victorian Government to declare open access to the State's intrastate non-urban rail network, the owners of the network have resolved to suspend discretionary investment in the network, other than that 'required for Freight Australia to meet its contractual requirements with passenger operators on the network'.

Telstra indicated that it will not be digitising its hybrid fibre coaxial network without a binding prior ruling on access and other regulatory matters, although it did acknowledge that other factors, such as demand and technological risk, have also held back investment so far.

As one of three Foxtel shareholders, News Ltd is currently considering whether to make an investment in digital subscription television broadcast carriage services by cable. Discussion amongst the shareholders has proceeded on the assumption that the investment will be made in an environment in which access may need to be provided to digital pay TV carriage services. News Ltd stated:

(Continued on next page)

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**Box 1.5 (continued)**

... the uncertainty which is inherent in the processes makes it difficult, at best, and impossible, at worst, for News to predict the terms and conditions of access and the financial and business consequences thereof. Consequently, the likelihood of further investments decreases.

On the other side of the ledger, users of essential infrastructure and the ACCC argued that current access arrangements are providing a healthy investment environment. The ACCC noted that returns provided to Australian electricity and gas transmission owners compare favourably with average returns on equity and are higher than returns for comparable regulated businesses overseas. It went on to conclude that:

Together with the substantial new investments being undertaken or planned for Australia, including more than \$8 billion worth of new gas pipeline investments, the returns achieved lend support to the [ACCC's] view that current regulated returns provide a solid base for future investment in electricity and gas transmission.

Similarly, BHP Billiton contended that there is no evidence that access regulation is inhibiting investment in gas pipelines. It stated:

The fact that access has had no negative impact on pipeline investment in Australia should be no surprise. This is consistent with experience in the USA and in Canada, where pipeline investment has thrived notwithstanding in a more rigorous and onerous regulatory environment.

The Australian Petroleum Production and Exploration Association and WMC Resources also pointed to the significant new investment in gas transmission pipelines that has occurred since the inception of the Gas Code.

AAPT argued that Telstra's investment in areas affected by service declarations has not, in fact, declined:

... no evidence has emerged in support of the assertion that current access pricing has hindered investment, despite two public hearings and a Draft Report ... To the contrary, concerns have been raised that the industry is suffering from over-investment.

*Sources:* Submissions to recent Commission inquiries.

Another disadvantage of unduly low regulated prices is that the investment required to maintain or to augment, extend or replace *existing* infrastructure may be delayed. This can result in a deterioration in service through breakdowns and increasing congestion. The effects of this may go largely unnoticed for some years, perhaps until a crisis point is reached, as was illustrated in the Californian power crisis.

Inappropriately low access pricing can also create incentives for inefficient entry to upstream and/or downstream activities — too many inefficient competitors having an incentive to enter those markets at clearly unsustainable prices. For example, low access prices and interconnection charges for gas distribution pipelines and telecommunications networks can result in the entry of service-based rivals that

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have higher operating costs than the incumbent's own downstream operations and encourage inefficient investment in network extensions.

While prices need to be at least sufficient to cover the long-run costs of facility operators including an adequate return for the risk involved, prices should not be set so far above costs as to deter the efficient use of services and investment and innovation in related markets. This is a particular risk in markets such as new value-adding telecommunication services where investors are already grappling with rapid and unpredictable technological change, demand for their services is uncertain or untested and their demand for the platform service is sensitive to price. There is also the possibility that high regulated prices could distort the timing of efficient investment in infrastructure or lead to the inefficient duplication of facilities where users have no option but to build their own facility.

Clearly, there needs to be a balance between the short-term gains for users and consumers in having low prices, and the community's long-term welfare, which requires the efficient timing and scale of investment and appropriate access prices. The regulatory framework needs to provide clear signals about how this balance is best achieved.

## **The importance of statutory guidance**

The tasks regulators face are complex and require considerable information. Regulators have neither all the information nor the tools to guarantee that they can set prices which unambiguously improve on market outcomes. Firms which are subject to regulation typically know more about their operations and markets than the regulators could ever be expected to know. When technology and market demands are changing rapidly, the difficulties for regulators are compounded. Regulation is always vulnerable to manipulation by industry players aiming to delay or otherwise subvert the regulatory intent.

Ultimately, a large element of judgement is unavoidable in deciding whether and how to intervene and this raises the prospect of regulatory error. As already argued, where long-lived investments are involved, the costs of regulatory error can be substantial. In addition, regulatory interventions risk dampening incentives for cost saving, innovation and entrepreneurship in regulated firms, or those depending on them.

Regulatory error can also have systemic origins, reflecting the susceptibility of regulators to various forms of 'capture'. As is well known, the traditional concern based on the American experience was of capture of regulatory agencies by the industry incumbents (Stigler 1971). But depending on the institutional settings,

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other forms of influence can operate. These include biases towards the interests of current consumers over the interests of future consumers and, to this end, new entrants may be favoured over incumbents. Regulators may also feel constrained by the precedents set by their own past decisions. And they may have a natural aversion to firms earning high and variable profits because these are associated, in the public mind, with failure to control the excesses of market power.

Regulatory discretion cannot be eliminated and, indeed, some discretion is desirable. However, to reduce the risk of regulatory error, statutes should be clear about the objectives of regulation, the behaviour at which intervention should be targeted and the principles governing the type of intervention. These requirements are not always met. For example, the Commission found that the national access regime was deficient in these respects. It proposed the inclusion of an objects clause and pricing principles in the national regime and a change to the regime's 'declaration' criteria to reduce the possibility that services will be subject to access arrangements without the prospect of a significant increase in overall economic efficiency. As competition increases in areas once dominated by government providers and their market power is gradually eroded, intervention aimed at managing the transition to a more mature market can become more light-handed.

Some sources of regulatory disincentive to efficient infrastructure investment are less readily amenable to solution. Infrastructure investors anticipate that, down the track, regulators are likely to have difficulties distinguishing monopoly profits from the due rewards for risk taking and will intervene in ways which effectively truncate their potential returns. Risky investments which are successful are likely to be penalised but investors will bear all the risks of project failure or poor returns. Faced with this, investments may not proceed or be delayed. Notwithstanding the difficulties in finding workable approaches which would have broad community acceptance, the Commission found a compelling case for introducing mechanisms within access regimes which would facilitate efficient investment. Fixed-term 'holidays' from access declaration, binding undertakings on access terms and conditions agreed with the regulator prior to investment and allowance for additional profit premiums are some of the mechanisms which Australian governments should explore through consultative processes.

Given uncertainties and information difficulties, there are limits to what regulators can achieve. Rather than aiming for an ideal, but unattainable outcome, the public policy goal should be a set of regulatory arrangements that will improve efficiency through time and that will reduce some of the bigger risks of making regulatory errors. A framework is needed in which regulators are encouraged to intervene only when significant improvements in efficiency are in prospect and not to be overly ambitious in finetuning the prices they regulate. For example, in its



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telecommunications inquiry, the Commission argued that the declaration of mobile telecommunication services should be rescinded because of the level of competition in the marketplace.

In areas where market power appears to be a problem but the correct regulatory response is uncertain, good inquiry processes are essential to determine whether the problem exists and how best to address it. For example, in its review of the Prices Surveillance Act, the Commission argued that modified inquiry and monitoring functions be written into a new section of the Trade Practices Act, allowing the Prices Surveillance Act to be repealed. Such public inquiry processes should identify, on a case-by-case basis, the nature of the perceived problem and the most cost-effective solutions, resorting to price oversight only where warranted.

## **Refining pro-competition regulation of infrastructure**

The broad-based microeconomic reforms of the past decade and a half have sharpened international and domestic competition, and thereby reduced the number of markets in Australia where governments need to intervene to address the adverse consequences of market power.

Given their potential costs and distortions, regulatory interventions such as access regimes and other price controls should be measures of last resort, focused on those activities with demonstrable monopoly power. These now largely involve bottleneck infrastructure services with natural monopoly characteristics. The general provisions of the Trade Practices Act remain as a safeguard for abuses of market power in other circumstances.

While regulation remains necessary in order to promote the efficient provision of infrastructure services, the Commission has found that it can be made more effective by:

- reducing compliance and administrative costs and delays due to complexities and uncertainties in regulatory procedures and outcomes;
- relying as much as possible on general regulatory frameworks — such as the anti-competitive provisions of the Trade Practices Act and the national access regime;
- ensuring that any special features in industry-specific regulatory arrangements are justified by circumstances specific to those industries; and
- bringing greater clarity and focus to regulation itself, to ensure that it addresses significant problems, is well targeted and uses appropriate instruments.

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The Commission's recent inquiries have revealed a need to re-balance the emphasis away from achieving immediate gains for users and consumers from existing infrastructure — much of it government owned or previously government owned — to a regulatory framework that will also facilitate efficient investment in augmented and new facilities. In this way, pro-competition regulation is more likely to ensure that Australia has modern infrastructure which is provided and used efficiently, with long-term benefits to the Australian community.

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## 2 Commission activities

**The Commission had an extensive program of work in 2000-01. Its inquiry program was dominated by ongoing investigations of the regulatory frameworks for Australia's infrastructure services, and its research program was mainly directed at developing a better understanding of productivity, environmental and labour market adjustment issues. In its performance reporting role, the comparative information provided on the provision of government services was expanded and improved during the year. The Commission continued to monitor reaction to its work, within government and the community, in order to improve its performance and its contribution to policy making.**

The Productivity Commission is the Commonwealth Government's principal review and advisory body on microeconomic policy and regulation. Consistent with the objective of raising national productivity and living standards, its remit covers all sectors of the economy. The Commission's work extends to the private and public sectors, including areas of State, Territory and local government, as well as Commonwealth responsibility. Details of its role, functions and policy guidelines were outlined in the Productivity Commission's first annual report (PC 1998).

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

The breadth and volume of the Commission's work are indicated by the reports it published in 2000-01 (box 2.1). The topics ranged from tariffs and the distribution of the gains from reform, through to aspects of biodiversity and to social issues such as long-term aged care and disability services. A full listing of all outputs, including inquiry draft reports, position papers and research reports, is in appendix F.

## Box 2.1 Commission publications in 2000-01<sup>a</sup>

### **Public inquiries**

Review of Australia's general tariff arrangements, Final report

Review of the *Prices Surveillance Act 1983*, Interim Report

Review of the national access regime, Position Paper

Cost recovery, Draft Report

Review of legislation regulating the architectural profession, Final report

Review of the *Prices Surveillance Act 1983*, Draft Report

Telecommunications competition regulation, Draft Report

### **Performance reporting**

Report on Government Services 2001: education, health, justice, emergency management, community services, and housing

National satisfaction survey of clients of disability services <sup>b</sup>

Financial performance of government trading enterprises 1994-95 to 1998-99

Financial performance of government trading enterprises 1995-96 to 1999-00

### **Annual report suite of publications**

Annual report 1999-2000

Trade & assistance review 1999-2000

Regulation and its review 1999-2000

### **Conference proceedings**

Microeconomic reform and the environment

Achieving better regulation of services

### **Submissions to other review bodies**

NCP Review of the Wheat Marketing Act

NCP Review of the Wheat Marketing Act (Supplementary Submission)

NCP Review of the Hazardous Waste (Regulation of Exports and Imports) Act

Review of Queensland's native wildlife legislation

Department of Foreign Affairs and Trade Review of the Cartagena Protocol on Biosafety

House of Representatives Standing Committee on Environment and Heritage

### **Research and other reports**

Competitive neutrality in forestry

Single-desk marketing: assessing the economic arguments

Population distribution and telecommunication costs

Restrictions on trade in distribution services

Productivity in Australia's wholesale and retail trade

Long-term aged care

The diversity of casual contract employment

Resource movements and labour productivity, an Australian illustration: 1994-95 to 1997-98

Models for evaluating domestic greenhouse policies in Australia: a comparative analysis <sup>b</sup>

Modelling the effects of removing general tariffs

The growth of non-traditional employment: are jobs becoming more precarious?

The increasing demand for skilled workers in Australia

Restrictions on trade in professional services

Unemployment and re-employment of displaced workers

Business failure and change

Distribution of the economic gains of the 1990s

Cost sharing for biodiversity conservation: a conceptual framework

A duty of care for the protection of biodiversity on land <sup>b</sup>

<sup>a</sup> Excludes six Staff Working Papers, details of which are provided in appendix F. <sup>b</sup> Consultancy report to the Commission.

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## **Year in review**

The Productivity Commission's goal of contributing to public policy making and community understanding of productivity issues is pursued through five major outputs. The principal developments in these activities during 2000-01 were as follows.

### **Public inquiries and other commissioned studies**

The Commission had eight public inquiries and one government-commissioned research study underway at some time during the year.

The major focus of the Commission's inquiry work in 2000-01 was the four related reviews on the regulation of infrastructure services — the national access regime, telecommunications-specific competition regulation, price regulation of airport services and a review of the Prices Surveillance Act. These inquiries raise complex and contentious issues bearing on the efficient provision and use of essential services and have generated considerable interest from providers and users. Price and access regulation are key planks of pro-competition regulation which seek to promote competitive outcomes and redress potential abuses of market power. The Commission is due to report on these four inquiries in the latter half of 2001. With the Government's agreement, reporting dates were realigned so as to allow the Commission and participants to make a coordinated response to the interrelated issues raised by these inquiries. Some of the important policy messages from this stream of inquiry work are discussed in chapter 1.

The Commission commenced two additional inquiries in 2000-01. It was asked to review cost recovery arrangements across the Commonwealth Government's regulatory and information agencies and to develop guidelines for the future application of cost recovery. The Commission's inquiry is the first comprehensive review of cost recovery, which has grown considerably in recent times and caused disquiet and dissatisfaction among many users of these regulatory and information services. The Commission also commenced an inquiry on a range of Commonwealth legislation under which the superannuation industry is being supervised — though not taxation issues affecting the industry, nor retirement incomes policy. Scheduled for review as part of the Government's national competition policy commitment, the inquiry comes at a time of intense public interest in the prudential supervision of financial service providers and the security of retirement 'nest eggs'.

Two inquiries were completed in the year. The Commission's review of Australia's general tariff arrangements reported on the benefits and costs of reducing, post-

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2000, tariffs of 5 per cent or less, having regard to Australia's commitment to the APEC goal of 'free and open trade and investment'. The Commission also reported on State and Territory legislation regulating the architectural profession. This was a national review conducted on behalf of all States and Territories (except Victoria) with the purpose of helping governments to meet their obligations under the Competition Principles Agreement.

In September 2000 the Assistant Treasurer asked the Commission to undertake a research study examining differences between the prices of pharmaceuticals listed under the Pharmaceutical Benefits Scheme in Australia and the prices of the same items in comparable overseas countries, and to identify reasons for any differences. The study was commissioned to inform consultations between the Commonwealth Government and the pharmaceutical industry on the long-term operating and policy environment facing the industry and to respond to concerns about previous price comparison work.

Further information on public inquiries and the commissioned research study undertaken by the Commission and, where available, government responses to reports, is provided in appendices B and C.

## **Performance reporting and other services to government bodies**

The Productivity Commission's work as the secretariat to the Steering Committee for the Review of Commonwealth/State Service Provision is in its eighth year. The *Report on Government Services 2001* is the most comprehensive source of comparative information on the performance of a range of services central to the wellbeing of Australians — spanning education, health, justice, emergency management, and community and housing services. These services collectively accounted for about \$64 billion of governments' expenditure in 1999-2000.

Reporting on health services has been significantly expanded and improved, particularly in the areas of hospital quality, breast cancer management and mental health, while in other areas, such as housing, changes to the reporting framework were made to reflect more accurately the objectives within current Commonwealth/State housing agreements. The quality and coverage of reporting, however, remains variable. For example, there has been little progress in the reporting of national outcomes data for schools and gaps remain in the reporting of data on children's services.

Better information on the ability of mainstream services to meet the needs of indigenous Australians remains a priority for all areas of the Review. The need for better data has been reinforced by COAG's agreement to develop action plans, performance reporting strategies and benchmarks to facilitate the review of the

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progress made in improving service provision to indigenous Australians (COAG 2000). In response to a request by the Ministerial Council for Aboriginal and Torres Strait Islander Affairs, the Chairman briefed ministers on the Government Services Review and indigenous reporting.

Other publications arising from the performance reporting stream of work in 2000-01 included a consultancy report, *National Satisfaction Survey of Clients of Disability Services*, for the Review of Government Services. The Commission released two reports on the financial performance of government trading enterprises. They provide time series data on the financial performance of government businesses by industry sector. The studies form part of a continuing program of Commission research into the performance of economic infrastructure industries and the impact of microeconomic reforms.

Two international benchmarking studies relating to economic infrastructure commenced in September 2000. One compared the accessibility, quality and prices of telecommunications services in remote and rural areas with those in urban areas in Australia and in other countries, and was released in July 2001. The other study, a Staff Research Paper released in August 2001, compared international electricity prices for residential and business users and examined the factors that help to explain the observed price differences.

In October 2000, the Commission hosted a workshop to discuss issues associated with private sector involvement in the provision of public infrastructure and related services. The Commission was asked to host the workshop following a Heads of Treasuries meeting which observed that governments were being faced increasingly with important and difficult decisions in this area. The workshop involved senior Treasury officials from the Commonwealth and all States and Territories, as well as private sector representatives with experience in the construction, operation and financing of public infrastructure.

Information on these projects and other performance reporting activities in the year is provided in appendix B.

## **Regulation review activities**

The Office of Regulation Review (ORR), which is a separate unit within the Productivity Commission, continued its role in helping to achieve better regulatory processes and outcomes. The ORR advises the Government, Commonwealth departments, regulatory agencies and statutory authorities on appropriate quality control mechanisms for the development of regulatory proposals and for the review of existing regulations.

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Since March 1997, the Government has made it mandatory for departments, agencies, statutory authorities and boards to prepare a Regulation Impact Statement (RIS) for all regulation that affects business or restricts competition. A limited range of exceptions applies and these are outlined in *A Guide to Regulation* (1998).

The purpose of the RIS process is to ensure that proposed regulation is likely to result in net benefits to the community — and to discard options that fail to meet this test. A RIS should provide a consistent, systematic and transparent process for assessing different policy approaches to problems. It should include an assessment of the social and environmental as well as economic impacts of any proposed regulation, and of alternative approaches, on different groups and the community as a whole. A RIS can thus assist government by ensuring that all relevant information is presented to the decision maker. In addition, after the decision is made and the RIS is tabled in Parliament or published elsewhere, it provides a transparent account of the factors behind that decision.

The ORR seeks to promote the Commonwealth Government's objective of effective and efficient legislation by providing advice and training to departments and agencies and by monitoring compliance with the Government's RIS guidelines (box 2.2). It also examines and provides advice on RISs for Ministerial Councils and national standard-setting bodies. In addition, the ORR liaises with State and Territory governments and overseas regulatory review units, those Commonwealth and State parliamentary committees concerned with regulation, and the OECD.

**Box 2.2 Compliance with RIS guidelines in 2000-01**

The Commission is required to report annually on compliance with the Government's Regulation Impact Statement (RIS) requirements. Its 'report card' for 2000-01 shows that:

- 157 regulatory proposals affected business or restricted competition and therefore required the preparation of a RIS;
- adequate RISs were prepared for the policy approval/decision-making stage for about 80 per cent of those proposals; and
- compliance was substantially less for those proposals assessed as having a significant impact — with only 60 per cent rated as adequate.

The relatively short time frame in which RISs were prepared for some significant proposals suggests that the process was unlikely to have achieved its full potential of contributing to the development of the best policy response.

Full compliance details, including performances for individual departments and agencies as well as for Ministerial Councils (which involve ministers from the Commonwealth, States, and Territories, and in many Councils, the New Zealand Government) and national standard-setting bodies, are provided in PC (2001b).



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## **Competitive neutrality complaints activities**

The Productivity Commission administers the Commonwealth Government's competitive neutrality complaints mechanism. Competitive neutrality requires that government businesses not have advantages (or disadvantages) over their private sector rivals simply by virtue of their public ownership.

The Commonwealth Competitive Neutrality Complaints Office 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 five written complaints in 2000-01, all of which proceeded to formal investigation. Details of complaints and the action on them, and the advisory and research activities of the Commonwealth Competitive Neutrality Complaints Office, are reported in appendices B and D.

## **Supporting research activities and annual reporting**

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

The development of themes and projects for the Commission's program of supporting research benefits from wide-ranging consultation with government, industry, community groups and academics. The research themes which guided the 2000-01 program of supporting research were:

- the impacts on productivity and living standards of microeconomic reforms and other policy changes, including their adjustment consequences;
- the effects on industry and the broader community of advances in information and communications technology, as well as changes in society more broadly; and
- the effects of existing government regulation, policies and programs on economic performance and community welfare.

Projects can be categorised broadly as relating to one of seven topics: productivity and industry studies; international trade and investment; economic infrastructure; labour and industrial relations; adjustment and social policy issues; environmental issues; and general research/analytic framework studies. Some of the environmental research undertaken this year is highlighted in box 2.3.

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### Box 2.3     **Research on the conservation of biodiversity**

Over many years, the Commission and its predecessors have reported on a variety of environmental issues. Examples of where the consequences of environmental and economic policies are examined in an integrated way include the inquiries on the costs and benefits of reducing greenhouse gas emissions (IC 1991); water resources and waste water disposal (IC 1992); environmental waste management equipment, systems and services (IC 1993a); and more recently, ecologically sustainable land management (IC 1998) and the implementation of ecologically sustainable development by Commonwealth departments and agencies (PC 1999a).

Building upon that experience, in 2000-01 the Commission initiated a broad stream of research on the incentives for the conservation of biodiversity. The efficient and effective conservation of biodiversity is important in the private as well as the public sector. Indeed, with private landholders managing more than 60 per cent of Australia's land mass, conservation of biodiversity cannot be adequately addressed without private participation. However, many activities that protect or conserve biodiversity are not financially appealing to individual landholders. This is because, while there are very significant social benefits (such as, improvements in water quality and reductions in the area of dryland salinity) generated by these activities, the private costs (such as, forgone production) associated with the activities usually far exceed the private benefits. This raises the question of whether, and when, it may be in the public interest for taxpayers to meet part of the financial costs of implementing activities that lead to improved biodiversity outcomes.

The Commission Research Paper, *Constraints on Private Conservation of Biodiversity*, found that the private sector is being constrained from undertaking conservation of biodiversity by a range of institutional factors (PC 2001a). Commonwealth and State and Territory institutional and regulatory arrangements — particularly relating to land tenure, competitive neutrality, native wildlife regulation and taxation frameworks — and variabilities between jurisdictions can impede otherwise desirable private conservation activities. These constraints may ultimately influence investment decisions and can lead to less efficient and effective conservation outcomes.

Clarifying resource users' property rights or their 'duty of care' for the environment is an important first step in deciding who should pay for conservation on private land. A Staff Research Paper, *Cost Sharing for Biodiversity Conservation: A Conceptual Framework*, discussed principles for sharing the costs of conservation between individuals, groups and governments on behalf of the general community (Aretino et al. 2001a). A consultancy report to the Commission by Dr Gerry Bates of the Australian Centre for Environmental Law, *A Duty of Care for the Protection of Biodiversity on Land*, suggested that the introduction of a statutory duty of care — as proposed by the Industry Commission in 1998 — could bring considerable benefits in protecting biodiversity by providing guidance to resource users on what practices are acceptable. However, a statutory duty of care is unlikely to be a panacea. It would need to be supported by complementary approaches, such as the encouragement of voluntary action, education and financial incentives.

At the invitation of Environment Australia and the OECD, Commission staff conducted a case study of Earth Sanctuaries Ltd, a publicly listed company in Australia directly involved in preserving wildlife and biodiversity (Aretino et al. 2001b). This study, along with examples from other countries, will contribute to an OECD/World Bank report on market creation for biodiversity products and services. The purpose of the report is to identify how markets can effectively promote biodiversity conservation, while reducing reliance on grants and increases in public expenditure.

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In addition to the listing provided in box 2.1, information on the Commission's supporting research publications in 2000-01 is provided in appendix E. This also details the 95 presentations given by the Chairman, Commissioners and staff during the year to parliamentary committees, international delegations and visitors, industry and community groups, and conferences. These addressed a range of issues of wide community interest including trade and globalisation, research and development, competition policy, the changing demand for skilled workers and casual work, gambling policy and natural resource management.

## **Transparent and consultative processes**

A distinguishing feature of the Commission is its open, consultative processes and the scope they provide for people to participate in and scrutinise its work. These processes are integral to its operation. They ensure that the Commission's research and policy advice is tested publicly and therefore is more robust. They also provide a public demonstration of the Commission's independence from the various arms of government and the many interest groups with which it comes in contact.

The Commission's public hearing process, public access to the submissions made to its inquiries and the publication of draft and final inquiry reports are among the better known aspects of the Commission's operations.

The Commission's practice of extending consultative processes beyond its public inquiry work continued during the year. Following recent practice, the Commission held a series of external consultations with government agencies, industry, community and environmental groups during May 2001 to discuss future directions for the Commission's research program. Discussions were also held with academics and other interested parties. Considerable support for Commission research was expressed in those external consultations and around 150 specific research proposals were put forward, with a number of common themes. Together with contributions from Commissioners and staff, these consultations were again helpful in setting broad directions for the Commission's program of supporting research. The Commission publishes its research program annually and it updates the details on individual projects during the year.

The Commission also participates in collaborative projects with academic institutions. Partners in such research projects in 2000-01 were:

- the Australian National University on measuring the effects of domestic regulation of industries in the services sector;
- the Melbourne Institute of Applied Economic and Social Research (Melbourne University) on two projects — one an analysis of factors affecting

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unemployment and the costs and benefits of alternative policies to reduce unemployment; and the other on innovation, productivity and profitability in Australian enterprises; and

- the National Centre for Social and Economic Modelling (NATSEM, University of Canberra) on microsimulation models to examine the socio-economic consequences of changes in the health system and in public health, including at the post code and local government area levels.

The Commission has linkages domestically and internationally to research and other organisations through appointments of Commissioners and staff, research alliances and participation in working groups and forums. For example, the Chairman, Gary Banks, accepted an invitation to join the Board of Advisory Fellows of the Regulatory Institutions Network at the ANU in February 2001. Deputy Chairman, Professor Richard Snape, was appointed to the new board of the restructured Australian Research Council from 1 July 2001. Commissioner David Robertson was invited to participate in the OECD Global Forum for Trade in Santiago de Chile in June 2001. The Commission is part of a research consortium, comprising the National Bureau of Economic Research and several Asian research institutes, which arranges the annual East Asian Seminar in Economics, held this year in Hong Kong in June. Members of the Commission's staff are involved in various working groups, such as the Australian Accounting Standards Board Consultative Group. In recognition of his contribution to the development and use of the Global Trade Analysis Project model based in the US, a staff member, Kevin Hanslow, was selected as a GTAP Research Fellow for the period 2001–2004.

The Commission continues to involve outside policy advisers and researchers through its conference and work program. Each year the Commission hosts or co-sponsors a conference or workshop on a major topic of policy interest. Publication of the papers and proceedings of this year's workshop — which explored the links between economic and environmental policy objectives and outcomes — aimed to promote wider public understanding of contemporary policy issues and challenges (box 2.4). In addition, in June 2001 the Commission co-hosted (with the Department of Industry, Science and Resources) a seminar which brought international and Australian perspectives to bear on the technological and other sources of economic growth.

From time to time, the Commission has provided temporary positions for visiting academics to supplement the skills and expertise of its staff. During the year, Professor Knox Lovell of the University of Georgia assisted in a range of research on the measurement of efficiency and productivity. The distinguished international trade and development economist Professor Anne Krueger of Stanford University was briefly at the Commission this year following a visit in the previous year. To

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strengthen its expertise and research capability, the Commission moved to attract senior academics as ‘Visiting Researchers’ on a regular basis, beginning in 2001-02. The first participants in this program are Professor Peter Forsyth of Monash University and Associate Professor Geoff Edwards of La Trobe University.

Workshops and roundtables provide other valuable opportunities to utilise wider sources of expertise in the Commission’s inquiry and research work. For example:

- In addition to direct discussions with interested parties, the Commission held two roundtables — one in Melbourne and one in Sydney — to elicit views on the national access regime for essential infrastructure from a cross-section of regulators, lawyers, economists, facility owners, access seekers and end user/consumer groups.
- The Commission organised separate workshops with regulatory and information agencies to test the practical applicability of the cost recovery guidelines developed in its draft inquiry report.

**Box 2.4      Microeconomic reform and the environment**

The Commission convened a workshop in September 2000 to explore the links between economic and environmental policy objectives and outcomes. It brought together leading Australian researchers, policy makers and practitioners with a broad cross-section of knowledge, experience and opinions covering a number of disciplines and sectors.

The workshop was structured around a series of contributed papers that considered issues arising in four sectors — water, electricity, transport and forestry — as well as some common themes among them. Key issues explored by participants included how microeconomic reform can best contribute to meeting existing and future environmental challenges, and the principles that should drive the policies and guide trade-offs among economic and environmental objectives.

The proceedings highlighted some challenges for policy makers in terms of:

- evaluating whether progress to improve environmental outcomes is being made, especially given scientific uncertainties and a lack of information on environmental conditions and problems; and
- ensuring that economic analysis takes into account social and environmental issues and vice versa.

Workshop contributors identified a number of requirements for change, including a need for more effective institutions and policy-making processes, as well as better analytical tools and information.

The workshop papers and proceedings were published by the Commission in November 2000.

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- The Commission convened two roundtable meetings with industry and government officials, initially to discuss its proposed approach to comparing international pharmaceutical price differences and subsequently to seek comments on the methodology, preliminary results and reasons for the observed price differences.
  - As part of its international benchmarking study of remote, rural and urban telecommunications services, the Commission convened a workshop so that industry, government agencies and users could provide feedback on the study methodology and the preliminary results.

Internet technology has facilitated speedier and easier notification of developments in Commission inquiries and research. The Commission places submissions to inquiries on its website as soon as possible after receipt, thereby increasing opportunities for earlier and less costly public scrutiny of the views and analysis being put to it. Transcripts of public hearings, draft reports and position papers, inquiry circulars and final inquiry reports (when released by the Government) are all posted on the website for ease of access and scrutiny. The Commission's website also provides ready access to its other outputs — research publications, conference and workshop proceedings, competitive neutrality complaints reports, Commission submissions to other review bodies, benchmarking studies and reports arising from its secretariat work for the Review of Commonwealth/State Service Provision.

The Commission's website was visited approximately 2.5 million times externally in 2000-01, an increase of nearly 80 per cent on the previous year (box 2.5). The website was upgraded during the year to improve its design, layout and ease of use.

## **Feedback on the Commission's work**

The Commission actively monitors reaction to, and seeks feedback on, its work in order to improve its performance and contribution to policy making.

The results of a survey undertaken in July 2000 to assess external perceptions about the quality of the Commission's work and the quality of its inquiry processes were provided in its annual report for 1999-2000 (PC 2000b). So too were the results of a survey of ORR 'clients' to assess how its role was perceived throughout government and to gauge the effectiveness of its work and processes.

In June 2001 the Commission undertook a survey of users of and contributors to the Report on Government Services to obtain feedback on the success of the Report in meeting the objectives of the Review of Commonwealth/State Service Provision. Overall, around three-quarters of respondents rated the Report as 'good' or 'very good' on a range of criteria — credibility, relevance and objectivity — and nearly

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60 per cent of respondents rated the timeliness of its data this way as well. In addition, respondents were asked to rate the usefulness of the various types of information presented in the Report by service area. More than 80 per cent of respondents considered the profiles provided on the individual sectors (such as school education, public hospitals, child protection and aged care) to be ‘useful’ or ‘very useful’ and about three-quarters of respondents similarly rated the Report’s coverage of policy developments and key performance results. Further details on the survey are provided in appendix B. The results of the survey will be used by the Steering Committee to continue to improve the Report and so contribute better to achieving the objectives of the Review.

Few people made use of the opportunities provided by the Commission to give feedback on individual reports released during the year. The Commission is therefore experimenting with a simplified feedback card inserted in each report to elicit a higher response rate. Those who access Commission reports from its website are requested to provide feedback by e-mail and this has elicited some responses.

**Box 2.5      Increasing use of the Commission’s website**

Since the Commission’s website was established in 1995-96, it has become an increasingly important medium for users to gain access to the Commission’s work. Through time, the design, content and functionality of the site has improved, providing access to an even greater amount of information. The site now includes inquiry and research reports, submissions to inquiries and hearing transcripts (but not confidential information), speeches, information about the Commission and its inquiry procedures, database and modelling work and links to the websites of other agencies involved in productivity and microeconomic reform.

The number of visits to the Commission’s website by external clients has increased dramatically:

1996-97	70 000
1997-98	300 000
1998-99	827 000
1999-00	1.4 million
2000-01	2.5 million

The most frequently visited inquiry sites over the past three years were those on Australia’s gambling industries, broadcasting, progress in rail reform, the impact of competition policy on rural and regional Australia and telecommunication competition regulation. The opportunity to scrutinise easily submissions to Commission inquiries has been taken up and this accounts for much of the recent increased activity.

The reports most frequently accessed from the website in 2000-01 were the final report on *Australia’s Gambling Industries*, the *Report on Government Services 2001* and the conference proceedings, *Achieving Better Regulation of Services*.

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The influence of the Commission's work is reflected in a range of recent policy developments which have drawn on its analysis and recommendations. For example:

- The Commission's report on Australia's gambling industries was drawn on extensively in parliamentary and community debate on the regulation of internet gambling and as several State governments sought to develop new policies and enact new legislation for the gambling industries.
- In June 2001 the Minister for Communications, Information Technology and the Arts announced that, consistent with proposals advanced by the Commission in its draft report on telecommunications competition regulation, the Government would be legislating to speed up the resolution of disputes under the telecommunications access regime (Alston 2001a).
- In August 2001 the Minister for Communications, Information Technology and the Arts cited the Commission's report on broadcasting when announcing that the Government was considering an overhaul of media ownership laws (Alston 2001b).
- Use of the Commission's ongoing research on Australia's improved productivity performance — by governments and in the wider community, as well as by international agencies such as the OECD and the IMF — has been particularly evident during the past year. For example, the latest economic survey of Australia by the OECD (2001) drew on that work extensively in reporting on progress in structural reform.
- The Commission's stream of research on incentives for the conservation of biodiversity (box 2.3) was used extensively by the House of Representatives Standing Committee on Environment and Heritage (2001) in its report on public good conservation.
- Indicators of the influence of Commission activities during the year — its inquiry, performance reporting, regulation review, competitive neutrality work and supporting research — are provided in appendix B.

Governments do not always accept the Commission's advice. For example, in response to the Commission's report on general tariffs of 5 per cent or less, the Government decided to keep the general tariff rate at 5 per cent and to retain the 3 per cent duty on business inputs under the Tariff Concession Scheme for the present. While accepting the Commission's finding that there were small benefits to be obtained from the removal of the general tariff, the Government decided that it would hold to current arrangements until their removal was 'consistent with trade and fiscal objectives'. The Government responded to the Commission's suggestion for changes to project and other policy by-laws, in the event that general tariffs were



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not reduced, by announcing in the 2001-02 Budget that it would rationalise the by-law system and streamline the application process from July 2002.

By way of contrast, the Government's formal response to the Commission's 1999 report *Impact of Competition Policy Reforms on Rural and Regional Australia*, announced in August 2000, welcomed the evidence of the benefits of national competition policy to country Australia and endorsed the thrust of the Commission's recommendations (Costello 2000a).

The impact of the Commission's work on policy debates and outcomes can extend over a number of years. For example:

- Although rejected at the time, the Industry Commission recommendation in its 1995 report on *Research and Development* that the Australian Research Council be given statutory independence was reflected in the *Australian Research Council Act 2001* which established the Council as an independent agency.
- In the ongoing, often charged debate about the influence of national competition policy on rural Australia, the Commission's 1999 inquiry report on the impact of competition policy reforms continues to be cited as a reminder that the main factors affecting rural prosperity — the terms of trade, technology, demographic patterns and consumer tastes — are of a long-term nature and largely beyond government control. National competition policy has become a 'scapegoat' for some of the effects of these broader influences, despite the fact that it is having diverse but mainly beneficial effects on country Australia.
- The continuing usefulness of information and policy analysis in Industry Commission reports on workers compensation (1993) and occupational health and safety (1995) were evident this past year in legislative proposals and the work of the National Occupational Health and Safety Commission (box B.2).

Commission inquiry and research reports, from this and previous years, were used extensively by parliamentarians in debates and questions. During the 2000-01 sittings of the Federal Parliament:

- 47 Members and 30 Senators referred to 28 different Commission reports or inquiries, or to the Commission's role in policy processes;
- of the 133 mentions in debates and questions, federal parliamentarians cited the Commission in an authoritative way three-quarters of the time. Some 98 per cent of the mentions were either supportive of, or neutral towards, the particular finding, report or Commission attribute referred to (2 per cent were critical); and
- Commission reports from previous years on gambling, nursing home subsidies, and broadcasting, featured most prominently.

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Commission reports were also drawn on in federal parliamentary committee work and by the Parliamentary Library. For example, 17 recent reports of House of Representatives, Senate and Joint Committees referred to 14 Commission inquiry and research outputs; the Senate Community Affairs Legislation Committee recommended that proposed cost recovery arrangements for the Office of the Gene Technology Regulator be deferred pending completion of the Commission's inquiry on cost recovery arrangements for government agencies; two committees recommended that matters be referred to the Commission; and research reports and briefs prepared by the Parliamentary Library for parliamentarians during 2000-01 drew on a range of Commission inquiry and research reports (appendix B).

Commission inquiry and research reports, from this and previous years, were also used extensively in debate and questions by State and Territory parliamentarians. During the 2000-01 sittings of these eight parliaments:

- 60 members referred to 13 different Commission reports or inquiries, or to the Commission's role in policy processes;
- of the 87 mentions in debates and questions, State and Territory parliamentarians cited the Commission in an authoritative way 85 per cent of the time. Some 90 per cent of the mentions were either supportive of, or neutral towards, the particular finding, report or Commission attribute referred to (10 per cent were critical); and
- the Commission's report on Australia's gambling industries again featured most prominently (accounting for 60 per cent of the mentions). The other report mentioned most often was that on government service provision.

One indicator of interest in the Commission's inquiry and other work is the many invitations it received in 2000-01 to give briefings and present papers to parliamentary, business and community groups and to conferences (table E.1). As part of a continuing program of briefing the States and Territories on the Commission's work, presentations and visits were made to the governments of New South Wales, Queensland and Western Australia during the year. The Commission also responded to requests from visiting official delegations from China, Vietnam, Bangladesh, the Philippines, Korea, Japan, New Zealand, the OECD and the IMF for briefings on the Commission's work and its role in policy advisory processes (table E.2).

The Commission's inquiry and research reports continue to be widely used as reference and case study materials on microeconomic reform and productivity issues in university and other educational courses. This is manifest periodically in a surge in interest in particular reports. The increased interest by Melbourne

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University students shown this year in website access to the Commission's 1999 research paper on the regulation of the taxi industry is a case in point.

A further indicator of public interest in the Commission's work, and its potential influence, is the extent of media coverage. During 2000-01, 24 editorials in seven major newspapers drew on the findings or recommendations in 14 different Commission reports, or referred to the Commission's role in assisting public policy making. The Commission rated an average of 42 mentions a month in the electronic media and an average of 50 mentions a month in print media. Again, the Commission's gambling and broadcasting inquiries continued to attract particular attention.

## **Associated reporting**

Staffing and management developments and issues in 2000-01 are reported in appendix A.

The audited financial statements for the Commission are contained in appendix G.

In association with this annual report, the Commission will shortly be releasing the following publications:

- *Regulation and its Review 2000-01* which assesses compliance with the Commonwealth Government's requirements for the making and review of regulation and reports on the activities of the Office of Regulation Review; and
- *Trade & Assistance Review 2000-01* which reports on trade policy and assistance developments and contains the Commission's latest estimates of assistance to Australian industry.



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# APPENDICES



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# A Resources and management

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

The Productivity Commission is the Commonwealth Government's principal review and advisory body on microeconomic policy and regulation. It was established under the *Productivity Commission Act 1998*. The Commission's first annual report (PC 1998, pp. 25–36) provides detailed information about its role.

The Commission comprises a Chairman and between four and eleven other Commissioners, who are appointed by the Governor-General for periods of up to five years. In addition, 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 staff who are employed under the *Public Service Act 1999*.

The Commission's structure and senior staff at 30 June 2001 are shown in figure A.1.

## Commissioners and staff

### Commissioners

At 30 June 2001, in addition to the Chairman, there were seven other Commissioners, three of whom were part-time (table A1.1 of attachment A1).

One new Commissioner — Dr David Robertson — was appointed during 2000-01.

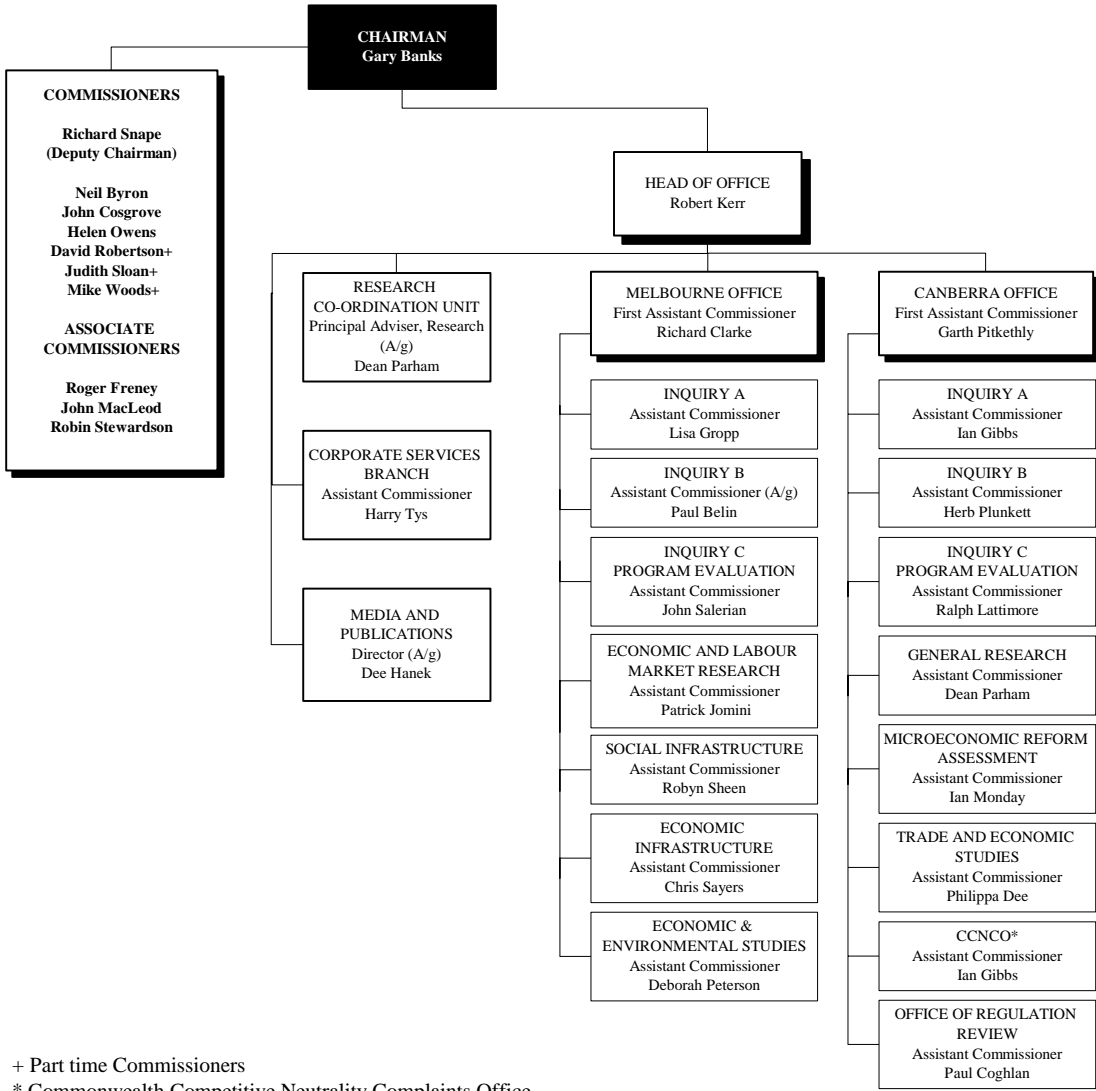
Dr Robertson was appointed as a part-time Commissioner on 13 December 2000 for a three-year term. He has economics qualifications from Bristol University, Brown University and the University of Reading. He came to the Commission from the Melbourne Business School where he was Professor of International Trade and Director of the Centre for the Practice of International Trade. Previously, Dr Robertson held appointments at the National Centre for Development Studies at the ANU, various Commonwealth Government agencies (including the Office of National Assessments), the Business Council of Australia, Unilever Limited (London) and the European Free Trade Association Secretariat (Geneva). He has

also been employed as a consultant with several international organisations (including the World Bank, the OECD, United Nations agencies and the Commonwealth Secretariat).

Three Commissioners — Mrs Helen Owens, Professor Judith Sloan and Mr Michael Woods — were reappointed for five-year terms from 17 April 2001.

Biographical information on all Commissioners can be found on the Commission’s website.

**Figure A.1 Productivity Commission structure and senior staff, 30 June 2001**





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## **Associate Commissioners**

As at 30 June 2001, there were three Associate Commissioners appointed for the duration of particular inquiries on a part-time basis (table A1.2 of attachment A1).

Mr John MacLeod was reappointed part-time Associate Commissioner on 14 March 2001 for the inquiry on the legislation review of the Prices Surveillance Act. Biographical details were provided in last year's annual report (PC 2000b, p. 41).

Dr Robin Stewardson was appointed a part-time Associate Commissioner for the review of cost recovery by Commonwealth agencies. He has a broad academic and business background, and his extensive experience at BHP, where he was Chief Economist, covered amongst other things a range of industry policy issues. Dr Stewardson had previously participated as a part-time Associate Commissioner for the Commission's inquiry on international liner cargo shipping.

Mr Roger Freney was appointed a part-time Associate Commissioner for the review of certain Superannuation Acts. He has had extensive experience in Treasury in financial and economic policy development, including time as Minister (Economic) at the Australian Embassy in Washington. More recently he was First Assistant Commissioner in the Insurance and Superannuation Commission and has held positions in the private sector.

## **Staff**

Staff numbers decreased from 197 at 30 June 2000 to 192 at 30 June 2001.

Staff turnover in 2000-01 — excluding departures from end-of-contract and voluntary redundancy packages — was 12 per cent. This was 3 percentage points lower than in the previous financial year. Turnover continues to be higher in the Melbourne than Canberra office reflecting, in part, the different labour markets in the two cities.

The Commission recruited 39 staff during the year, including nine (one female and eight males) through its graduate recruitment program.

Statistical information on staffing is provided in tables A1.3 to A1.5 of attachment A1.

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## Employee developments

Various developments affecting Commission employees during the year are outlined in this section.

### *Certified Agreement*

The Commission's second-round certified agreement was negotiated between February and September 2000. The agreement, negotiated under section 170LK of the *Workplace Relations Act 1996*, covers the Commission's 175 or so non-SES staff. It is a 'comprehensive' agreement in that, to the extent allowed, it displaces all other agreements and awards. The nominal expiry date of the agreement is 9 October 2003.

In conjunction with various productivity improvements, the new agreement provides for across-the-board salary increases averaging a little over 3 per cent per annum over the next three years. Details of salary ranges are contained in appendix A of the new agreement. Other changes from the previous agreement include an extension of the working week by 45 minutes, a simpler but more effective performance management scheme supporting salary advancement and performance bonuses, and a number of changes to annual leave provisions. Non-salary benefits provided under the agreement include performance bonuses for higher level positions, flexible remuneration packaging, flexible hours and organisation of work and studies assistance, in addition to normal entitlements relating to superannuation, leave, and redeployment, retirement and redundancy.

The new agreement is available on the Commission's website.

### *Australian Workplace Agreements*

The Commission's 19 SES staff are all employed under Australian Workplace Agreements (AWAs).

Second-round agreements were negotiated for most SES staff in the first quarter of 2000-01. The agreements are based on a 'template' which largely reflects terms and conditions previously available to the SES in the APS generally. SES remuneration is set in the context of the public and private sector benchmarks contained in the *APS SES Remuneration Survey* conducted for the Department of Employment, Workplace Relations and Small Business.

Four non-SES employees have negotiated AWAs. These agreements rely for the most part on the certified agreement except where specifically overridden.

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### *Commissioner remuneration*

Since 5 April 2001 all Commissioners, apart from the Chairman, fall within the ambit of the new Principal Executive Office structure for the purposes of determining their remuneration. The effect of this is that the Chairman, as the 'employing body', is responsible for setting Commissioners' remuneration within guidelines and parameters set by the Remuneration Tribunal. Previously, Commissioners' remuneration was set directly by the Remuneration Tribunal. The Chairman's remuneration continues to be set directly by the Tribunal.

### *Performance management and pay*

As part of the certified agreement negotiations, the opportunity was taken to refine aspects of the Commission's performance management scheme.

All employees participate in the scheme, which 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 appraisal);
- identify training and development needs;
- provide a basis for determining annual salary advancement and performance bonuses (where applicable); and
- assist in identifying and managing underperformance.

A key refinement was to move from a 5-point to a 3-point rating scale for performance, with clearer specification of standards.

Formal performance assessments occur at six-monthly intervals with the outcomes influencing salary advancement and, for Staff Level 3, Staff Level 4 and SES employees, performance bonuses. For Staff Level 3 and Staff Level 4 employees, bonuses of up to 10 per cent of salary are payable. For SES employees, higher bonuses are able to be achieved, reflecting the fact that a higher proportion of SES employees' remuneration is 'at risk'.

Performance bonuses paid for 2000-01 are summarised in table A.1.

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**Table A.1 Performance bonuses paid for 2000-01**

<i>Classification level</i>	<i>Employees receiving bonus</i>	<i>Total bonuses paid</i>	<i>Average bonus paid</i>
	No.	\$	\$
Staff Level 3	42	79 413	1 890
Staff Level 4	37	123 126	3 327
SES	21	202 908	9 662
<b>Total</b>	<b>100</b>	<b>405 447</b>	

### *Staff survey*

In April 2001 the Commission undertook a survey of staff views on a range of organisational and management issues. The survey was designed to help identify areas where current practices could be improved and ways to provide a better working environment for staff. Questions were framed with a view to allowing comparisons with previous staff surveys (the most recent being in March 1999). Seven questions on the APS Values and Code of Conduct were included in response to a request to all agencies by the Public Service Commissioner.

The response rate of nearly 90 per cent was high for a voluntary survey. A detailed examination of the survey responses, and consideration of possible courses of action, is underway. However, as a broad indicator of staff satisfaction, 86 per cent of responses rated the Commission as a 'good' or 'very good' place to work — an improvement on the 79 per cent of responses in a similar survey in 1999.

### *Training and development*

The ongoing development of employees remains a high priority for the Commission. Encouragement and financial and other support is provided to enable employees to participate in an appropriate mix of training and development from four streams:

- technical and operational skills and knowledge;
- professional skills and knowledge;
- personal management and communication skills and knowledge; and
- job-specific training and development.

Recorded expenditure on training and development in 2000-01 was 1.5 per cent of the annual salary budget. This related to 175 employees who undertook a total of 445 days of training and development. A further 200 employee-days were devoted to attendance at regular internal professional development seminars. These activities

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do not include the extensive on-the-job training within the Commission. They also exclude training and development of a corporate nature, of which there were a number of initiatives during the year.

One such initiative related to performance management training. Following finalisation of the new certified agreement, training was offered to all employees on the revised performance management scheme. A high proportion of staff took advantage of the training which contributed to the smooth implementation of the revised scheme.

Another initiative related to time management. Time management had been identified during the certified agreement negotiations as an area for potential productivity improvement. An external provider was engaged to provide in-house workshops for all employees. Again, a high proportion of employees attended, with evaluations indicating that the sessions were considered to have been of value.

During the year the Commission also evaluated the effectiveness of its 'development days' program. Over the past few years, development days have been held annually for staff at each classification level. The evaluation concluded that they continued to be an effective means of organisational and personal development, but would benefit from further refinement of the program's objectives. The program is now being run against the revised objectives, including:

- to promote integration between the Melbourne and Canberra offices;
- to exchange experiences of working processes and to promote best practice ideas, including identifying organisational issues that could be improved;
- to reinforce organisational goals and processes and corporate responsibilities on matters such as the APS Values; and
- to provide development opportunities relevant to the various staff level groupings.

Other development opportunities are provided by the Commission under its Studies Assistance Scheme for part-time students, and its post-graduate study awards. Nine employees participated in the Studies Assistance Scheme during 2000-01. Direct financial assistance totalled around \$2000, in addition to approximately 270 hours of paid leave granted to participants. One employee was granted a post-graduate study award to undertake full-time study at a cost of just over \$10 000.

### *Occupational health and safety (OH&S)*

The Commission's OH&S policy is set out in its August 1999 agreement with staff representatives and the Community and Public Sector Union. An OH&S committee

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continues to operate under the agreement, the membership of which includes health and safety representatives.

The OH&S committee — which oversees the Commission's annual OH&S program — met four times during 2000-01. Particular initiatives during the year included:

- the evaluation of a 12-month trial of staff completing 'working hours' questionnaires. The trial was commenced last year in an attempt to address work-related stress, and has seen a significant improvement in the awareness and management of this issue;
- as a follow-up to the health assessments program conducted in 2000, a series of in-house seminars was arranged on 'healthy eating' and 'starting an exercise program', all of which were well attended;
- stress management seminars were extended to employees at all levels;
- free flu vaccinations were offered to all employees (with a take-up of just under 40 per cent); and
- regular workplace hazard inspections were undertaken.

The Commission also continued its program of providing ergonomic assessments as a preventative strategy for the early identification of potential workplace injuries. All new employees are assessed and the service is available to any employee who requires advice.

No formal OH&S investigations were conducted during the year and no Provisional Improvement Notices were served.

Last year the Commission reported a continuation of the downward trend in its workers compensation premium rate, an indicator of the effectiveness of its OH&S programs. Estimates of these rates for 2000-01 and 2001-02, although subject to revision, appear to reverse the previous downward trend. Nevertheless, the Commission's rates remain at well under half those for the whole-of-Commonwealth pool.

### *Employee Assistance Program*

The Commission continues to offer its employees a program which provides independent, confidential and professional counselling, consultation and training assistance for work-related or personal problems. The service is provided by Occupational Services of Australia and is available to employees as well as their immediate families.

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Utilisation of the service in 2000-01 was around 7 per cent of employees, which is down from 15 per cent in the previous year.

### *Workplace diversity*

The Commission fosters a culture that is supportive of employees achieving their potential and which values employee diversity. This is facilitated through the commitment in the Commission's latest certified agreement to promote workplace diversity through anti-discrimination, harassment prevention, family friendly and other employee welfare principles and policies. During the year, the Commission reviewed both its harassment policy and its equity and diversity plan.

### *Commonwealth Disability Strategy*

During 2000-01 the Government refined its Commonwealth Disability Strategy which is designed to assist Commonwealth agencies meet their obligations under the *Disability Discrimination Act 1992*. In brief, these obligations require agencies to include consideration of the needs of people with disabilities across the full range of their activities.

The refined Strategy requires agencies to report, through their annual reports, against a prescribed set of performance indicators. This is to allow the Department of Family and Community Services to undertake annual, APS-wide assessments for the Government on progress by agencies in implementing the Strategy.

The prescribed performance indicators most relevant to the Commission are those relating to the roles of 'policy adviser' and 'employer'. The table at attachment A2 lists the indicators, performance measures and outcomes.

The Commission's disability action plan is currently being reviewed to consolidate its strategy in measuring and reporting against the new performance indicators.

## **Finances**

Appropriations through the Commonwealth Budget are the main source of Commission funds. These funds are directed at achieving the Government's outcome for the Commission, which it does through the provision of five outputs. The outcome and outputs are described in appendix B.

The financial and staffing resources devoted to achievement of the Commission's outputs are summarised in table A.2, and are expanded on in appendix B.

**Table A.2 Financial and staffing resources summary**

	<i>Budget 2000-01</i>	<i>Actual 2000-01</i>	<i>Budget 2001-02</i>
<b>Price of Outputs</b>	\$'000	\$'000	\$'000
Output 1.1 – Government-commissioned projects	11 200	7 288	9 700
Output 1.2 – Performance reporting and other services to government bodies	3 100	3 197	3 100
Output 1.3 – Regulation review activities	2 600	2 088	2 100
Output 1.4 – Competitive neutrality complaints activities	200	259	300
Output 1.5 – Supporting research and activities and statutory annual reporting	5 363	9 601	7 829
<b>Total Price of Outputs</b>	<b>22 463</b>	<b>22 433</b>	<b>23 029</b>
Revenue from Government	22 148	22 148	22 605
Revenue from other sources	315	479	424
<b>Total Resources</b>	<b>22 463</b>	<b>22 627</b>	<b>23 029</b>
	<i>2000-01</i>	<i>2000-01</i>	<i>2001-02</i>
Commissioner/staff years (number)	200	200	195

The Commission's audited financial statements for 2000-01 are included in appendix G. A modest net surplus of \$194 000 was achieved, consistent with the budget estimates included in the 2000-01 Portfolio Budget Statements. As a result of this surplus, total equity as reflected in the Statement of Financial Position increased to \$358 000 at 30 June 2001.

## Management

This section outlines the management structures designed to promote good governance as well as a number of related developments during the year.

### Structures

As Chief Executive Officer, the Chairman is responsible for the overall management and governance of the Commission. He is assisted in this role by a Management Committee, which he chairs. The committee meets monthly and otherwise as required.



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Commissioners meet monthly as a group, to discuss key issues related to the Commission's work program. Commission meetings, which are attended by senior staff, are also used to raise relevant management matters.

In addition, periodic reports are provided to Commission meetings on each of the Commission's five outputs. Specific accountability structures in this regard are:

- the Inquiry Committee, in respect of government-commissioned projects. The committee is chaired by the Head of Office and reports on a six-monthly basis;
- the Research Committee, in respect of the research program. The committee is chaired by the Deputy Chairman, meets on a monthly basis and reports on a quarterly basis;
- the Steering Committee for the Review of Commonwealth/State Service Provision, chaired by the Chairman of the Commission, the work of which is reported on a quarterly basis;
- the Chairman also oversees the work of the Office of Regulation Review, which provides quarterly reports on its activities; and
- one Commissioner is designated with responsibility for competitive neutrality issues, and reports on a quarterly basis.

The Commission's internal Audit Committee also reports to meetings of the Commission on a six-monthly basis.

## **Governance developments**

A number of activities designed to enhance the Commission's governance arrangements were undertaken during the year. These, and some related matters, are reported in this section.

### *Risk management*

A new fraud control plan was developed and implemented during the year. The risk assessments underlying the plan concluded that the risk and consequences of fraud for the Commission are relatively small, underpinning the plan's broad thrust of promoting a sound ethical environment supplemented by direct controls where deemed necessary.

A broader risk assessment exercise — covering all facets of the Commission's operations — was also undertaken during the year. The outcomes of this exercise will generate the formalised plan of the Commission's overall approach to risk management.

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### *Ethical standards*

Reinforcement of the APS Values and Code of Conduct continued in various ways during the year. For example, relevant material — such as the Public Service and Merit Protection Commission's 'Values and Conduct' series — was made available and brought to the attention of staff; the APS Values were an agenda item at one of the Chairman's regular meetings with all staff; coverage of particular aspects of the Values and Code has been introduced as a specific objective of staff development days held annually for all staff; and other opportunities to reinforce the Values were taken, such as with the release of the Commission's new fraud control plan.

In a recent staff survey, around 80 per cent of staff either 'agreed' or 'strongly agreed' that they had a good understanding of the APS Values and Code of Conduct. Future surveys will allow the Commission to monitor progress in this regard.

### *Employee consultation*

The Commission uses a range of measures to encourage employee participation in the formulation of its workplace policies and to improve the work environment. These include staff representation on committees, broader consultation on sensitive issues and a variety of means of communicating internally. The Productivity Commission Consultative Committee, which was re-established as part of the new certified agreement, meets at least quarterly. The Chairman and senior management hold regular meetings with all staff.

### *Internal scrutiny and audit*

A range of Commission policies and procedures were examined during the year for their effectiveness and efficiency.

One key review related to the Commission's IT infrastructure and services. An external consultant was engaged to examine whether there would be benefits to the Commission from greater outsourcing. The review was conducted within the guidelines of the Government's IT outsourcing policy following the Humphry Review (December 2000) and took into account changes in the Commission's IT environment as well as the broader IT market since a similar review, some three years earlier.

In summary, the review found that:

- the Commission's IT infrastructure was highly reliable and associated services were of a high quality;

- 
- little or no cost savings were to be gained from the currently available outsourcing models; and
  - there were no strategic reasons for moving to a fully outsourced IT model.

The consultant concluded that the Commission should continue its current approach of ‘selective’ outsourcing — that is, considering appropriate delivery models for individual aspects of infrastructure and services on a case-by-case basis.

The consultant made a number of recommendations aimed at enhancing particular aspects of the IT service — these recommendations are in the process of being implemented.

The Commission’s Audit Committee continued to play an effective review and advisory role. The Committee’s efforts during the year related mainly to the financial statements, the implications for the Commission of Australian National Audit Office reports issued during the year, procedures for engaging consultants, the fraud control plan, use and control of credit cards, and goods and services tax compliance.

#### *External scrutiny*

Other than an unqualified Independent Audit Report on the Commission’s 1999-2000 financial statements, there were no Auditor-General, parliamentary committee or Commonwealth Ombudsman reports specific to the operations of the Commission.

#### *Service charters*

Service charters are part of the accountability framework in that they provide avenues of redress in respect of the Commission’s performance against promulgated service standards. Both the Commission and the Commonwealth Competitive Neutrality Complaints Office (which has separate functions and is located within the Commission) have service charters.

As reported in last year’s annual report, one complaint to the Competitive Neutrality Complaints Office received in 1999-2000 remained unresolved at 30 June 2000. It has subsequently been resolved to the complainant’s satisfaction.

Performance against the charters is monitored on an exceptions basis — that is, by complaints to designated senior managers. No complaints were received during 2000-01 in respect of either charter.

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## Other

### Consultancies

The Commission continued to utilise the services of a range of consultants where it was cost effective to do so. A summary of consultancies let in 2000-01 is shown in table A.3. Further details are provided in attachment A3.

Table A.3 **Summary of consultancies let in 2000-01**

<i>Purpose</i>	<i>No. of consultancies</i>	<i>Contract amount (\$)</i>
Government-commissioned projects	2	3 170
Performance reporting	2	111 100
Supporting research and activities and annual reporting	24	98 038
Corporate management and services	4	63 436
<b>Total</b>	<b>32</b>	<b>275 744</b>

### Special payments

The Commission made a number of special payments during 2000-01. Such payments were made to organisations and activities judged by management as making a worthwhile contribution to the Commission's outputs. The main payments were as follows:

*Consortium membership:* \$30 825 for membership to the Global Trade Analysis Project Consortium based at Purdue University in the United States. The Commission's contribution supports the development and updating of a publicly available database and model framework for multicountry trade policy analysis. It also gives the Commission early access to database updates, priority access to model training and input to the future direction of model and database development. The Commission also subscribed \$3300 for membership of the Committee for Economic Development of Australia (CEDA).

*Research partnership:* \$22 000 to the University of Canberra (NATSEM) for a partnership project on health policy and socioeconomic status; \$32 250 to the Melbourne Institute of Applied Economic and Social Research as partner contributions for 2000 and 2001 to a project on economic analysis and policy modelling of unemployment.

*Conference sponsorships:* \$2200 to the Australian National University for part sponsorship of the 2000 PhD Conference in Economics and Business; \$3000 for the

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45<sup>th</sup> Annual Conference of the Australian Agricultural and Resource Economics Society; and \$3000 to Monash University for the E-Commerce and Networking Decisions Conference.

*Awards:* \$500 to the top 2000 student, Master of Economics, at the Australian National University (Robert Jones Prize).

### **Website redevelopment**

The Commission's website ([www.pc.gov.au](http://www.pc.gov.au)) underwent an extensive redesign during the year. Redevelopment of the site benefited from wide consultation and external professional advice.

The main feature of the new site is a searchable database of the Commission's publications and those of its predecessor organisations. The overhaul also improved the visual appearance and navigability of the site, and provided a timely opportunity to ensure that it complied with Government Online 2001 (National Office for the Information Economy) requirements for information provision, accessibility, privacy, security and metadata. The redesigned site went live on 2 April 2001.

### **Melbourne office accommodation**

During the year the Commission consolidated its Melbourne office accommodation following a review of its likely future requirements. The consolidation allows the sub-lease of a part-floor in its Collins Place accommodation, and necessitated the partial refit of its two remaining floors.

The works included the establishment of a new public hearing room, which is designed flexibly to allow a range of uses, such as seminars and workshops. The hearing room has been named the Rattigan Room, in honour of the first Chairman of the Industries Assistance Commission. The room was officially opened on 1 February 2001, by the Federal Treasurer, the Hon Peter Costello.

### **Purchasing**

The Commission is cognisant of, and applies appropriately, the Commonwealth Procurement Guidelines.

In regard to competitive tendering and contracting, the Commission periodically assesses the effectiveness and efficiency of in-house versus external delivery of services. On occasions, more formal and independent assessments are undertaken,

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as illustrated by the recent review of the Commission's IT infrastructure and services.

The Commission's purchases of goods and services were consistent with the value-for-money objectives of the procurement guidelines, and were predominantly from small to medium Australia and New Zealand suppliers.

## **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 is a new requirement and is part of the Government's program to improve progress in implementing ESD.

By way of background, the Commission operates under statutory guidelines, one of which is '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)). Further, in May 1999 the Commission conducted an inquiry and reported on the implementation of ecologically sustainable development by Commonwealth departments and agencies (PC 1999a).

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, the ESD principles are integral to the Commission's analytical frameworks and comprise an important component of policy development and research activities. The weighting of the ESD principles varies from project to project depending on the particular inquiry or research topic. Examples of Commission projects where different aspects of ESD have arisen include:

- the review of legislation regulating the architectural profession: in part this review examined the quality of the built environment and government legislation and policies relating to ecologically sustainable development (PC 2000a);
- the workshop on microeconomic reform and the environment: its purpose was to explore the links between economic and environmental policy objectives and outcomes (box 2.4 and PC 2000c);

- 
- the *Report on Government Services 2001*: this review provides objective and consistent data on the performance of services that are central to the wellbeing of Australians. The services covered by the report — spanning education, health, justice, community services and housing — are all important determinants of Australians’ living standards and represent a substantial share of government expenditure and GDP (SCRCSSP 2001); and
  - a research stream that is examining different aspects of the efficiency and effectiveness of public and private conservation of biodiversity including cost sharing for biodiversity conservation (box 2.3 and PC 2001a).

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 impacts may be economic, environmental and/or social. 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 which is in keeping with the ESD principle that ‘decision-making processes should effectively integrate both long-term and short-term economic, environmental, social and equity considerations’.

The third to fifth reporting requirements relate to the impact of the Commission’s internal operations on the environment. The Commission is a relatively small, largely office-based, organisation in rented accommodation, and the actions able to be taken are somewhat limited. However, the Commission has policies (which are periodically reviewed) in respect of such matters as the promotion of occupational health and safety and workplace diversity, and reducing the impact on the environment through paper waste recycling and minimising energy consumption.

## **Freedom of Information**

No requests were received by the Commission for access to information under the *Freedom of Information Act 1982* in 2000-01.

A statement encompassing formal reporting requirements is provided in attachment A4.

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## **Advertising and market research**

The Commission publicises its government-commissioned inquiries and studies so that any individual, firm or organisation with an interest has an opportunity to present their views. Publicity takes the form of newspaper advertisements, regular distribution of *pc update*, press releases, an e-mail alert service, notification on the Commission's website and direct mailing of Commission circulars.

A total of \$82 071 was paid for advertising (including recruitment) in 2000-01 to Stancom Worldwide (Aust) Pty Ltd (formerly Advertising Investment Services Pty Ltd.).

## **Publications and submissions**

Appendix F lists all publications and submissions to other review bodies completed in 2000-01.

## **Annual reporting requirements and aids to access**

Information contained in this annual report is provided in accordance with section 74 of the *Occupational Health and Safety (Commonwealth Employment) Act 1991*, section 49 of the *Financial Management and Accountability Act 1997* and section 8 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 Prime Minister and Cabinet. A compliance index is provided in attachment A5.

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

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



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

The internet address for this annual report is:

<http://www.pc.gov.au/research/annrpt/annualreport0001/index.html>

Inquiries about any Commission publication can be made to:

Director  
Media and Publications Unit  
Productivity Commission  
PO Box 80  
BELCONNEN ACT 2616  
Telephone: (02) 6240 3239  
Facsimile: (02) 6240 3300

## Attachment A1

### Commissioner and staffing statistics

Table A1.1 **Chairman and Commissioners, 30 June 2001**

	<i>Period of appointment</i>	
	<i>From</i>	<i>To</i>
Mr G R Banks (Chairman)	20 May 1998	19 May 2003
Prof R H Snape (M) (Deputy Chairman)	17 Apr 1998	16 Apr 2003
Dr R N Byron (M)	17 Apr 1998	16 Apr 2002
Mr J H Cosgrove (C)	17 Apr 1998	16 Apr 2002
Mrs H J Owens (M)	17 Apr 2001	16 Apr 2006
Dr D H Robertson (M) (p/t)	13 Dec 2000	12 Dec 2003
Prof J Sloan (M) (p/t)	17 Apr 2001	16 Apr 2006
Mr M C Woods (C) (p/t)	17 Apr 2001	16 Apr 2006

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

Table A1.2 **Associate Commissioners appointed to inquiries, 2000-01**

	<i>Inquiry</i>	<i>Period of appointment</i>	
		<i>From</i>	<i>To</i>
Mr J D S MacLeod	Prices Surveillance Act	14 Mar 2001 <sup>a</sup>	4 Sep 2001
Dr B R Stewardson	Cost Recovery by Commonwealth Agencies	1 Sep 2000	31 Oct 2001
Mr R Q Freney	Review of Certain Superannuation Acts	14 Mar 2001	28 Feb 2002

<sup>a</sup> An extension of a preceding appointment from 13 April 2000 to 14 February 2001 on this inquiry.

**Table A1.3 Staffing<sup>a</sup> by location and gender, 30 June 2001**

<i>Level</i>	<i>Melbourne</i>			<i>Canberra</i>			<i>Total</i>		
	<i>Female</i>	<i>Male</i>	<i>Total</i>	<i>Female</i>	<i>Male</i>	<i>Total</i>	<i>Female</i>	<i>Male</i>	<i>Total</i>
SES Band 3	0	1	1	0	0	0	0	1	1
SES Band 2	0	1	1	0	2	2	0	3	3
SES Band 1	3	5	8	1	6	7	4	11	15
Staff Level 4	6	16	22	7	16	23	13	32	45
Staff Level 3	12	9	21	5	14	19	17	23	40
Staff Level 2	13	18	31	5	9	14	18	27	45
Staff Level 1	21	5	26	11	6	17	32	11	43
<b>Total</b>	<b>55</b>	<b>55</b>	<b>110</b>	<b>29</b>	<b>53</b>	<b>82</b>	<b>84</b>	<b>108</b>	<b>192</b>
Corresponding totals at 30 June 2000	60	54	114	34	49	83	94	103	197

<sup>a</sup> Excludes 16 inoperative staff at 30 June 2001 and 15 at 30 June 2000.

**Table A1.4 Staffing<sup>a</sup> by employment status, 30 June 2001**

<i>Level</i>	<i>Female</i>			<i>Male</i>			<i>Total</i>		
	<i>F/t</i>	<i>P/t</i>	<i>Total</i>	<i>F/t</i>	<i>P/t</i>	<i>Total</i>	<i>F/t</i>	<i>P/t</i>	<i>Total</i>
SES Band 3	0	0	0	1	0	1	1	0	1
SES Band 2	0	0	0	3 <sup>b</sup>	0	3	3 <sup>b</sup>	0	3
SES Band 1	4 <sup>b</sup>	0	4	11	0	11	15 <sup>b</sup>	0	15
Staff Level 4	12	1 <sup>b</sup>	13	32	0	32	44 <sup>b</sup>	1	45
Staff Level 3	15	2	17	22 <sup>b</sup>	1	23	37 <sup>b</sup>	3	40
Staff Level 2	17	1	18	25	2	27	42	3	45
Staff Level 1	30 <sup>b</sup>	2	32	11	0	11	41 <sup>b</sup>	2	43
<b>Total</b>	<b>78</b>	<b>6</b>	<b>84</b>	<b>105</b>	<b>3</b>	<b>108</b>	<b>183</b>	<b>9</b>	<b>192</b>
Corresponding totals at 30 June 2000	86	8	94	101	2	103	187	10	197

<sup>a</sup> Excludes 16 inoperative staff at 30 June 2001 and 15 at 30 June 2000. <sup>b</sup> Includes 1 non-ongoing employee. F/t denotes full-time and P/t denotes part-time.

**Table A1.5 Staff by level and reason for separation, 2000-01**

<i>Level</i>	<i>Promotion</i>	<i>Transfer</i>	<i>Resignation</i>	<i>Retirement</i>	<i>VRP<sup>a</sup></i>	<i>Other</i>	<i>Total</i>
SES	0	0	2	0	0	0	2
Staff Level 4	0	0	1	0	1	3	5
Staff Level 3	0	1	4	0	0	0	5
Staff Level 2	2	0	12	0	0	1	15
Staff Level 1	0	0	2	0	1	13	16
<b>Total</b>	<b>2</b>	<b>1</b>	<b>21</b>	<b>0</b>	<b>2</b>	<b>17</b>	<b>43</b>
Corresponding totals at 30 June 2000	1	9	26	1	2	17	56

<sup>a</sup> Voluntary Redundancy Package.

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## Attachment A2

### Commonwealth Disability Strategy: outcomes against mandatory performance indicators

#### Performance requirements of the 'policy adviser' role

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<i>Performance indicator</i>	<i>Performance measure</i>	<i>Outcome</i>
Policy proposals assess impact on the lives of people with disabilities prior to decision	Percentage of policy proposals that document that the impact of the proposal was considered prior to the decision making stage	<ul style="list-style-type: none"><li>• best practice 'checklist' includes reference to disability considerations</li><li>• currently only documented where disabilities are identified as an issue</li><li>• proposed that this be recorded for 100 per cent of reports</li></ul>
People with disabilities are included in consultations about new policy proposals	Percentage of policy proposals that are developed in consultation with people with disabilities	<ul style="list-style-type: none"><li>• consultations undertaken where disabilities are identified as an issue (processes allow for identification by the Commission as well as self identification)</li><li>• facilitate access to inquiries</li><li>• above practices proposed to be continued</li></ul>
Public announcements of policy initiatives are available in accessible formats for people with disabilities in a timely manner	Percentage of new, revised or proposed policy/program announcements available in a range of accessible formats  Time taken in providing announcements in accessible formats	<ul style="list-style-type: none"><li>• 100 per cent available on website redesigned in line with Government Online requirements for accessibility</li><li>• no requests for audio or braille formats</li><li>• website information available immediately</li><li>• other formats not requested, method of provision to be reviewed</li></ul>

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## Performance requirements of the 'employer' role

<i>Performance indicator</i>	<i>Performance measure</i>	<i>Outcome</i>
Recruitment information for potential job applicants is available in accessible formats on request	<p>Percentage of recruitment information requested and provided in:</p> <ul style="list-style-type: none"> <li>• accessible electronic formats; and</li> <li>• accessible formats other than electronic.</li> </ul> <p>Average time taken to provide accessible information in:</p> <ul style="list-style-type: none"> <li>• electronic format; and</li> <li>• formats other than electronic.</li> </ul>	<ul style="list-style-type: none"> <li>• 100 per cent available</li> <li>• none requested</li> <li>• immediate</li> <li>• dependent on request, none received to date. Provision of information to be reviewed.</li> </ul>
Agency recruiters and managers apply the principle of 'reasonable adjustment'	Percentage of recruiters and managers provided with information on 'reasonable adjustment'	<ul style="list-style-type: none"> <li>• information has been provided as required, however not recorded. Strategy being considered as part of review of Disability Action Plan.</li> </ul>
Training and development programs consider the needs of employees with disabilities	Percentage of training and development programs that consider the needs of employees with disabilities	<ul style="list-style-type: none"> <li>• strategy to be considered as part of review of Disability Action Plan</li> </ul>
Training and development programs include information on disability issues as they relate to the content of the program	Percentage of training and development programs that include information on disability issues as they relate to the program	<ul style="list-style-type: none"> <li>• training to be considered as part of review of Disability Action Plan</li> </ul>
Complaints/grievance mechanism, including access to external mechanisms, in place to address issues and concerns raised by employees	Established complaints/grievance mechanisms, including access to external mechanisms, in operation	<ul style="list-style-type: none"> <li>• 'Review of Action' procedures available to all employees</li> </ul>

## Attachment A3

### Consultancies let in 2000-01

<i>Consultant</i>	<i>Nature of consultancy</i>	<i>Cost (\$)</i>	<i>Method of selection</i>
<b>Government-commissioned projects</b>			
Dr Keith Jakee RMIT	Referee on selected material for draft report on cost recovery inquiry	2 670	Directly approached one consultant
Dr Janice Hirshorn	Attendance at roundtable discussion on pharmaceutical price differences	500	Directly approached one consultant
<i>Government-commissioned projects — total</i>		<i>3 170</i>	
<b>Performance reporting</b>			
UMS Group Aust P/L	International benchmarking of electricity prices	60 500	Public tender
Network Strategies	International benchmarking of rural and remote telecommunications services	50 600	Public tender
<i>Performance reporting — total</i>		<i>111 100</i>	
<b>Supporting research and activities and annual reporting</b>			
Prof Peter Dixon Monash University	Advice to assist development of in-house capability for the application of the dynamic Monash model	15 000	Directly approached one provider as the acknowledged expert on the Monash model
Prof Peter Dixon Dr Maureen Rimmer Monash University	Phase III — Wages and income distribution study (Monash model enhancement)	15 000	Directly approached providers as the acknowledged experts on the Monash model
Dr John Pezzey Australian National University	Comparison of CGE models in Australia that may be used to evaluate the domestic impact of greenhouse gas emission reduction policies	15 000	Chosen from a list of candidates with expert knowledge of CGE modelling

(Continued on next page)

## Consultancies (continued)

<i>Consultant</i>	<i>Nature of consultancy</i>	<i>Cost (\$)</i>	<i>Method of selection</i>
Dr Stuart Peacock Monash University	Original review study of health program evaluation techniques and applications for project on measuring efficiencies in health services	11 000	Directly approached one consultant
Dr Gerry Bates University of Sydney	Provision of a report on duty of care in relation to biodiversity conservation	5 500	Directly approached one consultant
Tim Fisher Australian Conservation Foundation	Preparation of paper for the forestry session of the workshop on microeconomic reform and the environment	4 400	Directly approached one consultant
Tim Fisher Australian Conservation Foundation	Preparation of paper for the water session of the workshop on microeconomic reform and the environment	4 400	Directly approached one consultant
Dr John Paterson	Preparation of paper for the transport session of the workshop on microeconomic reform and the environment	4 000	Directly approached one consultant
Dr Harry Schaap	Preparation of paper for the electricity session of the workshop on microeconomic reform and the environment	4 000	Directly approached one consultant
Dr Clive Hamilton The Australia Institute	Preparation of paper for the electricity session of the workshop on microeconomic reform and the environment	4 000	Directly approached one consultant
Dr Padma Lal Australian National University	Referee research paper on cost sharing for biodiversity conservation	3 000	Directly approached one consultant
Dr Mark Harris	Referee research paper on the changing distribution of earnings in Australia	1 875	Directly approached one consultant
Dr Lata Gangadharan University of Melbourne	Referee research paper on environmental labelling	1 500	Directly approached one consultant
Dr Rod Tyers Australian National University	Referee research paper on the role of technology in determining skilled employment	1 500	Directly approached one consultant

(Continued on next page)



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## Consultancies (continued)

<i>Consultant</i>	<i>Nature of consultancy</i>	<i>Cost (\$)</i>	<i>Method of selection</i>
Prof Jeff Borland University of Melbourne	Referee research paper on resource reallocation and aggregate productivity growth	1 375	Directly approached one consultant
EcoFutures Pty Ltd	Participation in the workshop on microeconomic reform and the environment	1 100	Directly approached one consultant
Prof Stephen Machin University College London	Referee research paper on the changing distribution of earnings in Australia	1 000	Directly approached one consultant
Mr Robert Douglas	Referee research paper on taxation impediments to private conservation of biodiversity	900	Directly approached one consultant
Prof Jeff Borland University of Melbourne	Referee research paper on unemployment and re-employment of displaced workers	825	Directly approached one consultant
Prof Mark Wooden University of Melbourne	Referee research paper on contractors	600	Directly approached one consultant
Prof Jeff Borland University of Melbourne	Participation in seminar on resource reallocation and aggregate productivity growth	550	Directly approached one consultant
Mr Bijit Bora Flinders University	Referee research paper on investment research	550	Directly approached one consultant
Prof Steve Dowrick Australian National University	Referee research paper on the distribution of the economic gains of the 1990s	550	Directly approached one consultant
Prof Jeff Borland University of Melbourne	Participation in seminar on growth of non-traditional employment	413	Directly approached one consultant
<i>Supporting research and activities and annual reporting — total</i>		<i>98 038</i>	

(Continued on next page)

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**Consultancies (continued)**

<i>Consultant</i>	<i>Nature of consultancy</i>	<i>Cost (\$)</i>	<i>Method of selection</i>
<b>Corporate management and services</b>			
ValueSourcing	Review of the Commission's IT function	26 400	Request for proposal from 6 providers
John Wertheimer Consultants Pty Ltd	Project manage refit of Melbourne office accommodation	19 846	Request for proposal from all Victorian members of Australian Institute of Project Managers
W3 Consulting Pty Ltd	Re-design of the Commission's website	14 300	Request for proposal from 4 providers
Andrew Raszewski	Architect for Melbourne office refit	2 890	Extension of previous consultancy, based on proposal from 4 providers
<i>Corporate management and services — total</i>		63 436	
<b>Total consultancies</b>		<b>275 744</b>	

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## **Attachment A4**

### **Freedom of Information Statement**

The following information is provided in accordance with section 8(1) of the *Freedom of Information Act 1982*.

#### **Organisation, role and functions**

The role, functions and organisational structure of the Commission are detailed elsewhere in this report.

#### **Arrangements for outside participation**

The Commission is required under its Act to conduct public inquiries on matters referred to it by the Government and the Commission's inquiry procedures actively seek to encourage participation by all interested parties. In respect of its non-inquiry work, the Commission's procedures aim to promote transparency to the greatest extent possible.

The Commission may require people to send it information and summons persons to give evidence. People who assist the Commission by providing information, giving evidence at hearings or in any other way assist the Commission in the performance of its functions have protection under the Productivity Commission Act from intimidation and civil actions. Details of inquiry participation and consultation are given in each inquiry and commissioned research report.

Each year the Commission invites a range of government departments and agencies, peak employer bodies, unions, community and environmental groups and academics to consultations on the Commission's supporting research program.

The Commission acts as the Secretariat for the Steering Committee for the Review of Commonwealth/State Service Provision. The Committee comprises senior representatives from Commonwealth, State, Territory and local governments.

The procedures of the Commonwealth Competitive Neutrality Complaints Office allow any individual, organisation or government body to consider and, if necessary, lodge a complaint in relation to the application of competitive neutrality. In addition, representatives from various competitive neutrality branches and complaint offices from the Commonwealth, State and Territory governments meet

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regularly to discuss issues relevant to the interpretation and implementation of competitive neutrality policy.

## **Categories of documents**

Principal categories include:

- inquiry records including information circulars, issues papers, inquiry guidelines, draft reports, submissions, participant correspondence and public hearing transcripts;
- documents relating to infrastructure research and performance monitoring across the Commonwealth, States and Territories;
- documents relating to national and international benchmarking;
- competitive neutrality complaint queries and details of investigations;
- documents relating to research on industry and productivity issues;
- Regulation Impact Statements and correspondence;
- Commonwealth legislation review correspondence;
- regulatory best practice correspondence;
- administrative, policy, procedural and contractual documents, relating to information technology, human and financial resource management;
- legal advice and other legal documents;
- Freedom of Information documents;
- media releases;
- mailing lists;
- speeches;
- consultancy documents;
- service charters;
- parliamentary questions and answers; and
- submissions to inquiries undertaken by other organisations.

## **Facilities for access**

Information circulars, issues papers, information on the inquiry process and draft reports are sent to interested parties and inquiry participants. They are available on the Commission's website and, on request, to the public free of charge. Final reports

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are distributed, free of charge, to inquiry participants and are also available for downloading from the Commission's website.

Documents available from the Commission's website and for purchase at Government Info Shops include:

- the Commission's annual report to Parliament;
- reports on matters referred to the Commission by the Minister;
- reports on matters researched and monitored by the Commission; and
- reports on competitive neutrality matters investigated by the Commission.

Copies of submissions made to inquiries, excluding confidential material, and transcripts of public hearings can be downloaded from the Commission's website or purchased through Photobition Digital Imaging, GPO Box 427, Canberra, ACT 2601.

Copies of submissions and transcripts of public hearings may be inspected in the Commission's libraries in Melbourne and Canberra between 9.00am and 5.00pm, Monday to Friday. These documents can also be accessed through all State libraries and the Commission's website.

Information and written requests for access to Commission documents under the *Freedom of Information Act 1982* can be made to:

FOI Coordinator  
Productivity Commission  
Locked Bag 2  
Collins Street East Post Office  
MELBOURNE VIC 8003  
Telephone (03) 9653 2107  
Facsimile (03) 9653 2199

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## Attachment A5

### Compliance index

	<i>page</i>
Letter of transmittal	iii
Table of contents	vii
Index	201
Abbreviations	x
Contact officer(s)	54–5
Internet home page address and internet address for the report	55
Review	
Year in review	chapter 2, appendix B
Role and functions of the Commission	37
Organisational structure	38
Outcome and output structure	70
Report on performance	
Performance in relation to outputs and contribution to outcomes	chapter 2, appendix B
Performance against service charter customer service standards	49
Financial performance	45–6
Summary resources table by outcomes	46
Management accountability	
Corporate governance practices	46–9
Senior management committees and their roles	46–7
Risk management	47
Ethical standards	48
Determination of remuneration for SES employees	40
External scrutiny	49
Management of human resources	
Employee developments	40–5
Staff turnover and retention	39
Training and development	42–3
Certified Agreement and Australian Workplace Agreements	40
Statistics on staffing	56–8
Performance pay	41–2
Purchasing	51–2
Asset management	appendix G
Consultants	50, 61–4
Performance in implementing the Commonwealth Disability Strategy	45, 59–60
Financial statements	appendix G
Other information	
Occupational health and safety	43–4
Freedom of Information statement	53, 65–7
Advertising and market research	54
Ecologically sustainable development and environmental performance	52–3
Special payments	50–1

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## B Program performance

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

**The Commission's five outputs comprise public inquiries and other government-commissioned projects, performance reporting and other services to government bodies, regulation review and competitive neutrality complaints activities, as well as supporting research and statutory annual reporting. This appendix reports on some general considerations in assessing the Commission's performance, the results of external feedback surveys, and the Commission's outputs and related performance in 2000-01.**

### **Assessment of the Commission's performance**

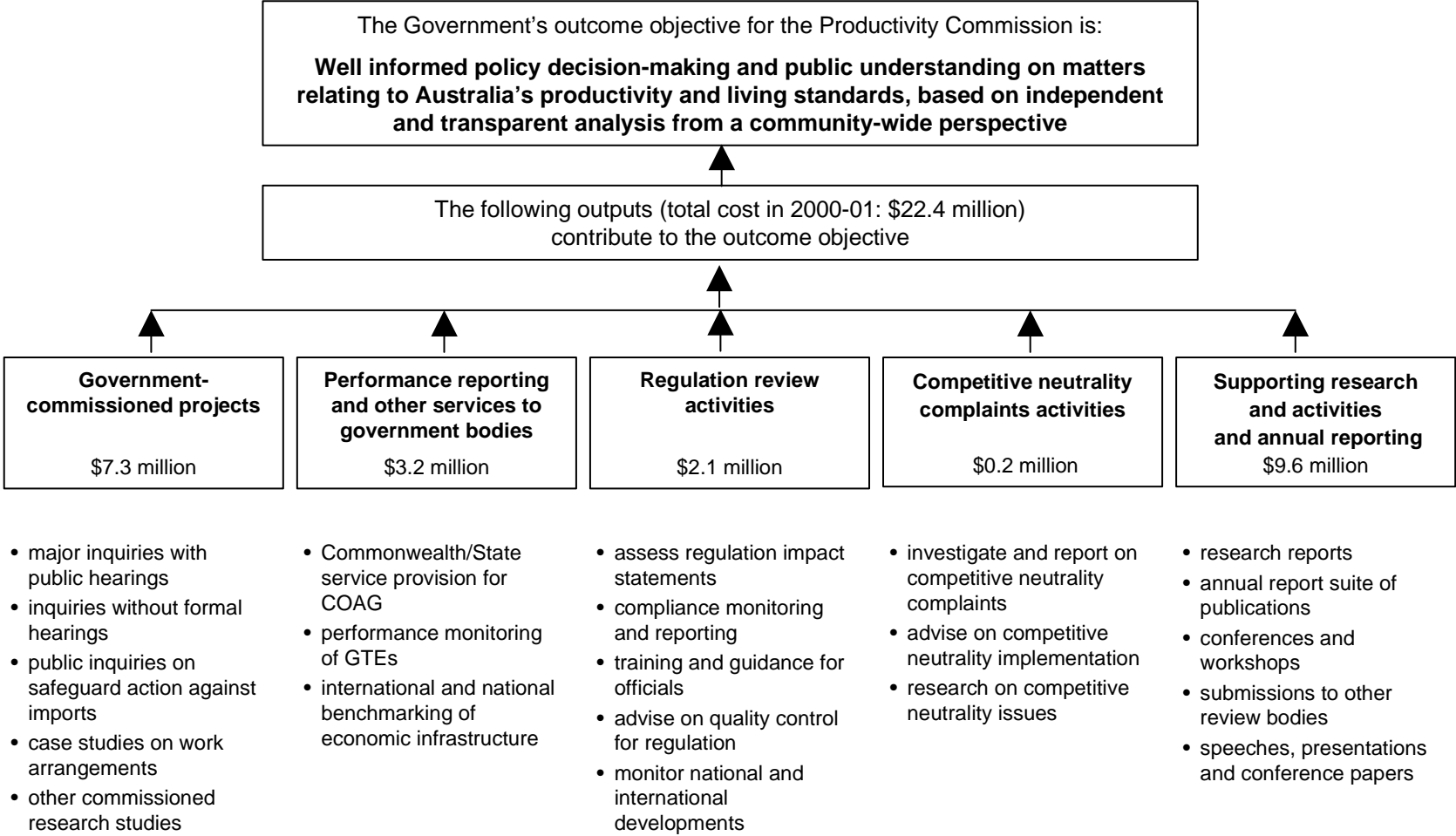
The Commission's inquiry, research, advisory and associated activities derive from its statutory functions. Having regard to the Government's accrual budget outcome and output framework, and with the agreement of the Treasurer, these activities have been classified into five outputs:

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

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

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

Figure B.1 **Productivity Commission outcome/output framework 2000-01**





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## Interpreting performance indicators for the Commission

The Commission aims to demonstrate its effectiveness in meeting its outcome objective against a number of performance indicators which have been agreed with the Treasurer (box B.1). Subsequent sections of this appendix report against these indicators for each of its five outputs. Feedback surveys undertaken in the year, use of Commission outputs in the parliamentary process and some general indicators of effectiveness are also reported below.

Although a range of indicators on which to assess the Commission's performance in any one year is available, a number of factors need to be taken into account when interpreting them.

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

### Box B.1 Performance indicators for Commission outputs

<b>Output</b>	<b>Indicators</b>
Government-commissioned projects	Projects of a high standard, useful to government, undertaken in accordance with required processes and on time
Performance reporting and other services to government bodies	Reports of a high standard, useful to government and completed on time
Regulation review activities	Regulation Impact Statement assessments and associated activities of a high standard, advice useful to government and on time
Competitive neutrality complaints activities	Competitive neutrality complaints successfully resolved within 90 days; associated activities of a high standard and useful to government
Supporting research and activities and activities and statutory annual reporting	Reports, projects and associated activities of a high standard, useful to government, raising community awareness and on time

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Secondly, the Commission's work program often covers contentious and complex structural policy issues on which the Commission's impact should properly be assessed over the medium to long term. A number of recent examples relating to reports from previous years — broadcasting (2000), research and development (1995), occupational health and safety (1995) and workers compensation (1993) — demonstrate the 'shelf life' of Commission reports (box B.2).

Thirdly, the Commission has to give priority to certain outputs and allocate its resources accordingly. Although the processes the Commission brings to bear are mostly within its control, the quantum and scope of the Commission's work are largely determined externally. This includes the number and timing of government-commissioned projects, regulation impact statement assessments and competitive neutrality complaints. Similarly, its secretariat and research work for the Review of Commonwealth/State Service Provision is guided by a Steering Committee. As a consequence, the number or timeliness of outputs from the Commission's supporting research program, for example, need to be interpreted in the light of the demands of its public inquiry workload and other commitments.

Fourthly, the Commission has no control over the release of its final inquiry reports, the time taken for decisions on such reports or the nature of the decisions themselves. Extended delays in the tabling of inquiry reports and decisions on them can compound the difficulties of assessing outcomes. The Productivity Commission Act requires that the Minister table inquiry reports in Parliament within 25 sitting days of receipt. This year, inquiry reports on Australia's general tariff arrangements and regulation of the architectural profession were released within a short time after that statutory period. The Government announced its general tariff decision in December 2000 and a national response to the report on the regulation of architects is being developed by a working group of State and Territory representatives. There has been no formal response to the Commission's report of May 1999 on the implementation of ecologically sustainable development by Commonwealth departments and agencies or its March 2000 report on broadcasting, nor to the Industry Commission report of January 1998 on ecologically sustainable land management.

This appendix reviews some broad-based indicators of Commission performance before reporting on each of its five outputs against the indicators agreed under the Government's accrual budget outcome and output framework.

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## Box B.2 The longer term influence of Commission reports

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

- In its report, *Research and Development*, the Industry Commission (1995a) made a number of recommendations to expand and enhance the role of the Australian Research Council, including giving it statutory independence and the ability to report directly to the Government. Most of these recommendations were explicitly rejected at the time (Cook et al. 1995). Nevertheless, the Commission's proposals were taken up in 1996 and, although subject to extensive legislative delay, again found expression in the Government's policy statement on research and research training, *Knowledge and Innovation* (Kemp 1999). The *Australian Research Council Act 2001*, which was proclaimed on 1 July 2001, established the Australian Research Council as an independent agency with responsibility for the management of the National Competitive Grants Scheme, as well as the provision of strategic policy advice to the government on research in the university sector.
- Information and policy analysis in the Industry Commission reports on workers compensation (IC 1993b) and occupational health and safety (IC 1995b) continue to be cited. For example, the December 2000 report to the Workplace Relations Ministers' Council on the National OHS Improvement Framework used Commission estimates of the costs of work-related injury, disease and death (NOHSC 2000, p. 3). Papers prepared by the Department of the Parliamentary Library in March 2001 for Members and Senators — on the Safety, Rehabilitation and Compensation and Other Legislation Amendment Bill 2000 and the Occupational Health and Safety (Commonwealth Employment) Amendment Bill 2000 — drew on both Commission reports (Hancock 2001a, b). In relation to the legislative changes proposed to the roles of Comcare and the Safety, Rehabilitation and Compensation Commission, Hancock (2001b, p. 16) observed that the approach 'seems to be consistent with the functional integration of occupational health and safety with workers compensation recommended by the [Industry] Commission'. Neither Commission report had a formal response from government, but they appear to have had a continuing influence on policy development in the area.
- Broadcasting policy in Australia is particularly contentious. The Commission's inquiry report on broadcasting (March 2000) is regularly cited in policy debate, even though the Government has not responded formally to its recommendations. For example, the Commission's proposals for the removal of the current cross-media rules, and the pre-conditions it considers necessary for that to occur, were the focus of editorial and other comment in August 2001 when the Minister for Communications, Information Technology and the Arts cited the Commission's report in announcing that the Government was considering an overhaul of media ownership laws (Alston 2001b).

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## Feedback surveys

The Commission undertook a number of surveys and other initiatives in 2000-01 to gather external feedback on a range of its activities.

In June 2001 the Commission undertook a survey of users of and contributors to the *Report on Government Services* to obtain feedback on the success of the Report in meeting the objectives of the Review of Commonwealth/State Service Provision. Overall, around three-quarters of respondents rated the Report as 'good' or 'very good' on a range of criteria — credibility, relevance and objectivity — and nearly 60 per cent of respondents rated the timeliness of its data this way as well. In addition, respondents were asked to rate the usefulness of the various types of information presented in the Report by service area. More than 80 per cent of respondents considered the profiles provided on the individual sectors (such as school education, public hospitals, child protection and aged care) to be 'useful' or 'very useful' and about three-quarters of respondents similarly rated the Report's coverage of policy developments and key performance results. Further details on the survey are provided below.

The Commission experimented with different survey forms in reports during 2000-01, but received little useful feedback. The ability to provide feedback via e-mail, rather than having to complete and fax a form back to the Commission, has been more successful in eliciting responses, but the level of feedback remains low to date.

Public hearings are an important part of the Commission's public inquiry process. To improve the organisation of hearings, the Commission invites participants to provide feedback on their experience. Although limited feedback was received in 2000-01, it was generally positive. Areas nominated by some respondents for improvement were the scheduling of appearances and the ability for participants to explore the views of others at the hearing. The Commission has since revamped its public hearing pamphlet which explains its procedures. In addition, participants are invited to comment on the advertising for the hearing, the venue, the explanation of the hearing process, scheduling, their reception by Commission staff, their opportunity to put views before the Commission and the degree of informality.

The Commission continues to receive positive feedback from people who are sent the 'Productivity Commission News' — an e-mail service which advises of new report releases as they occur, and the start and completion of public inquiries. The service is advertised on the publications page of the Commission's website, and requests to be added to the distribution list are made almost daily. Feedback about the timeliness and content of the service has been encouraging. This service runs in parallel to an e-mail service for Members and Senators and the media.

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The results of a survey undertaken in July 2000 to assess external perceptions about the quality of the Commission's work and its inquiry processes were provided in the 1999-2000 annual report (PC 2000b, p. 32). So too were the results of a survey of ORR 'clients' to assess how its role was perceived throughout government and to gauge the effectiveness of its work and processes. Both surveys elicited favourable feedback overall.

## **Commission outputs and the work of the Federal Parliament**

During 2000-01 nearly 80 Members and Senators in the Federal Parliament referred to 28 different Commission inquiries or reports, or to the Commission's role in policy processes, during parliamentary proceedings.

Current and recent inquiry work figured most prominently in parliamentary mentions — in particular, the reports on Australia's gambling industries (1999), nursing home subsidies (1999), broadcasting (2000), the impact of competition policy reforms on rural and regional Australia (1999) and international liner cargo shipping (1999). The Commission's inquiry on cost recovery arrangements across Commonwealth regulatory and information agencies also featured. In debate on the Government's Gene Technology (Licence Charges) Bill and related Bills, amendments were moved in the Senate to defer any cost recovery until the Commission had completed its inquiry. The Government agreed in December 2000 to delay the introduction of cost recovery for the Office of the Gene Technology Regulator for the first two years of operation.

Other reports drawn on in parliamentary debate during 2000-01 included the *Report on Government Services 2001*, Industry Commission reports from the early 1990s (such as on workers compensation, petroleum products, and State and local government assistance to industry), *Work Arrangements in the Australian Meat Processing Industry* (1999) and five reports arising from the Commission's research program, including the Staff Research Paper on expenditure trends in long-term aged care.

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

- A number of parliamentary committees during the year drew substantively on a range of Commission inquiry and research outputs in their own reports. The 17 parliamentary committee reports listed in table B.1 referred to 14 different Commission inquiry or research reports.
- People appearing at the hearings of parliamentary committees in 2000-01 referred to a range of Commission outputs — recent inquiry reports on gambling and broadcasting, draft reports of then current inquiries (such as cost recovery

Table B.1 Use of Commission outputs in recent parliamentary committee reports

<b>Parliamentary Committee and report</b>	<b>Commission output used</b>
Senate Environment, Communications, Information Technology and the Arts Legislation Committee, <i>Broadcasting Services Amendment (Digital Television and Datacasting) Bill 2000</i> , June 2000	PC inquiry report, <i>Broadcasting</i> , March 2000 and evidence given at the Committee hearings by Deputy Chairman of the PC, Prof Richard Snape
House of Representatives Standing Committee on Communications, Transport and the Arts, <i>Regional Radio Racing Services: Inquiry into the impact of the decision by ABC radio to discontinue its radio racing service</i> , June 2000	PC inquiry report, <i>Australia's Gambling Industries</i> , November 1999
Senate Economic References Committee, <i>Interim Report of the Inquiry into the provisions of the Fair Prices and Better Access for All (Petroleum) Bill 1999 and the practice of multi-site franchising by oil companies</i> , June 2000	IC inquiry report, <i>Petroleum Products</i> , July 1994
House of Representatives Standing Committee on Employment, Education and Workplace Relations, <i>Age counts: an inquiry into issues specific to mature-age workers</i> , June 2000	PC inquiry report, <i>The Australian Black Coal Industry</i> , July 1998
Senate Environment, Communications, Information Technology and the Arts Legislation Committee, <i>Interactive Gambling (Moratorium) Bill 2000</i> , September 2000	PC inquiry report, <i>Australia's Gambling Industries</i> , November 1999
Joint Committee of Public Accounts and Audit, <i>Contract Management in the Australian Public Service</i> , Report 379, October 2000	IC inquiry report, <i>Competitive Tendering and Contracting by Public Sector Agencies</i> , January 1996
House of Representatives Standing Committee on Legal and Constitutional Affairs, <i>Cracking down on copycats: enforcement of copyright in Australia</i> , November 2000	PC Staff Research Paper, <i>Trade-Related Aspects of Intellectual Property Rights</i> , May 1999
Senate Community Affairs Legislation Committee, <i>A Cautionary Tale: Fish Don't Lay Tomatoes – A Report on the Gene Technology Bill 2000</i> , November 2000	Recommended that further discussion and proposals relating to cost recovery for the Office of the Gene Technology Regulator be deferred until after the Productivity Commission reported on cost recovery arrangements across Commonwealth regulatory and information agencies
Senate Environment, Communications, Information Technology and the Arts References Committee, <i>The Heat is On: Australia's Greenhouse Future</i> , November 2000	IC inquiry report, <i>Energy Generation and Distribution</i> , May 1991

House of Representatives Standing Committee on Environment and Heritage, *Coordinating Catchment Management: Report of the Inquiry into Catchment Management*, December 2000

Senate Community Affairs References Committee, *Healing Our Hospitals: A report on public hospital funding*, December 2000

Senate Economic References Committee, *Inquiry into the provisions of the Fair Prices and Better Access for All (Petroleum) Bill 1999 and the practice of multi-site franchising by oil companies*, March 2001

Senate Select Committee on Superannuation and Financial Services, *The opportunities and constraints for Australia to become a centre for the provision of global financial services*, March 2001

House of Representatives Standing Committee on Communications, Transport and the Arts, *Back on Track: Progress in rail reform*, April 2001

Senate Rural and Regional Affairs and Transport References Committee, *Airspace 2000 and Related Issues*, April 2001

Senate Environment, Communications, Information Technology and the Arts Legislation Committee, *Interactive Gambling Bill 2001*, May 2001

Senate Environment, Communications, Information Technology and the Arts Legislation Committee, *Broadcasting Legislation Amendment Bill (No. 2) 2001*, June 2001

IC inquiry report, *A Full Repairing Lease: Inquiry into ecologically sustainable land management*, January 1998

IC inquiry report, *Private Health Insurance*, February 1997; PC Commission Research Paper, *Private Hospitals in Australia*, December 1999; and cited papers in PC conference proceedings, *Policy Implications of the Ageing of Australia's Population*, August 1999

IC inquiry report, *Petroleum Products*, July 1994

IC inquiry report, *Availability of Capital*, December 1991

PC inquiry report, *Progress in Rail Reform*, August 1999

PC inquiry report, *Impact of Competition Policy Reforms on Rural and Regional Australia*, September 1999

PC inquiry report, *Australia's Gambling Industries*, November 1999

PC inquiry report, *Broadcasting*, March 2000

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arrangements and the review of the Prices Surveillance Act) and the *Report on Government Services 2001*. Commissioners and staff made presentations to three different parliamentary committees during the year (table E.1).

- Research material provided to parliamentarians during 2000-01 by the Parliamentary Library — such as Current Issues Briefs, Research Papers, Research Notes and Bills Digests — drew on a range of Commission outputs. These included Industry Commission inquiry reports on workers compensation (1993), occupational health and safety (1995), and competitive tendering and contracting (1996); Productivity Commission inquiry reports such as *Progress in Rail Reform* (1999) and the *Impact of Competition Policy Reforms on Rural and Regional Australia* (1999); and research reports such as *Assessing Australia's Productivity Performance* (1997) and *The Growth of Non-Traditional Employment* (2000).
- The Parliamentary Library's Electronic Briefs — which focus on subjects of current interest to the Parliament and provide Members and Senators with background and commentary, as well as website links — summarise a range of Commission work and provide direct links to material on the Commission's website. For example:
  - The E-brief, *Regional Australia: a survey of recent reports on economic policy* (August 2000), provides parliamentarians and others with a guide to the principal findings of key reports including the Commission's report, *Impact of Competition Policy on Rural and Regional Australia*. There are direct links to the Commission's key findings, to individual chapters on demographic and social indicators and economic change in country Australia, and to the modelling work undertaken for the inquiry.
  - Other Commission reports featured in E-briefs issued in 2000-01 were the *Report on Government Services 2001* (in a number of different contexts), *Private Hospitals in Australia, Broadcasting* (in relation to ownership regulation in Australia and overseas, and digital television regulation and restrictions on datacasting), *Australia's Gambling Industries* (with links to the report as well as to submissions to the Commission's inquiry) and *Long-Term Aged Care: Expenditure Trends and Projections*.

## **Other broad-based performance indicators**

In addition to the performance indicators for 2000-01 referred to in chapter 2 and those detailed elsewhere in this appendix, recognition of the ability of the Commission to contribute to policy making and public understanding through independent and transparent analysis was demonstrated by the following developments during the year:



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- In its February 2001 *Report on Fees on Electronic and Telephone Banking*, the Parliamentary Joint Statutory Committee on Corporations and Securities recommended that if, two years after the introduction of ‘real-time disclosure’ (that is, the disclosure of fees at the point of a transaction), the level of electronic banking fees provides evidence of continuing market failure, then the Productivity Commission should inquire into the reasons for this and recommend measures to alleviate it.
  - In its April 2001 report *Enforcement of the Superannuation Guarantee Charge*, the Senate Select Committee on Superannuation and Financial Services considered that the current Commission inquiry on certain superannuation legislation should also examine the adequacy of the Superannuation Guarantee contributions and broader reforms of Australia’s superannuation system.
  - On 15 May 2001 the South Australian Treasurer stated in the Legislative Council that: ‘The state government has been supporting a Productivity Commission review of the national electricity market’.
  - At the invitation of Environment Australia and the OECD, the Commission undertook a case study of Earth Sanctuaries Ltd — a publicly listed Australian company directly involved in the conservation of biodiversity. This case study, along with other international examples, will contribute to an OECD/World Bank report on market creation for biodiversity products and services.
  - The Report of the Telecommunications Service Inquiry of September 2000 (the Besley Report) recommended that aspects of telecommunications competition and competition regulation in rural and regional Australia be referred to the Commission. (The Government subsequently expanded the terms of reference for the Commission’s inquiry on telecommunications competition regulation.)
  - On the 10<sup>th</sup> anniversary of the Industry Commission report *Energy Generation and Distribution*, the Electricity Supply Association of Australia called for ‘State governments to support the Federal Government proposal to refer a review of the national electricity market to the Productivity Commission’ (ESSA 2001). The Association nominated the Industry Commission report ‘as the starting point for launching the past decade’s major reform of electricity supply’. The Energy Users’ Association of Australia strongly supported an independent review of electricity and gas reform, with a reference to the Commission as a possibility.
  - The Commission was asked to prepare a briefing note on regulatory impact analysis in Australia which was circulated to members of the WTO Working Party on Domestic Regulation in May 2001.

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## **Government-commissioned projects**

These are major tasks commissioned or explicitly requested by Australian governments. The tasks encompass the conduct of public inquiries, case studies, program evaluations, taskforces and other commissioned research projects. These projects typically involve extensive public consultation.

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

The resources used in producing this output in 2000-01 are estimated to have been:

- 45.5 staff years; and
- \$7.3 million on an accrual basis.

### **Activities in 2000-01**

The Commission had eight public inquiries and one government-commissioned research study underway at some time during the year. The program of government-commissioned projects is summarised in table B.2.

The major focus of the Commission's inquiry work in 2000-01 was the four related reviews on the regulation of infrastructure services — the national access regime, telecommunications-specific competition regulation, price regulation of airport services and a review of the Prices Surveillance Act — which are all due to be completed in the latter half of 2001. The complex issues raised in these inquiries are the subject of chapter 1 of this annual report.

The Commission commenced two additional inquiries in the year: a review of cost recovery arrangements by Commonwealth regulatory and information agencies; and a review of Commonwealth legislation governing, for the most part, the prudent management and supervision of superannuation funds. The Commission completed its inquiries on Australia's general tariff arrangements and on legislation regulating the architectural profession in July and August 2000, respectively.

In September 2000 the Assistant Treasurer asked the Commission to undertake a research study examining differences between the prices of pharmaceuticals listed under the Pharmaceutical Benefits Scheme in Australia and the prices of the same items in comparable overseas countries, and to identify reasons for any differences. This study was completed in July 2001.

Trends in inquiry activity and participation over the past four years are shown in table B.3. Information on individual projects is provided in appendix C.

The Commission endeavours to conduct government-commissioned projects in an economical manner. Total estimated costs (covering salaries, direct administrative expenses and an allocation for corporate overheads) for the two inquiries completed in 2000-01 are shown in table B.4.

The major administrative (non-salary) costs associated with public inquiries and other government-commissioned projects relate to the Commission's extensive consultative processes and the wide dissemination of its draft and final reports. Comparisons of these costs for the period 1997-98 to 2000-01 are in table B.5. Variations in the administrative cost of inquiries and other commissioned projects arise from the extent and nature of public consultation, the number of participants, the complexity and breadth of issues, the need for travel, printing costs and the duration of the inquiry or project.

**Table B.2 Program of public inquiries and other government-commissioned projects<sup>a</sup>**

	1999-00						2000-01						2001-02												
	Month	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D
<b>Public inquiries:</b>																									
Review of Australia's general tariff arrangements																									
Legislation regulating the architectural profession																									
Review of the <i>Prices Surveillance Act 1983</i>																									
Telecommunications competition regulation																									
Cost recovery by government agencies																									
Review of the national access regime																									
Price regulation of airport services																									
Review of certain Superannuation Acts																									
Review of Radiocommunications Acts																									
Independent review of the Job Network																									
Citrus growing and processing																									
Review of section 2D of the <i>Trade Practices Act 1974</i>																									
<b>Commissioned research studies:</b>																									
International pharmaceutical price differences																									

<sup>a</sup> Shaded area indicates the approximate duration of the project in the period covered by the table.

**Table B.3 Public inquiry activity, 1997-98 to 2000-01**

<i>Indicators</i>	<i>1997-98</i>	<i>1998-99</i>	<i>1999-00</i>	<i>2000-01</i>
References received	4	8	4	4
Issues papers released	3	9	4	5
Public hearings (sitting days) <sup>a</sup>	30	57	40	20
Organisations/people visited in inquiries:				
completed during the year	241	277	306	72
underway during the year	nr	440	103	217
Submissions to inquiries:				
completed during the year	626	421	1 086	655
underway during the year	nr	996	1 017	460
Draft reports <sup>b</sup>	4	6	4	5
Reports completed	3	5	6	2
References on hand (at 30 June)	3	6	4	6

nr Not recorded. <sup>a</sup> Excludes forums and roundtable discussions. <sup>b</sup> Includes draft and interim reports and inquiry position papers.

**Table B.4 Cost of public inquiries completed in 2000-01<sup>a</sup>**

<i>Inquiry</i>	<i>Total cost</i>
	\$'000
Review of Australia's General Tariff Arrangements	809
Review of Legislation Regulating the Architectural Profession	516

<sup>a</sup> Includes overheads.

**Table B.5 Direct administrative expenditure<sup>a</sup> on public inquiries and other government-commissioned projects, 1997-98 to 2000-01**

<i>Expenditure item</i>	<i>1997-98</i>	<i>1998-99</i>	<i>1999-00</i>	<i>2000-01</i>
	\$	\$	\$	\$
Travel	326 663	471 210	195 142	193 972
Printing	162 932	107 589	216 865	59 972
Consultants	163 957	228 509	49 262	2 882
Other <sup>b</sup>	131 498	240 072	222 355	265 923
<b>Total</b>	<b>785 051</b>	<b>1 047 380</b>	<b>683 623</b>	<b>522 749</b>

<sup>a</sup> Expenditure other than salaries and corporate overheads. <sup>b</sup> Includes other costs, such as advertising, venue hire, court reporters/transcription services and data acquisition.

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## Consultative processes

The practice of consulting widely with industry, government departments and agencies, academics and the broader community during the course of inquiries continued in 2000-01. Trends in the number of visits conducted and public hearing days held — which are heavily influenced by the nature of the policy issues which are referred to the Commission — are shown in table B.3. As appropriate, the Commission extends inquiry-like processes to the conduct of its other government-commissioned projects.

The Commission's practice of extending its consultative processes in inquiries beyond visits, hearings, seeking submissions and providing draft reports, continued during the year. The Commission:

- held two roundtables — one in Melbourne and one in Sydney — to elicit views on the national access regime for essential infrastructure from a cross-section of regulators, lawyers, economists, facility owners, access seekers and end user/consumer groups;
- organised two separate workshops with regulatory and information agencies to test the practical applicability of the cost recovery guidelines developed in its draft inquiry report; and
- convened two roundtable meetings with industry and government officials, initially to discuss its proposed approach to comparing international pharmaceutical price differences and subsequently to seek comments on the methodology, preliminary results and reasons for the observed price differences.

Internet technology has increased the accessibility of the Commission's reports and facilitated speedier and easier notification of developments in inquiries. In particular, participants' submissions to all inquiries and transcripts of hearings, but not confidential information, are placed on the Commission's website. Internet access has increased the opportunities for earlier and less costly public scrutiny of the views and analysis being put to the Commission. Submissions and hearing transcripts for inquiries current in 2000-01 were accessed from the website nearly 200 000 times by external parties in the year to 30 June 2001.

## Quality indicators

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

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hearings. The six roundtables/workshops, noted above, also contributed to the Commission's quality assurance processes in 2000-01.

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

## **Timeliness**

The two inquiry reports finalised in the year were completed on schedule.

Two inquiries underway in the year — telecommunications competition regulation and the review of the Prices Surveillance Act— and which originally were due to report during 2000-01, had their reporting periods extended by the Assistant Treasurer following requests by the Commission. Extensions were sought primarily because, with the arrival of the inquiry on the national access regime in October 2000, the Commission was undertaking three related inquiries. A realignment of reporting dates allowed the Commission and participants to make a coordinated response to the interrelated issues raised by these inquiries. In addition, the terms of reference for the telecommunications inquiry were amended in January 2001 to cover two additional matters to do with regional dimensions of competition that could have a bearing on appropriate telecommunications regulation. The Commission released draft reports for all three inquiries on 29 March 2001. The reporting extensions also enabled the Commission to coordinate its work in these three inquiries with the inquiry on price regulation of airport services which it received in December 2000 and on which it released a draft report in August 2001.

The Commission sought, and obtained, from the Assistant Treasurer a six week extension to the reporting date for the research study comparing the prices of pharmaceutical benefit items in Australia and the prices of the same items in other countries. The extension was needed because of greater than anticipated delays in obtaining essential multicountry price information from the sole international supplier.

## **Indicators of usefulness**

The usefulness of government-commissioned projects undertaken by the Commission in contributing to policy making and public understanding is demonstrated by a range of indicators. With most of its inquiries still underway at 30 June 2001, many

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of the indicators of usefulness available for this output group relate to inquiry and government-commissioned research reports from previous years.

- The usefulness of these Commission reports is indicated, in part, by reference to them in parliamentary debate and questions. For example:
  - Of the 133 mentions of the Commission in the Federal Parliament during 2000-01, 80 per cent related to its inquiries and inquiry reports, predominantly its 1999 report, *Australia's Gambling Industries* (42 mentions by 25 Members and Senators). Other recent reports referred to were those on *Broadcasting* (2000), *Nursing Home Subsidies* (1999), *Impact of Competition Policy on Rural and Regional Australia* (1999) and *Progress in Rail Reform* (1999).
  - In addition to use of the Commission's gambling report during parliamentary debate on internet gambling legislation, other Commission reports referred to in the course of debate on legislative proposals in 2000-01 were its 1999 inquiry report on international liner cargo shipping (in relation to the Trade Practices Amendment (International Liner Cargo Shipping) Bill 2000, which closely reflected the Commission's recommendations); and the 1998 government-commissioned study *Work Arrangements in the Australian Meat Processing Industry* (in relation to a Bill which was eventually enacted as the *Workplace Relations Amendment (Tallies) Act 2001*).
  - Of the 87 mentions of the Commission in State and Territory parliamentary proceedings during 2000-01, 51 were in relation to the Commission's report on gambling.
- The Commission's impact on policy making is revealed most directly through government decisions on its reports.
  - In releasing the Government's formal response to the Commission's report *Impact of Competition Policy Reforms on Rural and Regional Australia* in August 2000, the Treasurer welcomed the evidence of the benefits of national competition policy to country Australia and endorsed the thrust of the Commission's recommendations (PC 2000b, pp. 116–20).
  - As noted in chapter 2, while accepting the Commission's finding that there were small benefits to be obtained from the removal of the general tariff, the Government rejected, 'for the present', the Commission's recommendation to remove general tariffs no later than 1 January 2003.
  - Provisions in the Trade Practices Amendment (Telecommunications) Bill 2001, introduced by the Government into the House of Representatives on 9 August 2001 and subsequently enacted, implemented some of the proposed recommendations relating to the telecommunications access regime advanced

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by the Commission in its draft report of March 2001 on telecommunications competition regulation.

- As noted above, another indicator of the usefulness of the Commission's inquiry work this year was the Government's decision to defer implementation of cost recovery arrangements for the Office of the Gene Technology Regulator for two years, at least partly in response to the argument that the Commission should first have completed its inquiry on cost recovery arrangements for government agencies. (The Commission reported in August 2001.)
- A measure of the usefulness of the Commission's inquiry and other government-commissioned reports in contributing to public understanding of policy issues are the invitations it received in 2000-01 to present papers to business and community groups and to conferences. Commissioners and staff made 12 presentations in the year on its public inquiries, mainly those on telecommunications competition regulation and the impact of national competition policy reforms (table E.1).
- Other measures of the Commission's usefulness in contributing to public understanding are the use of its website and media coverage of its reports.
  - For inquiries current in 2000-01, the Commission's website pages were accessed by external parties approximately 380 000 times in the 12 months to 30 June 2001, with the most visits to telecommunications competition regulation (90 000 times), cost recovery by government agencies (76 000 times) and the national access regime (66 000 times). The inquiry page for the Commission's 1999 inquiry on gambling attracted more attention than any other Commission inquiry — nearly 140 000 visits by external parties in 2000-01.
  - Inquiries and reports receive extensive media coverage — in 2000-01 there were 16 editorials in major newspapers on current and recent inquiries. These included five editorials in major newspapers mentioning the Commission's gambling report and three relating to its broadcasting report. Its review of general tariffs, the regulation of architects and its draft report on telecommunications competition regulation were also covered. Commission inquiries current in 2000-01 received a total of more than 280 mentions in the print and broadcast media during the year. The Commission's 1999 gambling report alone was mentioned 160 times in the print and broadcast media.



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## Performance reporting and other services to government bodies

The Commission undertakes three major activities in this output group. It:

- provides secretariat, research and report preparation services to the Steering Committee for the Review of Commonwealth/State Service Provision in respect of performance indicators for government provided or funded services;
- continues performance monitoring and related research on government trading enterprises, work the Commission previously undertook for the disbanded COAG Steering Committee on National Performance Monitoring of Government Trading Enterprises; and
- undertakes national and international benchmarking of the performance of key Australian industries — primarily economic infrastructure and government services — to help identify and provide information on significant gaps in performance.

As requested, the Commission has also provided secretariat and research services to other government bodies such as the Heads of Treasuries of the Commonwealth, States and Territories.

The Commission aims to produce reports of a high standard which are completed on time and useful to government and the wider community.

The resources used in producing this output in 2000-01 are estimated to have been:

- 24.8 staff years; and
- \$3.2 million on an accrual basis.

### Activities in 2000-01

The four publications arising from the Commission's performance reporting activities this year were:

- *Report on Government Services 2001*, 2 volumes (and on CD-ROM with supporting tables), January 2001;
- *National Satisfaction Survey of Clients of Disability Services*, Consultancy Report, July 2000;
- *Financial Performance of Government Trading Enterprises, 1994-95 to 1998-99*, July 2000; and
- *Financial Performance of Government Trading Enterprises, 1995-96 to 1999-00*, May 2001.

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## *Review of Commonwealth/State Service Provision*

The Review of Commonwealth/State Service Provision was established by the Prime Minister, Premiers and Chief Ministers in July 1993. Its main tasks are to develop, and publish data on, agreed national performance indicators for key services delivered by governments in Australia and to analyse reforms in government services. The aim is to work cooperatively to facilitate and encourage innovation in the delivery of services.

The sixth Report on Government Services was released in January 2001. Reporting is an ongoing process, and each year the Steering Committee endeavours to build on developments in the previous year. The 2001 Report:

- expanded and improved the health chapters, particularly in the areas of hospital quality, breast cancer management and mental health;
- put in place a new performance indicator framework to reflect more accurately the objectives within current Commonwealth/State housing agreements;
- improved reporting on indigenous data;
- enhanced the reporting on a range of existing indicators; and
- streamlined the presentation of the chapters.

The estimated cost to the Commission of assisting governments in the production of the 2001 Report and related Review activities in 2000-01 was around \$1.6 million (compared with \$1.5 million in 1999-2000).

The Report is continuing to refine the method for measuring the performance of government services and to improve the comparability of the data published.

A survey on asset measurement in the costing of services was commenced in order to assess the comparability of data across jurisdictions for corrective services, police, public hospital and housing. The research sought to determine the differences in asset measurement techniques across jurisdictions and service areas; whether the differences were material; and, if material, how the differences could be overcome so that data comparability is improved. (The research paper, *Asset Measurement in the Costing of Government Services*, was published in September 2001.)

Efforts continue to be made to improve the reporting of data on service provision to indigenous Australians. Building on a scoping study undertaken last year, individual departmental heads and Ministerial Councils have been approached to facilitate the inclusion of indigenous identifiers in administrative systems and improve data collections.

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Surveys of courts administration have begun in some jurisdictions. These surveys have been tailored for each jurisdiction, and aim to identify the needs of courts users and to assist courts in providing appropriate client services.

A feasibility study was undertaken on whether the Report should develop a performance indicator framework for cross-services strategies for drug addiction. The study revealed a lack of nationally comparable data and it was agreed that the Review will improve reporting in individual service sectors, where possible, and revisit the issue when more data become available.

In June 2001 the Review undertook a survey of users of, and contributors to, the Report to obtain feedback which would:

- assist jurisdictions to better understand how the Report is being used, and the costs and benefits of their involvement;
- inform contributors to the Report of potential refinements and improvements; and
- assess the extent to which the Report contributes to the broad objectives of the Review.

The feedback survey achieved a response rate of nearly 40 per cent, reducing the scope to obtain robust findings in some areas. The results, which will be made available to Review participants and are summarised in tables B.6 and B.7 below, can nevertheless be used in assessing how to enhance reporting by the Review.

### *Performance monitoring of government trading enterprises*

The Commission completed two studies on the financial performance of government trading enterprises during 2000-01. These studies provide a range of financial indicators for 63 government trading enterprises between 1994-95 and 1999-2000. The studies, released in July 2000 and May 2001, are successors to a series of broader studies by the Steering Committee on National Performance Monitoring of Government Trading Enterprises for which the Commission provided the Secretariat. These studies form part of a continuing program of research into the performance of economic infrastructure industries and the impact of microeconomic reforms. Notwithstanding progress towards a commercial basis of operation, the studies show that many government businesses are earning low rates of return despite a decade or more of reform.

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### *International benchmarking*

The Commission commenced two international benchmarking studies in September 2000 as part of its continuing program of research into the performance of Australia's economic infrastructure industries. These were international benchmarking studies of:

- service and price relativities between remote, rural and urban areas of Australia compared with those overseas; and
- electricity price outcomes for residential and business users.

The studies were published after the end of the financial year and will be reported on next year as part of the Commission's outputs for 2001-02.

### *Secretariat services*

In October 2000 the Commission hosted a workshop to discuss issues associated with private sector involvement in the provision of public infrastructure and related services. The Commission was asked to host the workshop following a Heads of Treasuries meeting which observed that governments were being faced increasingly with important and difficult decisions in this area. The workshop involved senior Treasury officials from the Commonwealth and all States and Territories, as well as private sector representatives with experience in the construction, operation and financing of public infrastructure. On the following day, a roundtable discussion among Treasury officials was held.

The Commission forwarded a summary report on the roundtable discussion to Heads of Treasuries in November 2000. The report noted key areas of agreement among jurisdictions and suggested some approaches for advancing unresolved issues.

## **Quality indicators**

Although assessments of quality are subjective, the Commission has a range of 'quality assurance' processes in place for its performance reporting activities. These processes help to ensure that it is using the best information available and most appropriate methodologies — thereby increasing confidence in the quality of the performance reporting.

The Commission's work for the Review of Commonwealth/State Service Provision is guided by a Steering Committee. This Steering Committee consists of senior executives from each jurisdiction, chaired by the Chairman of the Productivity

Commission, and serviced by a secretariat drawn from the staff of the Commission. The Committee, in turn, is supported by 12 national working groups comprising representatives from 85 government agencies — totalling around 200 people who provide specialist knowledge on each service area — and draws on other bodies such as the Australian Bureau of Statistics, the Australian Institute of Health and Welfare, and committees established under Ministerial Councils.

Notwithstanding a lower than desirable response rate, the results from the June 2001 feedback survey are a useful indicator of respondents' perceptions of the quality of information in the Report on Government Services. As noted in chapter 2 and earlier in this appendix, overall, around three-quarters of respondents rated the Report as 'good' or 'very good' on the criteria of credibility, relevance and objectivity, although there was some variation across different service areas (table B.6). For example, the Report's health information was rated more highly than that for education, and the currency of data in the report tended to be rated less well than the other aspects of the information presented.

The Commission sought to ensure the quality of its reporting on the financial performance of government trading enterprises in a number of ways.

**Table B.6 Views on the quality of information in the Report on Government Services**

<i>Attribute/ rating given</i>	<i>Section of the Report:</i>					
	<i>Education</i>	<i>Health</i>	<i>Justice</i>	<i>Community services<sup>a</sup></i>	<i>Statistical Appendix</i>	<i>Total</i>
	%	%	%	%	%	%
<b>Credibility<sup>b</sup></b>						
Good or very good	69	84	74	74	72	77
Adequate	31	14	26	26	27	22
Poor	0	2	0	0	2	1
<b>Relevance<sup>c</sup></b>						
Good or very good	65	81	74	71	73	77
Adequate	33	17	24	26	25	22
Poor	2	2	2	3	3	1
<b>Objectivity<sup>d</sup></b>						
Good or very good	67	81	69	71	73	77
Adequate	33	19	28	29	25	22
Poor	0	0	3	0	2	1
<b>Up to date<sup>e</sup></b>						
Good or very good	43	60	68	58	58	57
Adequate	43	39	31	36	35	36
Poor	14	2	2	6	7	6

<sup>a</sup> Community services includes housing and emergency services. <sup>b</sup> Confidence in the Report's information. <sup>c</sup> Applicable to the respondent's purpose. <sup>d</sup> Based on fact and independent of bias toward a jurisdiction or service area. <sup>e</sup> Currency of the data.

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- The Commission examined the robustness of key performance measures used for monitoring purposes by testing the reliability of performance comparisons over time and across government trading enterprises within an industry sector. The Commission found a high concordance between the values of the nationally consistent performance indicators used by it and the performance indicators used by government trading enterprises in their reporting. Further, where differences in values were identified, they were relatively minor.
  - It also examined the effect of valuation methodology and dividend policy upon indicators of government trading enterprises performance, providing information that had not been consolidated and analysed previously.
  - The trend towards convergence in the methodology used to measure financial performance, general financial performance reporting practice in government trading enterprises and Australian Accounting Standards was continued.

The range of quality assurance processes used in undertaking the international benchmarking studies, which were released after June 2001, will be outlined in next year's annual report.

## **Timeliness**

The *Report on Government Services 2001* and the *Financial Performance of Government Trading Enterprises, 1995-96 to 1999-00* were published on schedule in January 2001 and May 2001, respectively, and the Commission responded promptly to the request from Heads of Treasuries to organise a workshop on private sector involvement in the provision of public infrastructure. The timeliness of the two publications released in July 2000 was discussed in the Commission's 1999-2000 annual report.

## **Indicators of usefulness**

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

Evidence of usefulness relating to the Commission's work for the Review of Commonwealth/State Service Provision is available from a number of sources.

- In its Communique of 3 November 2000, COAG affirmed the role of the Review in respect of indigenous reporting. In a subsequent letter to chairs of Ministerial Councils, the Prime Minister requested that, when developing their performance monitoring strategies, they should note that the Review will continue its focus on indigenous reporting.

- Feedback from Steering Committee members — senior representatives from the Commonwealth, State, Territory and local government — and from departmental secretaries and chief executives indicates that the 2001 Report was generally well received and that the reports on government services continue to be important inputs to budgetary negotiations, benchmarking and policy reviews.
- The ongoing commitment of the various jurisdictions to improving and enlarging the scope of the Review's reporting confirms its relevance, credibility and quality.
- The results from the June 2001 feedback survey are another indicator of the usefulness of the Report on Government Services. Respondents were asked to rate the usefulness of the different information sections on the services covered (table B.7). More than 80 per cent of respondents considered the profiles provided on the individual sectors (such as school education, public hospitals, child protection and aged care) to be 'useful' or 'very useful' and about three-quarters of respondents similarly rated the Report's coverage of policy developments and key performance results. Around two-thirds of respondents considered other types of information in the Report to be 'useful' or 'very useful'.
- A variety of performance information sourced to the 2001 (and earlier) reports has been used in parliamentary debates and questions this year by government and opposition members in State, Territory and Federal parliaments. During 2000-01, data from the Report was used, for example:

**Table B.7 Views on the usefulness of information in the Report on Government Services**

<i>Sections of the Report</i>	<i>Respondent views:</i>		
	<i>Useful or very useful</i>	<i>Somewhat useful</i>	<i>Not useful</i>
	<i>%</i>	<i>%</i>	<i>%</i>
Profile of the sector	82	16	2
Policy developments in the sector	74	23	2
Key performance results			
– effectiveness indicators <sup>a</sup>	74	24	3
– efficiency indicators	76	21	3
Future directions	68	27	5
Jurisdictions' comments	64	29	8
Footnotes, sources and definitions	69	25	6

<sup>a</sup> Average result from the responses on aspects of effectiveness such as outcomes, appropriateness, access and equity, and quality.

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- in the Federal Parliament in relation to various aspects of aged care, hospital care, and child abuse and neglect; and
  - in other parliaments in relation to disability assistance and public confidence in the police force (New South Wales), the courts and aged care (Victoria), public housing (South Australia) and health expenditure and student/staff ratios (Northern Territory).
- Media coverage of the 2001 Report on Government Services was extensive. In the period since its release, there have been 82 press articles drawing on the Report and it has been mentioned 119 times and 8 times on radio and television, respectively. A total of 1485 copies of the report were distributed by the Commission and a further 257 copies (in book and CD form) were sold through government bookshops. External parties used the Commission's website to access the 2001 Report around 7500 times in the period to 30 June 2001. The 2000 Report continued to be accessed from the website throughout 2000-01, with around 3500 visits from external parties. In total, there were around 16 700 website visits by external parties in 2000-01 to Review publications (including research reports produced under the auspices of the Review).
  - Secretariat staff provided four presentations on various aspects of the Review in 2000-01, two of which were to official delegations from the governments of China and the Philippines (appendix E).

Evidence of the usefulness of the reports on the financial performance of government trading enterprises is available in the form of a number of positive responses from Treasury departments and individual enterprises. Further, the reports had been accessed on the website around 1900 times in total by external parties in the period to 30 June 2001.

More generally, another indicator of the longer term usefulness of the Commission's performance reporting of government trading enterprises is the requests for staff to be involved in related activities. Senior staff in its Economic Infrastructure Branch represent the Commission as members of the Australian Accounting Standards Board Consultative Group, the Land Under Roads Working Party and the Non Major Urban Water Utilities Performance Monitoring Working Group. The Commission was asked to be involved in this last initiative because of its experience in monitoring government trading enterprise performance and a direction from the Standing Committee on Agriculture and Resource Management that the monitoring be consistent with that undertaken for major urban water utilities for many years by the Steering Committee on National Performance Monitoring of Government Trading Enterprises.



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Evidence of the usefulness of benchmarking studies from previous years continues to accumulate. For example, the April 2000 report *Arrangements for Setting Drinking Water Standards* has been nominated by the Water Supply Association of Australia as recommended reading for an international workshop on drinking water quality to be held in Bonn, Germany in October 2001. The Commission's earlier international telecommunications benchmarking studies have been quoted in Australian and overseas publications as an authoritative source of information on relative prices and benchmarking methodology.

## **Regulation review activities**

Regulation review matters are dealt with principally by the Office of Regulation Review (ORR), which is a separate unit within the Productivity Commission. The activities of the ORR in the past year are covered in detail in the Commission's publication, *Regulation and its Review 2000-01*.

The objective of the Commission's regulation review activities is to promote processes that, from an economy-wide perspective, improve the effectiveness and efficiency of legislation and regulations developed by Commonwealth departments and regulatory agencies. The ORR aims to assess Regulation Impact Statements (RISs) and undertake associated activities to a high standard, with advice that is timely and useful to government.

The resources used in producing this output in 2000-01 are estimated to have been:

- 16.7 staff years; and
- \$2.1 million on an accrual basis.

### **Activities in 2000-01**

The range of activities that the ORR is required to undertake is set down in its Charter (box B.3).

In advising on quality control mechanisms for making and reviewing regulation in 2000-01, the ORR:

- analysed whether some 400 different regulatory proposals from Commonwealth departments and agencies affected business or restricted competition; 157 proposals required a RIS, 13 of which related to administrative options for amendments to taxation arrangements;
- provided advice on appropriate terms of reference for a review undertaken as part of the Competition Principles Agreement commitment to review and reform all legislation which restricts competition;

- continued to work with, and provide assistance to, the Office of Small Business in relation to the development of regulatory plans and regulatory performance indicators, and agreed to provide additional information regarding the flexibility of options under the RIS framework;
- examined RISs and provided advice in relation to 25 regulatory decisions taken by Ministerial Councils and national standard-setting bodies; and
- reported to the National Competition Council on compliance with the COAG *Principles and Guidelines for National Standard Setting and Regulatory Action by Ministerial Councils and Standard-Setting Bodies*, allied to a requirement under the Third Tranche arrangements for competition payments to the States and Territories.

The ORR provided RIS training for 240 officials, including 100 Australian Tax Office officials, in 2000-01.

The Commission's publication, *Regulation and its Review*, fulfils the obligation to report annually on compliance with the Government's regulation review requirements. The report for 1999-2000 was released in November 2000. It continued the initiative, begun in 1998-99, of reporting in greater detail on compliance with the Government's regulation review requirements by portfolio, emphasising the importance of these requirements to good policy process and regulatory outcomes.

### **Box B.3 Charter of the Office of Regulation Review**

In 1997 the Government directed the ORR to issue a charter outlining its role and functions. Ranked in order of priority, the ORR's seven principal activities are to:

- advise on quality control mechanisms for regulation making and review;
- examine and advise on RISs prepared by Commonwealth departments and agencies;
- provide training and guidance to officials;
- report annually on compliance with the Commonwealth Government's RIS requirements;
- advise Ministerial Councils and national standard-setting bodies on regulation making;
- lodge submissions and publish reports on regulatory issues; and
- monitor regulatory reform developments in the States and Territories, and in other countries.

The ORR, together with the Treasury, advises the Assistant Treasurer in his role as the Minister responsible for regulatory best practice, and the Minister for Financial Services and Regulation on legislation review matters.

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In monitoring regulatory reform developments around Australia and internationally during 2000-01, the ORR:

- organised, in July 2000, the annual meeting of all regulation review units, representing all States and Territories except the Northern Territory, with discussions focusing on the promotion of good regulatory practice across all jurisdictions;
- participated in several meetings of the COAG Committee on Regulatory Reform and submitted papers on key issues;
- continued to represent Australia at meetings of the OECD regulatory reform group, including analysing results from a multicountry survey of business views on regulation;
- attended the International Regulatory Reform Forum in Puebla, Mexico on the challenges of regulatory reform in OECD countries and the promotion of regulatory quality across levels of government;
- submitted a brief paper to the WTO Working Party on Domestic Regulation on how regulatory impact analysis is undertaken in Australia and how it has improved the transparency of government regulation making;
- represented Australia at an APEC–OECD cooperative initiative on regulatory reform, held in Singapore, where progress on regulatory reform and improvements in communication between countries on common issues were discussed; and
- assisted New Zealand officials by offering advice on how to set up an equivalent body in that country following their Government’s decision to do so.

## **Quality indicators**

Reporting on quality indicators for the ORR is limited by the confidential nature of aspects of the RIS process. Evidence of the quality of ORR work is, however, provided by the feedback from other government bodies — both those preparing RISs and those using them.

Client survey results for 1999-2000 rated the ORR above average for all aspects including: ability to understand regulatory issue being dealt with; clarity of ORR advice; overall competence of ORR staff relative to other departments that respondents dealt with; and the working relationship (PC 2000b). No comparable survey was conducted in 2000-01. However, ad hoc feedback to ORR staff generally indicated that departments continue to find the ORR contribution to be constructive and positive. New Zealand officials who liaised with the ORR provided positive feedback on the usefulness of the assistance received.

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## Timeliness

Although timeliness is a measure of performance that is difficult to report on accurately for ORR activities, there are some indicators which can assist in this regard (box B.4).

As a general rule, officials preparing a RIS are asked to allow at least two to three weeks in case several rounds of consulting with the ORR, and possible redrafting, are necessary to ensure an adequate standard is achieved. Of the 157 RISs prepared in 2000-01, 34 per cent were assessed by the ORR within two weeks and 65 per cent within five weeks. However, this is a loose measure of ORR timeliness, as external factors — including the resource commitments of the agencies preparing the RIS — had a significant influence on the time taken for redrafting and final clearance. Furthermore, extended consultation can mean that the quality and value of a RIS is improved.

In a specific example of working to short time frames, the ORR had less than two days to provide comments on a draft RIS of more than 100 pages, which it assessed as inadequate. Following a meeting with the relevant department, an adequately re-drafted RIS was produced for Cabinet consideration within a further four days. The ORR aims to avoid these short time frames by encouraging departments to integrate the RIS process into their policy development process and consult with the ORR at an early stage.

### Box B.4 Database measures: reporting on ORR performance

The ORR logs all RIS issues onto confidential databases. This provides a tool to assist the ORR's staff in providing consistent, quality advice, timely service, and to record compliance details. The information recorded includes:

- the date the ORR is first contacted by a department or agency;
- the date the first draft of a RIS is received;
- the date the ORR clears the RIS as meeting an adequate standard; and
- the date that the proposal is due to go to the decision maker.

This information can be utilised to assess the timeliness of the ORR's advice. This is done by providing aggregate measures of the length of time between the ORR receiving a RIS and clearing it as 'adequate' or 'not adequate' in meeting the Government's requirements. Similarly, the time between the first draft being provided to the ORR and the provision of papers to the decision maker can give a very loose guide as to how well the RIS process has been integrated into the policy development process by the agency or department in question.

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For complex proposals, such as COAG regulatory issues, the ORR should be contacted early in the process to ensure the RIS contributes as much as possible to good policy process. It is a requirement that the ORR assess the RIS at the consultation stage on COAG issues. Under the *COAG Principles and Guidelines*, the ORR is required to provide advice on draft RISs within two weeks. This was met on each occasion in 2000-01.

The ORR has additional tasks from time to time, and the successful completion of these, concurrent with the ORR's normal responsibilities, indicates a commitment to timeliness.

- The ORR prepared a report to the National Competition Council on compliance with the *COAG Principles and Guidelines for National Standard Setting and Regulatory Action by Ministerial Councils and Standard-Setting Bodies*. This report, which covered compliance for the 11 months to the end of May 2001, was completed on schedule.
- The ORR quickly responded to a Treasury request for a list of all Bills tabled during 1999-2000 that restricted competition.
- The ORR promptly prepared a briefing on regulation impact statements, as requested by the Department of Foreign Affairs and Trade, for the WTO Working Party on Domestic Regulation.

### **Indicators of usefulness**

The main measures of whether the ORR is providing a useful service include:

- evidence that agencies are integrating the RIS process within their policy development processes;
- feedback and requests for advice from agencies and departments;
- improvements in the quality of RISs; and ultimately,
- any evidence that the standard of regulation is improving over time.

One example of an integration of the RIS process with an existing policy development process concerns the Civil Aviation Safety Authority. The Authority releases three documents for most regulatory proposals — a 'discussion paper', a 'notice of proposed rule making' and a 'summary of responses'. With some modification, the ORR has agreed that these documents will satisfy the RIS requirements and will assess the analysis in them instead of requiring a separate RIS for each proposal.

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The ORR attempts to achieve a better standard of RISs by gradually raising the adequacy hurdle over time. This can be gauged by the content, detail and quantification seen in RISs, and there is some evidence of overall improvement in the period since RISs have been mandatory. The ORR re-examined a sample of significant RISs across a variety of portfolios which it rated as ‘adequate’ three years ago. Reassessed against current standards, only half of these RISs would still be rated as ‘adequate’.

To be useful and relevant, RISs should be tailored to provide the decision maker with an accurate assessment of options. Discussions between the ORR, the Department of Communications, Information Technology and the Arts and the Australian Communications Authority, for example, led to an arrangement on a complex issue where separate RISs were prepared for the Minister and the Australian Communications Authority Board for their decisions on different aspects of the issue. Another example of enhanced usefulness to decision makers was the improved analysis required by the ORR on the issue of chrysotile asbestos use. The ORR’s suggestions resulted in a more useful final document.

The ORR comments on all aspects of the RIS and, in many cases, this leads to an improvement in quantifying costs and benefits and the analysis of options. There is some evidence that the RIS process has caused policy analysts to revise some proposed recommendations before the decision-making stage. This is consistent with the Government’s best practice requirements for regulation which encourage the examination and adoption of alternatives to prescriptive regulation, including self-regulation.

The RIS process can provide useful information when regulatory proposals could be perceived as being contrary to the public interest. For example, when a national competition policy review is carried out and the Government implements the recommendations, the ORR regards the review report as having satisfied the RIS requirements. However, if the implementation is not in line with the review recommendations, there may be grounds for a separate RIS to explain why the chosen option is better in public interest terms. If no additional RIS is carried out, or the RIS is inadequate, the ORR reports this in its annual assessment of compliance.

Where a proposal has an adequate RIS attached, it would be useful for both decision makers and, at the tabling stage, Parliament, to be fully informed that this is the case. Most regulations have the RIS attached in the explanatory statement or memorandum but there is nothing to indicate whether a RIS complies with the Government’s requirements for regulatory best practice. For example, the RISs on the proposed ban on certain interactive gambling services and single-desk marketing arrangements for horticultural products were rated inadequate by the ORR, but there is no indication of this in the tabled documents.

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The publication of compliance data by portfolio is useful in monitoring the commitment to regulatory best practice within certain areas of government. This information has received national press coverage in the past, suggesting that it is information of use to the community in monitoring the performance of government agencies.

The ORR responds to many requests by departments and agencies for meetings. This enables ORR staff to understand the issue at hand and helps to promote a wider understanding of the Government's requirements for best practice. Generally the feedback is positive, although occasionally comments have been made about agency staff time being devoted to RIS work with little perceived value added for the agency concerned. Other liaison provides useful outcomes, such as the regular meetings held with Treasury, to discuss issues of mutual relevance, and ad hoc meetings to discuss RIS requirements, such as with the Reserve Bank of Australia.

The ORR facilitates the meeting of State and Territory regulatory review units, thereby enhancing the operation and communication between these units. This has proved particularly useful for jurisdictions where regulatory review arrangements are less developed.

Other indicators of the usefulness of the ORR's work follow.

- ORR reports are widely distributed and disseminated. Around 1450 copies of *Regulation and its Review 1999-2000* were distributed, with some coverage by the national press. The report was accessed around 1300 times on the Commission's website in 2000-01.
- A further 460 copies of the second edition of *A Guide to Regulation* were distributed for use by policy and regulatory officers in all Commonwealth Government departments, agencies, statutory authorities and boards, and to other people interested in regulatory reform. The Guide was accessed around 2000 times on the Commission's website during 2000-01. As part of the response to respondents from a previous survey by the ORR, example RISs were made available on the website. Each of these was accessed, on average, around 400 times.
- Training evaluation forms were received from 68 of the 240 people to whom ORR staff provided RIS training in 2000-01. Their views indicated that the training was well received, with more than one-third rating their training as excellent or good. A further 63 per cent considered their training to be satisfactory. One participant considered the standard of the training to be unsatisfactory.

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## Competitive neutrality complaints activities

The Commonwealth Competitive Neutrality Complaints Office (CCNCO) is an autonomous office located within the Commission. As specified in the Productivity Commission Act and the *Commonwealth Competitive Neutrality Policy Statement* of June 1996, the role of the CCNCO is to:

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

The CCNCO aims to finalise most investigations, and report to the Minister for Financial Services and Regulation, within 90 days of accepting a complaint, and to undertake reporting and associated activities that are of a high standard and useful to government.

The resources used in producing this output in 2000-01 are estimated to have been:

- 1.5 staff years; and
- \$0.2 million on an accrual basis.

### Activities in 2000-01

#### *Complaints activity*

The CCNCO received five formal complaints during the year (table B.8). There were no active complaints carried forward from 1999-2000. One investigation, that had been suspended at the complainant's request in April 2000, was reactivated in May 2001.

Two of the complaints received in 2000-01 related to essentially the same matter and the CCNCO combined them into one investigation. One of the other formal complaints did not proceed to a formal report as the matter was resolved by the CCNCO through discussions with the relevant Commonwealth government business activity. The CCNCO, however, continues to follow the progress of that issue and has reserved the right to reactivate the complaint investigation if necessary. At the end of the financial year, four investigations — covering five complaints — were still proceeding. Details are provided in appendix D.

The CCNCO also conducted preliminary investigations into two queries regarding whether a formal complaint was appropriate with respect to the operation of certain



government activities. In both cases, the CCNCO found the government activities involved did not meet the ‘business test’ set out in the Commonwealth Competitive Neutrality Policy Statement and, accordingly, the activities did not fall within the jurisdiction of the competitive neutrality complaints mechanism. Details of these preliminary investigations are contained in appendix D.

### Research

In May 2001 the CCNCO released a research paper on the implications of competitive neutrality policy for State and Territory government forestry activities. The research project, which had been presented to, and approved by, State and Territory government representatives at a Competitive Neutrality Roundtable in December 1999, addressed amongst other things:

- how State and Territory guidelines for the implementation of competitive neutrality have been translated into operational requirements for forest agencies;
- the institutional changes that have been required to facilitate the implementation of competitive neutrality;
- the effects of these changes on operating practices in State forestry agencies; and
- whether the application of competitive neutrality requirements will address concerns about the underpricing of logs.

The paper, *Competitive Neutrality in Forestry*, drew heavily on information provided by State and Territory governments.

**Table B.8 Formal competitive neutrality complaints, 1998-99 to 2000-01**

<i>Activity</i>	<i>1998-98</i>	<i>1999-00</i>	<i>2000-01</i>
Written complaints received	6	7	5
Action:			
New complaints formally investigated	2 <sup>a</sup>	4	5 <sup>b</sup>
Complaints investigated but suspended	–	1	–
Complaint investigations reactivated	–	–	1
Complaints investigated and resolved through negotiation	–	–	1
Complaints not investigated	4	2	–
Reports completed	1	4	–
Complaints on hand (30 June)	–	–	5 <sup>b</sup>

<sup>a</sup> Two complaints related to the same matter: counter terrorist first response services provided by the Australian Protective Service. <sup>b</sup> Two complaints related to the same matter: the operation of airports on Commonwealth Government owned land (Sydney Basin airports and Essendon Airport Limited).

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### *Advice on the application and implementation of competitive neutrality*

An important part of the CCNCO's role is to provide formal and informal advice on competitive neutrality matters and to assist agencies in implementing competitive neutrality requirements. During 2000-01, the Office:

- provided advice around six times a week, on average, to agencies or in response to private sector queries over the telephone or in *ad hoc* meetings;
- provided advice on the implications of competitive neutrality for the costing of in-house bids to the then Office of Asset Sales and IT Outsourcing;
- participated in the hearings of the Senate Committee review on whole-of-government outsourcing; and
- was an active participant in the Roundtable meeting of competitive neutrality policy and complaint agencies of the Commonwealth, State and Territory governments held in August 2000.

### **Quality indicators**

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

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

The CCNCO undertook an extensive and comprehensive consultation process with the States and Territories as part of its forestry research paper in order to provide all jurisdictions with ample opportunities to comment on and contribute to the final report.

### **Timeliness**

The CCNCO has set itself the objective of reporting on complaint investigations within 90 days of accepting a formal complaint for investigation.

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One of the four formal investigations underway in 2000-01 (regarding ARRB Transport Research Limited) failed to meet that target. That complaint was received on 30 October 2000 and was not completed until 31 August 2001. The lengthy time to finalise this investigation was primarily due to the 4½ months it took one State authority to formally respond to a request for essential information. A contributing factor was the requirement that the CCNCO seek comments on the report from all State and Territory competitive neutrality agencies — necessary because the members of ARRB include representatives of the Commonwealth and each State and Territory government.

The formal complaint by StaffSure Pty Ltd was received on 29 November 2000 and resolved by negotiation. Commitments taken to address the heart of the matter were substantially in place by end-February 2001.

The two separate but related formal complaints (Sydney Basin and Essendon airports) were received on 12 April and 27 April 2001, and the remaining formal complaint (DocImage) was received in June 2001. These investigations were still proceeding at the end of the financial year, as was the complaint reactivated by Metra Information Limited in May 2001.

The research paper on competitive neutrality in forestry took considerably longer to finalise than originally envisaged because of the time spent interacting with States and Territories and obtaining comments on drafts of the report, an underestimation of the complexity of the issues involved and competing work priorities.

### **Indicators of usefulness**

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

The CCNCO received a range of comments suggesting that its outputs are contributing to better public understanding. For example, favourable comments were received from government and private sector agencies on the usefulness of the CCNCO publications on *Cost Allocation and Pricing* and *Rate of Return Issues* in assisting their implementation of competitive neutrality policy. Although released in 1998, these research papers continue to attract interest — around 650 and 900 website visits, respectively, by external parties in 2000-01. In total, there were around 3300 visits to CCNCO publications on the website during the year.

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## Supporting research and activities and statutory annual reporting

While much of the Commission's research activity is externally determined, it has some discretion in meeting its legislative charter to undertake a supportive program of research and to report annually about matters relating to industry development and productivity, including assistance and regulation.

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

The resources used in producing this output in 2000-01 are estimated to have been:

- 73.3 staff years; and
- \$9.6 million on an accrual basis.

### Activities in 2000-01

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

- research to meet the Commission's statutory annual reporting obligations, comprising:
  - its annual report for 1999-2000, tabled in December 2000, which addressed issues to do with globalisation and the World Trade Organization; and
  - two companion publications on regulatory developments in the year and trade and assistance issues, released in November and December 2000, respectively;
- quantitative analysis to support the Commission's inquiry on Australia's general tariff arrangements;
- six submissions to other review bodies;
- two volumes of proceedings from workshops/conferences conducted or co-sponsored by the Commission;
- 22 finalised research reports — encompassing 14 staff research papers, two consultancy studies for the Commission and six staff working papers — and a substantial number of research projects, many of which are due for completion in the second half of 2001; and
- other projects associated with inquiry and research support, conference papers, assistance to other government departments, and journal articles.

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The research publications produced in the supporting research program in 2000-01 are listed in box B.5. Details of Commission research papers, staff papers and the 95 presentations given by the Chairman, Commissioners and staff in the year are provided in appendix E. The diversity of research projects underway at the end of the year is illustrated in box B.6.

### **Quality indicators**

The quality of the Commission's supporting research projects is monitored through a series of internal and external checks. Proposals for research are considered against current research objectives and themes; their capacity to contribute policy-relevant information; other research underway; whether the Commission is best placed to conduct the research; and available resources.

Part of the research process for some projects involves consulting with key interested parties on the issues they view as important and in obtaining access to information. For example, in conducting analysis of the effects of population distribution on telecommunication costs, Commission staff consulted closely with the Australian Communications Authority and Telstra. The stream of research on incentives for the conservation of biodiversity commenced following discussions with interested parties and a workshop with several environmental economists in mid-2000. Individual projects have involved wide ranging consultations with, for example, the Australian Conservation Foundation, the (Victorian) Trust for Nature, the Australian Bush Heritage Fund, Earth Sanctuaries Ltd and most State parks and wildlife agencies.

Research is monitored internally as it progresses. Seminars are held to expose research as it develops. In the case of the study on Earth Sanctuaries Ltd, a draft was presented at the OECD/World Bank Workshop on Market Creation for Biodiversity Products and Services in Paris in January 2001.

Where appropriate, drafts of research reports are refereed externally. Referees are chosen both for their expertise on a topic and to reflect a range of views. While referees provided a range of constructive criticism, they were generally complimentary about the overall standard of the Commission research projects they reviewed. The incorporation of responses to referees' comments enhanced the quality of the final research outputs.

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**Box B.5 Supporting research program and annual reporting, 2000-01 publications**

***Annual report suite of publications***

Annual report 1999-2000

Regulation and its review 1999-2000

Trade & assistance review 1999-2000

***Inquiry report supplements***

Modelling the effects of removing general tariffs

***Submissions to other review bodies***

NCP Review of the Wheat Marketing Act

Review of Queensland's native wildlife legislation

NCP Review of the Wheat Marketing Act (Supplementary Submission)

Department of Foreign Affairs and Trade review of the Cartagena Protocol on Biosafety

NCP Review of the Hazardous Waste (Regulation of Exports and Imports) Act

House of Representatives Standing Committee on Environment and Heritage

***Conference/workshop proceedings***

Microeconomic reform and the environment

Achieving better regulation of services

***Staff research papers***

Single-desk marketing: assessing the economic arguments

The growth of non-traditional employment: are jobs becoming more precarious?

Population distribution and telecommunication costs

The increasing demand for skilled workers in Australia: the role of technical change

Restrictions on trade in distribution services

Restrictions on trade in professional services

Productivity in Australia's wholesale and retail trade

Unemployment and re-employment of displaced workers

Long-term aged care: expenditure trends and projections

Business failure and change: an Australian perspective

The diversity of casual contract employment

Distribution of the economic gains of the 1990s

Resource movements and labour productivity, an Australian illustration: 1994-95 to 1997-98

Cost sharing for biodiversity conservation: a conceptual framework

***Consultancy reports to the Commission***

Computable general equilibrium models for evaluating domestic greenhouse policies in Australia: a comparative analysis

A duty of care for the protection of biodiversity on land

***Staff working papers***

Genetically modified products: a consumer choice framework

Tricks and traps of the Business Longitudinal Survey

Industrial relations practices and workplace productivity growth

International investment rules: an efficiency perspective

Historical simulations with the Monash Regional Equation System

Environmental labelling

Another form of quality assurance and measure of relevance is the Commission's practice of bringing leading policy analysts, researchers and practitioners to workshops and conferences which the Commission either conducts or co-sponsors under its supporting research program. This year's major workshop, convened by the Commission in September 2000, explored the links between economic and environmental policy objectives and outcomes (box 2.4). The workshop proceedings were published in November 2000.

The Commission consults widely to help ensure the relevance of its program of supporting research. Continuing what is now an annual practice, the Commission invited a range of government departments and agencies, peak national employer bodies, unions, and community welfare and environmental groups to meet in May 2001 to discuss current and future research. Meetings with academics and

#### **Box B.6 Supporting research projects underway at 30 June 2001**

Submission to DFAT on Australia's Approach to Forthcoming Trade Negotiations <sup>#</sup>	Constraints on private conservation of biodiversity <sup>#</sup>
The role of technology in determining skilled employment: an economy-wide approach <sup>#</sup>	Creating markets for biodiversity: a case study of Earth Sanctuaries Ltd <sup>#</sup>
Self-employed contractors in Australia: incidence and characteristics of contractors <sup>#</sup>	Structural adjustment – key policy issues <sup>#</sup>
Electricity prices and cost factors <sup>#</sup>	Measuring efficiency in health services <sup>#</sup>
Changing earnings distribution: the role of technical change	Information technology and Australia's productivity surge
Price effects of regulation: international air passenger transport, telecommunications and electricity supply	Provision of biodiversity conservation services: the role of the public and private sectors
Global gains from liberalising trade in telecommunications and financial services	Health policy reforms – an international perspective
Australia's services sector: a changing profile	Australia's productivity growth to 1999-2000
Skill and productivity	Creating markets for ecosystem services
Assessing regional trading arrangements	Survey of Australian off-shore investment
The regional effects of reform in the electricity industry	Labour hire employment: extent and characteristics
Trends in Australian economic infrastructure service prices over the last decade	Is demand for medical services supplier-induced?
Statistical evidence on the use and impact of government business programs	Impact of greenhouse gas emissions on productivity growth in the electricity sector
Adjustment issues – analysing structural change using dynamic MONASH	Unemployment: economic analysis and policy modelling*
Tariff-trade database	Health policy and socio-economic status in Australia: improving decision support tools*

<sup>#</sup> Published between July and October 2001. \* Collaborative projects. Information on the research projects is provided in the Commission's *Research Program 2001-02*, August 2001.

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consultations with Commissioners and staff also contribute to the identification of broad research areas.

Further indicators of quality this year were:

- the selection of Mr Kevin Hanslow as a GTAP Research Fellow for the period 2001–2004. Kevin, a Research Manager in the Trade and Economic Studies Branch, was selected in recognition of his contribution over the years to the development and use of the Global Trade Analysis Project model based at Purdue University in the United States;
- analysis of services trade undertaken in the Commission has been published internationally, reported by the US National Bureau of Economic Research and has been well received by the OECD Working Party of the Trade Committee;
- the proceedings of the Commission workshop, *Microeconomic Reform and the Environment*, were featured by the premier *Scout Report for Business and Economics* (14 December 2000), an internet resource project based at the University of Wisconsin-Madison and funded by the US National Science Foundation;
- the publication of articles based on research undertaken in the Commission in refereed journals such as *Agenda*, the *Australian Journal of Corporate Law* and the *Journal of Policy Modelling* (Bickerdyke et al. 2001a; Bickerdyke et al. 2001b; Parham et al. 2001; and Salerian et al. 2000); and
- the invitation extended by the *Australian Bulletin of Labour* for Commission staff to contribute to a special issue on casual employment (Murrough and Waite 2001), and the commendation by the journal editor ‘for opening up the question over what constitutes precariousness in today’s labour market’.

## Timeliness

Around two-thirds of the research projects listed in box B.5 were completed on or close to anticipated schedules. Government-commissioned projects take priority and the Commission allocates its resources accordingly. Decisions to divert staff temporarily to higher priority work, redefinition of project scope and delays in obtaining data and referee comments were common reasons for extended completion times for research projects in the past year. In some cases, initial estimates of the time needed to undertake the required research proved too ambitious.



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## Indicators of usefulness

Evidence of the usefulness of the Commission's supporting research and annual reporting activities in contributing to policy making and to public awareness of microeconomic reform issues is demonstrated by a range of indicators. For example:

- Use of the Commission's ongoing research on Australia's improved productivity performance — by governments, the Reserve Bank of Australia and in the wider community, as well as by international agencies such as the OECD and the IMF — has been particularly evident during the past year. For example, the OECD's latest economic survey of Australia drew on that work in reporting on progress in structural reform (OECD 2001), as did the OECD Growth Project (2000).
- The Commission's stream of research on incentives for the conservation of biodiversity (box 2.3) was used extensively by the House of Representatives Standing Committee on Environment and Heritage (2001) in its report on public good conservation. For example, the Committee quoted the Commission's submission to it; drew on the Commission Research Paper *Constraints on Private Conservation of Biodiversity* in discussing taxation and other disincentives and anomalies in using land for conservation purposes (PC 2001a) and, in relation to a 'duty of care' for the environment, a consultancy report to the Commission (Bates 2001); and the Committee drew extensively on a Commission Staff Research Paper (Aretino et al. 2001a) in discussing cost sharing principles for public good conservation.
- The information or policy analysis in six different Commission research reports, from the current or recent years, was drawn on by Commonwealth and State parliamentarians during the year, an example being the Staff Research Paper on trends in long-term aged care.
- A study by the Centre for International Economics, *Economic impacts of an Australia–United States Free Trade Area*, June 2001, made use of Commission estimates of barriers to services trade, as well other Commission inquiry and research reports. The study on the measurable economic costs and benefits such an agreement might bring was commissioned by the Department of Foreign Affairs and Trade.
- An example of the usefulness to industry and community groups of the information base provided by outputs from the Commission's supporting research program can be found in *The Primary Report*, a newsletter circulated by the NSW Farmers' Association. Recent editions on 'Productivity matters' (November 2000) and 'The Great Divide' (February 2001) drew on research reports — *Distribution of the Economic Gains of the 1990s*, *Aspects of Structural Change in Australia* and a journal article on Australia's productivity

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performance authored by Commission staff — and the inquiry report, *Impact of Competition Policy Reforms on Rural and Regional Australia*.

- The Commission's work with the first ABS longitudinal survey of Australian businesses is now feeding into the use and development of this type of data in Australia. Longitudinal data from businesses can be used to study the dynamics of business operations. A working paper by Commission staff detailing features of the survey — *Tricks and Traps of the Business Longitudinal Survey* — led to improvements in the database, which was redistributed to users in June 2001. The working paper is also distributed to survey users by the ABS, and it is being used as an input in planning future collections of this type.

More generally, important means by which research projects contribute to public debate are through media coverage, the dissemination of reports to key interest groups and the ready accessibility of reports on the Commission's website. Most of the 2000-01 publications received media coverage upon their release. In total, nearly 17 000 printed copies of research publications listed in box B.5 were made available for distribution by the Commission. To 30 June 2001, external parties had accessed the index pages of those reports on the Commission's website nearly 29 000 times. The conference volume, *Achieving Better Regulation of Services*, was the most accessed research report during the year (7500 times).

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## C Commissioned projects

**The nature and breadth of the public inquiries and other work which the Commission is requested by governments to undertake, and the acceptance rate of the Commission's recommendations, provide some broad indicators of the quality and impact of Commission work.**

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

The Productivity Commission is required to report annually on the matters referred to it. This appendix provides details of projects which the Government commissioned during the year and government responses to reports completed in 2000-01. It also reports on commissioned projects received since 30 June 2001.

This appendix is structured as follows:

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

Table C.1 summarises activity since the Commission's 1999-2000 annual report and indicates where relevant information can be found.

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

<i>Date received</i>	<i>Title</i>	<i>For terms of reference see</i>	<i>Stage of completion</i>	<i>Major findings/recommendations</i>	<i>Government response</i>
<b>Inquiries</b>					
17-1-97	Ecologically Sustainable Land Management	IC AR 96-97	IC Report No. 60 signed 27-1-98	PC AR 98-99	none to date
25-8-98	Implementation of ESD by Commonwealth Departments and Agencies	PC AR 97-98	PC Report No. 5 signed 25-5-99	PC AR 99-00	none to date
5-3-99	Broadcasting	PC AR 98-99	PC Report No. 11 signed 3-3-00	PC AR 99-00	none to date
22-10-99	Review of Australia's General Tariff Arrangements	PC AR 99-00	PC Report No. 12 signed 22-7-00	page 124	page 125
5-11-99	Review of Legislation Regulating the Architectural Profession	PC AR 99-00	PC Report No. 13 signed 4-8-00	page 126	page 127
14-2-00	Legislation Review of the <i>Prices Surveillance Act 1983</i>	PC AR 99-00	PC Report No. 14 signed 14-8-01	not yet released	na
21-6-00	Telecommunications Competition Regulation	PC AR 99-00	PC Report No. 16 signed 21-9-01	not yet released	na
17-8-00	Cost Recovery by Government Agencies	PC AR 99-00	PC Report No. 15 signed 16-8-01	not yet released	na
11-10-00	Review of the National Access Regime	page 115	PC Report No. 17 signed 28-9-01	not yet released	na
21-12-00	Price Regulation of Airport Services	page 116	In progress	na	na
7-2-01	Review of the <i>Superannuation Industry (Supervision) Act 1993</i> and Certain Other Superannuation Legislation	page 118	In progress	na	na
16-7-01	Review of Radiocommunications Acts	page 119	In progress	na	na
3-9-01	Independent Review of the Job Network	page 121	In progress	na	na
27-9-01	Citrus growing and processing	page 122	In progress	na	na
2-10-01	Review of Section 2D of the <i>Trade Practices Act 1974</i>	page 123	In progress	na	na
<b>Other commissioned projects</b>					
1-9-00	International Pharmaceutical Price Differences	AR 99-00	Report released 20-7-01	page 127	none to date

na not applicable

Note: References to previous annual reports (AR), inquiry and other reports are to those of the Industry Commission (IC) and the Productivity Commission (PC).

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## Terms of reference for new projects

This section outlines the terms of reference for commissioned projects received since the Commission's annual report for 1999-2000 which are in progress or for which the report has not yet been released. Full terms of reference are available on the Commission's website and in the relevant reports.

### Review of the national access regime

On 5 October 2000 the Assistant Treasurer referred Clause 6 of the Competition Principles Agreement and Part IIIA of the *Trade Practices Act 1974* for inquiry and report within 12 months of receipt of the reference. The Commission is to:

- focus on those parts of the legislation which restrict competition, or that impose costs or confer benefits on business;
- report on current arrangements established by Clause 6 and Part IIIA for regulation of access to significant infrastructure facilities, and ways of improving them, taking into account the following:
  - legislation or regulation which restricts competition or that may be costly to business should be retained only if the benefits to the community as a whole outweigh the costs; and if the objectives of the legislation or regulation can be achieved only by restricting competition or by imposing costs on business;
  - where relevant, the effects of Clause 6 and Part IIIA on the environment, welfare and equity, occupational health and safety, economic and regional development, consumer interests, the competitiveness of business (including small business), investment and efficient resource allocation;
  - the need to promote consistency between regulatory regimes and efficient regulatory administration through improved coordination to eliminate unnecessary duplication; and
  - mechanisms that may improve Clause 6 and/or Part IIIA processes for achieving third party access to essential infrastructure, or that may engender greater certainty, transparency and accountability in the decision making process in Clause 6 and Part IIIA.

In making assessments in relation to these matters, the Commission is to have regard to the analytical requirements for regulation assessment by the Commonwealth, including those set out in the Competition Principles Agreement. In particular, the Commission is to:

- identify the nature and magnitude of the problem(s) that Clause 6 and Part IIIA seek to address;

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- clarify the objectives of Clause 6 and Part IIIA;
  - identify whether, and to what extent, Clause 6 and Part IIIA restrict competition or impose costs on businesses;
  - consider any alternative means of achieving the objectives of Clause 6 and Part IIIA, including non-legislative approaches;
  - analyse and, as far as reasonably practical, quantify the benefits, costs and overall effects of Clause 6 and Part IIIA and alternatives identified by the Commission, including the impact of Clause 6 and Part IIIA on investment in infrastructure;
  - identify the different groups likely to be affected by Clause 6 and Part IIIA and alternatives to them;
  - determine a preferred option for regulation, if any, in the light of the objectives of Clause 6 and Part IIIA;
  - examine measures to engender greater certainty, transparency and accountability in the decision making processes in Clause 6 and Part IIIA;
  - examine mechanisms for improving Clause 6 and Part IIIA processes for achieving third party access to significant infrastructure facilities, including measures to improve flexibility, reduce complexity, costs and time for all participants and, where the mechanisms differ, determine a preferred mechanism; and
  - examine the roles of the National Competition Council, the Australian Competition and Consumer Commission and the Australian Competition Tribunal in the administration of the access provisions of Clause 6 and Part IIIA, and the relationship between the institutions.

## **Price regulation of airport services**

On 21 December 2000 the Assistant Treasurer referred the price regulation of airport services for inquiry and report within 12 months of receipt of the reference.

The Commission is to report on whether there is a need for prices regulation, and the appropriate form of any prices regulation, taking into account the following principles:

- the CPI-X price cap applied to aeronautical charges during the first five year period of private ownership will no longer operate;
- future prices regulation should be applied to those aeronautical services and those airports where airport operators have most potential to abuse market power;

- 
- airport operators may propose alternative approaches to prices regulation which would provide equal or better protection to users;
  - prices regulation should minimise compliance costs on airport operators and the Government;
  - prices regulation should promote the efficient operation of airports;
  - prices regulation should facilitate benchmarking comparisons between airports, competition in the provision of services within airports (especially protecting against discrimination in relation to small users and new entrants), and commercially negotiated outcomes in airport operations; and
  - the Commission may recommend more effective forms of prices regulation than are currently in place, where this may be necessary.

In making its recommendations, the Commission is to:

- review the operation of the existing prices regulation;
- identify the rationale for any future prices regulation;
- identify relevant alternatives to the current arrangements, including the prices oversight arrangements at relevant airports in other countries, and the extent to which these alternatives would achieve that rationale;
- analyse and, as far as practical, quantify the benefits, costs and economic and distributional impacts of the current arrangements and alternatives; and
- identify the different groups, including the travelling public, likely to be affected by the current prices oversight arrangements and alternatives.

Shortly after commencement of the inquiry, the Commission wrote to the Assistant Treasurer seeking clarification of the statement in its terms of reference that ‘the CPI-X price cap applied to aeronautical charges during the first five-year period of private ownership will no longer operate’. The Commission understood this to essentially convey the Government’s intention that the current price cap arrangements for Phase I and II airports would cease after five years of operation. The Commission also understood that the statement was not intended to preclude from consideration price cap arrangements of the general form of CPI-X as an option for future prices regulation of airport services, should some form of prices regulation be regarded as appropriate. The Commission sought confirmation from the Assistant Treasurer that this general approach to prices regulation could be considered as one of the range of options where there is most potential for abuse of market power. The Commission’s understanding was confirmed by the Assistant Treasurer in writing.

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## **Review of the *Superannuation Industry (Supervision) Act 1993* and certain other superannuation legislation**

On 7 February 2001 the Assistant Treasurer referred a range of detailed superannuation legislation and associated regulations for inquiry and report within nine months of receipt of the reference. The Commission is to focus on those parts of the legislation that restrict competition, or that impose costs or confer benefits on business.

The Commission is to report on appropriate arrangements for regulation taking into account the following:

- legislation/regulation which restricts competition should be retained only if the benefits to the community as a whole outweigh the costs; and if the objectives of the legislation/regulation can be achieved only by restricting competition. Alternative approaches which may not restrict competition include quasi-regulation and self-regulation;
- in assessing these matters, regard should be had, where relevant, to effects on the environment, welfare and equity, occupational health and safety, economic and regional development, consumer interests, the competitiveness of business including small business, and efficient resource allocation;
- the need to promote consistency between regulatory regimes and efficient regulatory administration, through improved coordination to eliminate unnecessary duplication;
- there should be explicit assessment of the suitability and impact of any standards referenced in the legislation, and justification of their retention if they remain as referenced standards; and
- compliance costs and the paper work burden on small business should be reduced where feasible.

In making its assessments, the Commission is to have regard to the analytical requirements for regulation assessment by the Commonwealth, including those set out in the Competition Principles Agreement. The Commission is to:

- identify the nature and magnitude of the social, environmental or other economic problem(s) that the legislation seeks to address;
- clarify the objectives of the legislation;
- identify whether, and to what extent, the legislation restricts competition;
- identify relevant alternatives to the legislation, including non-legislative approaches;



- 
- analyse and, as far as reasonably practical, quantify the benefits, costs and overall effects of legislation and alternatives identified by the Commission;
  - identify the different groups likely to be affected by the legislation and alternatives;
  - determine a preferred option for regulation, if any, in light of objectives set out above; and
  - examine mechanisms for increasing the overall efficiency, including minimising the compliance costs and paper burden on small business, of the legislation and, where it differs, the preferred option.

The following legislation and associated regulations are to be reviewed:

- *Superannuation (Self Managed Superannuation Funds) Taxation Act 1987*
- *Superannuation (Self Managed Superannuation Funds) Supervisory Levy Imposition Act 1991*
- *Superannuation (Resolution of Complaints) Act 1993*
- *Superannuation Industry (Supervision) Act 1993* — excluding provisions dealing with:
  - those aspects of the regulation and supervision of self managed superannuation funds that were covered by *Superannuation Legislation Amendment Act (No. 3) 1999* and subsequent regulations;
  - the superannuation investment rules (section 66 and Part 8 of the Act); and
  - matters covered by the draft Financial Services Reform Bill (previously CLERP 6).
- *Occupational Superannuation Standards Regulations Application Act 1992*
- *Superannuation (Financial Assistance Funding) Levy Act 1993*.

## **Review of Radiocommunications Acts**

On 16 July 2001 the Assistant Treasurer referred a range of legislation and associated regulations relating to spectrum management processes which are provided for under radiocommunications and other legislation, for inquiry and report within 12 months of receipt of the reference. The Commission is to focus on those parts of the legislation that restrict competition, or that impose costs or confer benefits on business.

The Commission is to report on appropriate arrangements for spectrum management, taking into account the following:

- 
- legislation/regulation which restricts competition should be retained only if the benefits to the community as a whole outweigh the costs; and if the objectives of the legislation/regulation can be achieved only by restricting competition. Alternative approaches which may not restrict competition include quasi-regulation and self-regulation;
  - in assessing these matters, regard should be had, where relevant, to effects on the environment, welfare and equity, occupational health and safety, economic and regional development, consumer interests, the competitiveness of business including small business, and efficient resource allocation;
  - the need to promote consistency between regulatory regimes and efficient regulatory administration, through improved coordination to eliminate unnecessary duplication;
  - there should be explicit assessment of the suitability and impact of any standards made under the legislation and any standards referenced in the legislation, and justification of their retention if they are to remain; and
  - compliance costs and the paper work burden on small business should be reduced where feasible.

In making its assessments, the Commission is to have regard to the analytical requirements for regulation assessment by the Commonwealth, including those set out in the Competition Principles Agreement. In particular, the Commission is to:

- identify the nature and magnitude of the social, environmental or other economic problem(s) that the legislation seeks to address;
- clarify the objectives of the legislation;
- identify whether, and to what extent, the legislation restricts competition;
- identify relevant alternatives to the legislation, including non-legislative approaches;
- analyse and, as far as reasonably practical, quantify the benefits, costs and overall effects of the legislation and alternatives identified by the Commission;
- identify the different groups likely to be affected by the legislation and alternatives;
- determine a preferred option for legislation, if any, in light of the objectives set out above; and
- examine mechanisms for increasing the overall efficiency, including minimising the compliance costs and paper burden on small business, of the legislation, and where it differs, the preferred option.

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The Commission is also to report on:

- how effective the reforms introduced in the legislation have been in
  - removing structural obstacles to the introduction of new communications technologies and services;
  - encouraging innovation and investment in radiocommunications services; and
  - facilitating access to spectrum by users, including public and community services as defined in the legislation;
- the effectiveness of provisions in the *Radiocommunications Act 1992* as a way by which to control market domination and increase competition; and
- the effectiveness of the Australian Communications Authority's (formerly the Spectrum Management Authority) implementation of the reforms introduced in the legislation;

and, in doing so, have regard to international arrangements for spectrum planning and development of standards (including the implications of these on the availability of radiocommunications equipment).

The following legislation and associated regulations are to be reviewed: *Radiocommunications Act 1992*; *Australian Communications Authority Act 1997*; *Radiocommunications (Transmitter Licence Tax) Act 1983*; *Radiocommunications (Receiver Licence Tax) Act 1983*; *Radiocommunications (Spectrum Licence Tax) Act 1997*; *Radiocommunications (Permit Tax) Act 1983*; *Radiocommunications Taxes Collection Act 1983*.

### **Independent review of the Job Network**

On 9 August 2001 the Assistant Treasurer announced that the Commission would commence an independent review of the Job Network on 3 September 2001 and report within nine months.

The reorganisation of labour market assistance arrangements, including the Job Network, which was announced in the 1996-97 Budget, was guided by three principles:

- a strong focus on outcomes, that is to deliver a better quality of assistance to unemployed people, leading to better and more sustainable employment outcomes;
- to address the structural weaknesses and inefficiencies inherent in arrangements at the time, by changing the role of government to that of a purchaser rather than a provider of assistance; and

- 
- the use of competition to drive greater efficiency for the taxpayer and increased choice for consumers.

Having regard to the guiding principles established by the Government, the Commission is to critically examine and comment on the framework for delivering labour market assistance arrangements including:

- the application of the purchaser-provider model to employment assistance;
- the roles of the relevant players including:
  - Commonwealth-funded employment service providers;
  - training providers utilised by Commonwealth-funded employment service providers;
  - Centrelink; and
  - the Department of Employment, Workplace Relations and Small Business, the Department of Education, Training and Youth Affairs and the Department of Family and Community Services;
- areas where the model could be improved; and
- the possible scope for the model to apply, in full or in part, to other types of Commonwealth Government service delivery.

### **Citrus growing and processing**

On 26 September 2001 the Treasurer referred the competitive situation and outlook for the citrus industry for inquiry and report within six months of receipt of the reference.

The Commission is to take into account:

- the financial conditions, including profitability, of the industry;
- trends in relation to demand and supply factors, including imports such as frozen concentrate orange juice;
- the competitiveness of the industry, including efforts taken by the industry to enhance competitiveness; and
- the impact and effectiveness of existing and recent Commonwealth/State policies and programs.

In addition:

- the Commission is to report on whether the circumstances are such that measures are necessary to enhance the competitiveness of the industry; and

- 
- if so, what measures would be necessary and appropriate, including whether a formal safeguards investigation is warranted.

### **Review of section 2D of the *Trade Practices Act 1974***

On 27 September 2001 the Assistant Treasurer referred section 2D of *the Trade Practices Act 1974* for inquiry and report within 12 months of receipt of the reference. Section 2D exempts the licensing decisions and internal transactions of local government bodies from those provisions of the Trade Practices Act (Part IV) which regulate restrictive trade practices. The inquiry meets a commitment on the Commonwealth Government's Legislation Review Schedule.

The Commission is to report on the appropriate arrangements for regulation, if any, taking into account the following:

- legislation/regulation which restricts competition should be retained only if the benefits to the community as a whole outweigh the costs; and if the objectives of the legislation/regulation can be achieved only by restricting competition. Alternative approaches which may not restrict competition include quasi-regulation and self-regulation;
- in assessing these matters, regard should be had, where relevant, to effects on the environment; employment, social welfare, access and equity; occupational health and safety; economic and regional development; consumer interests; the competitiveness of business including small business; and efficient resource allocation; and to identifying the likely impact of reform measures on specific industry sectors and communities, including expected costs in adjusting to change;
- the need to promote consistency between and within regulatory regimes and efficient regulatory administration, through improved coordination to eliminate unnecessary duplication. Particular attention is to be paid to the need for the consistent regulation of the licensing decisions and internal transactions of the Commonwealth, the States and Territories, and local government bodies; and
- compliance costs and the paper work burden on small business should be reduced where feasible.

In making its assessments, the Commission is to have regard to the analytical requirements for regulation assessment by the Commonwealth, including those set out in the Competition Principles Agreement. Among other things, the Commission is to:

- identify the nature and magnitude of the social, environmental or economic problem(s) that the exemption seeks to address;

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- clarify the objectives of the exemption;
  - identify whether, and to what extent, the exemption restricts competition;
  - identify relevant alternatives to the exemption, including non-legislative approaches.
  - analyse and, as far as reasonably practical, quantify the benefits, costs and overall effects of the exemption and alternatives identified. Consideration is to be given to the compliance costs and paper burden on small business of the exemption and alternatives;
  - identify the different groups likely to be affected by the exemption and alternatives; and
  - determine a preferred option for regulation, if any, in light of objectives set out above.

## **Reports released by the Government**

This section summarises the main findings and recommendations of commissioned projects which were released by the Government during 2000-01. Where available, the government response to reports is summarised.

### **Review of Australia's general tariff arrangements**

Inquiry Report No. 12 signed 22 July 2000, released 19 December 2000

Key findings of the report were that:

- At 5 per cent or less, Australia's general tariffs, which assist many areas of manufacturing, are low and relatively uniform by historical standards.
- While they involve smaller costs to the community than in the past, these tariffs continue to distort producer and consumer choice and reduce the international competitiveness of a range of Australian producers.
- The interaction of the tariffs and a complex set of concessional duty arrangements causes significant monitoring and compliance costs for business.
- Further reductions in general tariffs would remove these various disadvantages and be of some small benefit to the community as a whole.
- This course of action would strengthen the perception that world-class performance is necessary for economic success in Australia. It would also have the effect of removing 'nuisance tariffs' — that is, those applied to goods not produced in Australia.

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- The consequent adjustment costs to presently assisted industries, employees and regions, whilst potentially significant for some individuals and firms, would similarly be slight overall — the competitive position of others would be improved as the prices of their inputs declined. These costs would be much less than those stemming from other sources of change (for example, technological advances and exchange rate changes).
  - Early unilateral tariff reductions would not reduce Australia's negotiating strength in the forthcoming multilateral trade negotiations.

On balance, the Commission saw advantages in the removal of the general tariffs under review and associated concessional arrangements and recommended that:

- the duty under concessional tariff arrangements be reduced to Free as soon as possible; and
- the general tariff rates under reference be reduced to Free sooner rather than later, preferably on 1 July 2001 and no later than 1 January 2003.

As with business inputs under the Tariff Concession System, the Commission considered that there would be merit in reducing the concessional rate of duty under project and other policy by-laws for goods under reference to Free, where a higher duty currently applies, as soon as possible. The Commission's assessment was that these by-laws are likely to be net contributors to economic welfare where they assist unprotected (as distinct from protected) domestic production. If non-zero general tariffs continued for some time, there would be merit in expanding the scope of the by-law items along the lines requested by participants — for example, by reducing the project threshold from \$10 million to \$5 million. Further, if their scope was clearly restricted to inputs to unprotected domestic production, then any past need for detailed case-by-case analysis of the effects on Australian industry could be reduced. In expanding their scope in this way, however, there would be a need to balance any extra administrative and compliance costs against the overall assistance benefits for the community.

### ***Government response***

On 19 December 2000 the Government announced its decision to retain the general tariff rate at 5 per cent and to retain the 3 per cent duty on business inputs under the Tariff Concession Scheme (Costello and Minchin 2000). The Government accepted the Commission's review that there are small benefits to be obtained from the removal of the general tariff but considered there would be benefit in holding these current arrangements for the present and moving to withdraw them at a time consistent with trade and fiscal objectives. Changes to the project and policy by-laws schemes would be considered in the new year.

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The Government announced in the 2001-02 Budget that it would expand the current project and policy by-laws schemes from 1 July 2002 (Costello and Fahey 2001). The new scheme would roll five current by-laws into one new expanded by-law for projects, allowing a streamlined application process and widening tariff exemption for certain industry sectors. The Government also indicated that it would ensure that major projects benefiting from the new arrangements would offer 'full, fair and reasonable access to contracts and tenders for local Australian manufactures'.

## **Review of legislation regulating the architectural profession**

Inquiry Report No. 13 signed 4 August 2000, released 16 November 2000

Each State and Territory currently restricts use of the title 'architect' to persons who meet certain requirements (a statutory certification system). The Commission was required, under National Competition Policy guidelines, to assess whether the current system of regulation serves the community interest and whether better, more efficient, mechanisms exist. The Commission found that:

- Building and planning codes and fair trading laws directly address community standards relating to building safety, propriety of building service providers, 'truth in labelling' and the quality of the built environment. Statutory certification of architects also aims to address some of these issues.
- Statutory certification appears to do very little to promote additional community benefits. Certification of architects is an imprecise and indirect instrument for addressing various health and safety issues related to buildings and concerns about the quality of the built environment. For example, in the residential and smaller commercial sectors of the market, many consumers choose to hire non-architects and, even if hired, architects may not have primary responsibility for building health and safety. Consequently, many consumers are not protected by Architects Acts.
- Statutory certification restricts competition to some degree, imposing costs on consumers, architects and non-architects. As the practice of architecture is not restricted by Architects Acts, such costs are unlikely to be large. Nonetheless, evidence suggests they are positive.
- Perhaps the strongest argument for Architects Acts is that statutory certification and course accreditation may facilitate Australian exports of architectural and education services. However, targeted mechanisms to meet export requirements could be devised without the attendant costs of statutory certification.



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On balance, the Commission assessed that the costs of current regulation outweigh its benefits because claimed benefits of Architects Acts could be achieved more effectively by a self-regulating profession and other existing legislation.

While there is no case for extending current regulation (for example, by restricting practice), Architects Acts could be improved by establishing a national system of registration, winding back title restrictions, removing restrictions on the use of derivatives and ownership of practices, and promoting transparency and accountability of Architects Boards.

An even better alternative — which was the Commission’s preferred option — would be to repeal Architects Acts and remove statutory certification. In the absence of Architects Acts, architects are likely to develop a credible system of certification (as have several other professions) to promote their qualifications and competence to domestic and overseas consumers. Self-regulation is also more likely to promote a national registration system than is a statutory system which requires harmonisation by all States and Territories.

Some States and Territories have adopted, or propose to adopt, comprehensive legislation requiring all building practitioners (including building design practitioners) who act as principals, to be registered. Though not the Commission’s preferred option for regulating architects, the Commission set out principles for incorporating architects in this model.

### ***Government response***

Upon releasing the Commission’s report, the Treasurer stated that all States and Territories had agreed to participate in the development of a national response to the review, and a Working Group would be set up for this purpose. The Working Group would contain a representative from each State and Territory and would present its proposed response to heads of Government for consideration (Costello 2000b). The Treasurer also noted that, as the Commonwealth does not have any legislation regulating architects, responsibility for responding to the Commission’s legislative review is entirely a matter for the States and Territories.

### **International pharmaceutical price differences**

Commissioned research report, released 20 July 2001

The pricing of pharmaceuticals listed on the Pharmaceutical Benefits Scheme (PBS) is an important issue for Australia. Between 1992-93 and 1999-2000, government spending on pharmaceuticals rose from under 12 per cent of public expenditure on

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health to over 15 per cent. In 2000-01, the cost to the Commonwealth Government of the PBS increased by around 20 per cent, to over \$4 billion.

This study examined differences between manufacturer prices in Australia and seven other countries for 150 PBS-listed pharmaceuticals, as at 30 June 2000. These items account for over 80 per cent of total expenditure on PBS-listed pharmaceuticals.

The bilateral comparisons showed that manufacturer prices in Australia for the top 150 pharmaceuticals were much lower than in the United States, Canada, the United Kingdom and Sweden. Prices in Australia were closer to those in France, and about the same as those in Spain and New Zealand.

The price differences varied across different categories of pharmaceuticals. Prices for new innovative pharmaceuticals were much closer to those in the other countries. The largest price differences were observed for 'me-too' pharmaceuticals and they were also significant for generic pharmaceuticals.

It was difficult to identify robust specific explanations for the observed bilateral price differences. Rather, the price differences were probably due to a combination of factors, including differences in health systems, subsidy and cost-containment mechanisms, market conditions and production costs. There was, nevertheless, some evidence to support the view that Australia's cost-containment arrangements, particularly reference pricing, may have contributed to keeping prices relatively low.

### ***Government response***

There had been no government response to the study as at 5 October 2001.

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## D Competitive neutrality complaints

The Productivity Commission Act and the Government's Commonwealth Competitive Neutrality Policy Statement require the Commission to report annually on the number of complaints it receives about the competitive neutrality of government businesses and business activities and the outcomes of its investigations into those complaints. The Commonwealth Competitive Neutrality Complaints Office (CCNCO) received five formal complaints in 2000-01. There were no active complaints carried forward from 1999-2000 but one complaint from that year was reactivated. The CCNCO also conducted preliminary investigations into two queries as to whether a formal complaint against a government activity was warranted. Details of these investigations are summarised in this appendix.

### Complaints formally investigated

#### ARRB Transport Research Limited

On 30 October 2000 Capricorn Capital Limited lodged a complaint against ARRB Transport Research Limited (ARRB). ARRB is a public company, limited by guarantee, whose 10 Members are the Commonwealth, each State and Territory Government and the Australian Local Government Association.

Capricorn Capital alleged that ARRB was operating in breach of the competitive neutrality principles that apply to significant government business activities. It cited a number of factors — including a tax-free status, low rate of return and privileged access to government assets and government guarantees — as likely sources of competitive advantages arising from its government status.

The CCNCO advised the Australian Local Government Association and the competitive neutrality complaint offices of each State and Territory Government, and consulted with those offices during its investigation and finalisation of its report (which was completed in August 2001).

During the course of the CCNCO's investigation, the Australian Taxation Office completed a review of the ARRB and withdrew its the tax free status. That review, together with the abolition of wholesale sales tax consequent upon the introduction

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of the Goods and Services Tax (payable by ARRB), means that the tax treatment of ARRB is now consistent with competitive neutrality principles.

For all the other areas of concern raised by the complainant, the CCNCO found that ARRB was not operating in breach of the competitive neutrality principles that apply to government business activities and that no action in response to the complaint was required. The CCNCO did note, however, that sustained failure to achieve an appropriate rate of return would represent a breach of competitive neutrality principles.

### **Australian Security Vetting Service**

On 29 November 2000 StaffSure Pty Ltd (StaffSure) lodged a formal complaint regarding the Australian Security Vetting Service (ASVS). ASVS is a business unit within the Protective Security Coordination Centre (PSCC) — a Division of the Attorney-General's Department.

StaffSure claimed that ASVS was advantaged because the Commonwealth Protective Security Manual (which stipulates the basis on which security vetting may be conducted and which the PSCC is responsible for drafting) only referred to ASVS as a provider for Commonwealth agencies wishing to outsource their vetting services. By only mentioning ASVS, the manual implied that ASVS was the sole acceptable provider. StaffSure also expressed concern that the Security Manual also specified that it is compulsory for vetting personnel to undertake either training at PSCC-run courses or similar training recognised by the Centre. StaffSure viewed this as giving PSCC the ability to insist on costly additional training for the staff of competitors of ASVS, which placed the Centre in a position of conflict of interest.

Following discussions between the CCNCO and the ASVS, the ASVS undertook to issue an interim security bulletin to all Commonwealth agencies which clearly outlined the acceptability of providers other than ASVS to provide security vetting services. In addition, the issue of appropriate training for security vetting personnel was placed before a whole-of-government review committee responsible for looking at the broader question of accreditation for agencies providing security vetting services for Commonwealth Government agencies.

These measures successfully addressed StaffSure's complaint and, by placing the training issue before the whole-of-government review committee, have overcome StaffSure's concern regarding training and accreditation.

In view of these developments, and with StaffSure's agreement, the CCNCO terminated its investigation. The Office, however, continues to monitor the matter.

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## **Sydney Basin and Essendon airports**

On 12 April and 27 April 2001 the CCNCO received two complaints regarding the airports in the Sydney Basin and Essendon Airport, lodged on behalf of some of the councils within whose jurisdiction those airports are located. Given the complaints related to the same matters, the CCNCO combined them into one investigation.

The complaints alleged that the airport operations in question and the Department of Transport and Regional Services (the Commonwealth agency responsible for managing the leasing agreement under which those airports operate on government-owned land):

- are not exposed to competitive neutrality arrangements; and/or
- are not complying with arrangements that should apply; and/or
- current competitive neutrality arrangements are not effective.

At the heart of the complaints were questions of whether the activity of leasing Commonwealth-owned land for airport operations is a business activity for competitive neutrality purposes, and whether the airport businesses are complying with the tax and regulatory neutrality principles of competitive neutrality policy.

The investigation into the complaints was still proceeding as at 30 June 2001.

## **DocImage Business**

On 1 June 2001 the Legal Support Association of Australia lodged a complaint against DocImage Business Services — a business unit within the Australian Securities and Investment Commission.

The Legal Support Association of Australia alleged that DocImage Business Services — which provides copying and imaging support to the Australian Securities and Investment Commission as its core function — is not subject to the same business costs or tax regime as its competitors in the private sector.

The investigation into the complaint was still proceeding as at 30 June 2001.

## **Meteorological services to aviation**

As described in last year's annual report (PC 2000b, pp. 152–3), in February 2000 Metra Information Limited (a subsidiary of the government-owned meteorological service of New Zealand) lodged a complaint with the CCNCO. Metra alleged that the Civil Aviation Safety Authority's administration of aviation regulations confers

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a regulatory advantage on the Bureau of Meteorology by preventing Metra competing in the market for meteorological services to the aviation industry.

At Metra's request, in April 2000, the investigation was put on hold pending discussions between Metra and the Civil Aviation Safety Authority. However, in May 2001, Metra requested that the complaint be reactivated. The investigation was still proceeding as at 30 June 2001.

## **Complaints not subject to formal investigation**

### **OmniSTAR**

In September 2000 OmniSTAR requested that the CCNCO examine whether a complaint was warranted against certain activities conducted by the Australian Maritime Safety Authority (AMSA). The activities in question were signals transmitted by AMSA facilities to vessels at sea in order to assist them in determining their position.

The CCNCO held a number of discussions with AMSA and representatives of OmniSTAR. Following these discussions, the CCNCO determined that the activities in question did not meet the business test specified in the Commonwealth Government's Competitive Neutrality Policy Statement of June 1996. Accordingly, no complaint investigation was warranted. In addition, the CCNCO noted that the issue of a whole-of-government approach to navigation signals was already the subject of a formally constituted government review group and that OmniSTAR's concerns were best directed to that group.

### **Australian Housing and Urban Research Institute**

In February 2001 the CCNCO received a query from a private consultancy on whether a competitive neutrality complaint was warranted regarding the operations of the Australian Housing and Urban Research Institute.

Preliminary investigations by the CCNCO determined that the activities of the Australian Housing and Urban Research Institute did not satisfy the business test criteria specified in the Commonwealth Competitive Neutrality Policy Statement of June 1996. Accordingly, the CCNCO did not investigate the matter further.

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## E Supporting research and related activities

The Commission's supporting research program encompasses a range of activities. This appendix provides brief summaries of Commission research reports, conference proceedings, research submissions made to other review bodies and staff research and working papers. It also lists the presentations given by the Chairman, Commissioners and staff to parliamentary committees, conferences and industry and community groups, and briefings to international visitors in 2000-01.

### Commission research papers

#### **Modelling the effects of removing general tariffs**

Supplement to the Commission's Inquiry Report No. 12, *Review of Australia's General Tariff Arrangements*

*July 2000*

The Commission undertook a quantitative analysis of the effects over time of removing the tariffs under reference in its inquiry reviewing Australia's general tariff arrangements. These related to goods with scheduled general rates of duty of 5 per cent or less, with the exception of those items covered by the passenger motor vehicle and the textile, clothing and footwear plans.

The analysis examined the national and industry effects of removing tariffs relative to other factors likely to affect the Australian economy over time and disaggregated these effects to the regional level. It also examined the additional impact of tariff changes on the costs of ongoing adjustment in labour markets. The results together provided an indication of the impact of tariff reductions on the size and structure of Australia's industries and regions.

While the estimated effects of tariff reductions from modelling were indicative only, the results suggested that there could be small net benefits to Australia as a whole from removing tariffs on the items under reference. Output was estimated to be higher, as was economic wellbeing.

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## **Submissions to other review bodies**

### **Productivity Commission submission to the House of Representatives Standing Committee on Environment and Heritage**

*May 2000 (released August 2000)*

This submission drew on the Commission's inquiry on the implementation of ecologically sustainable development and that of the Industry Commission on ecologically sustainable land management to suggest ways to improve the implementation of public good conservation and the design of environmental policies that may benefit, rather than harm, rural landholders. Specifically the Commission:

- argued that, while not a panacea, economic or market-based instruments should play a major role in policy makers' responses for addressing environmental concerns, and it provided examples of how economic instruments have been used for dealing with environmental issues;
- discussed some issues regarding the distribution of the costs of public good conservation; and
- canvassed other key requirements — such as reliable information and partnerships between government, industry and the community — that promote the effectiveness of economic instruments or other policy responses to environmental concerns.

The submission was forwarded to the Committee in May 2000 and released by it in August 2000.

### **Productivity Commission submission to the National Competition Policy Review of the *Wheat Marketing Act 1989***

*July 2000*

This submission provided a framework for analysing economic arguments for the continuation of the single export desk for wheat. The submission drew on a Staff Research Paper on single-desk marketing (Gropp et al. 2000) as well as previous reports and research by the Commission and its predecessors. The Commission did not attempt to quantify the costs and benefits of the current export arrangements because it did not have the advantage of the consultative processes and evidence available to the Review Committee.



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In the Commission's view, application of this framework suggested it was unlikely that the current wheat export marketing monopoly generated net benefits for Australia or, indeed, wheat producers themselves. The fundamental reasons for this assessment were that:

- the current lack of choice for wheat growers was likely to be impairing efficiency and innovation within the industry; and
- most if not all of the potential benefits of the Australian Wheat Board's single desk could be achieved under competitive selling arrangements combined with, if necessary, targeted mechanisms which could promote industry-wide activities and the exploitation of export premiums in identified markets.

A desirable outcome of the review, therefore, would be to limit compulsory arrangements to those markets or activities where benefits of compulsion could be demonstrated to outweigh the costs, and to allow competition in all other markets and activities.

The Commission considered that the introduction of greater freedom of choice for those wheat producers who wish to explore alternative marketing, risk management, transport and handling arrangements would promote the performance of the wheat industry and contribute to wealth creation in rural areas. Those producers who did not wish to change current practice would be free to continue to use (and continue to own) AWB Limited, as their service provider and agent of choice.

### **Productivity Commission submission to the National Competition Policy Review of *the Hazardous Waste (Regulation of Exports and Imports) Act 1989***

*October 2000*

The Commission presented information on the generation and international trade of hazardous waste which suggested that:

- the generation of hazardous waste in Australia was on the increase; and
- the joint impact of the Basel Convention and Australia's Hazardous Waste (Regulation of Exports and Imports) Act, Australia's instrument for implementing its obligations under the Convention, had restricted the level and pattern of trade.

The Commission drew attention to an apparent lack of information about the effects of trade restrictions on environmental amenity or community wellbeing. It also drew attention to two issues which would warrant close examination by the Review Team. One related to the efficacy of trade restrictions as a means of attaining

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environmental or social goals, given their adverse effects on economic efficiency, including the diffusion of technology and the incentives to adopt better ways of working. The second related to the soundness of provisions of the Act which treat some (mainly developing) countries differently to others and whether alternative ways of meeting the Convention's objectives could be found that were more consistent with the general non-discriminatory (most-favoured-nation) provisions of the multilateral trading system.

## **Productivity Commission submission to the Department of Foreign Affairs and Trade on the Cartagena Protocol on Biosafety**

*November 2000*

In this submission, the Commission took a cost-effectiveness approach, rather than a benefit-cost approach, in assessing the Protocol because of the difficulty in evaluating its stated objective — and hence its primary benefit. The stated objective of the Protocol relates to the conservation and sustainable use of biological diversity which may be adversely affected by the trade of living modified organisms.

The cost-effectiveness approach considers whether the stated objective would be achieved at least cost to Australia by ratifying the Protocol, relative to the regulatory status quo. An important indicator of the cost effectiveness of a new regulatory proposal is the degree to which it *directly* targets a *clearly* identified problem or objective.

The submission discussed several aspects of the Protocol that could potentially undermine its cost-effectiveness including its definition of living modified organisms, the different approaches taken for classes of organisms and its uncertain relationship with WTO rules on sanitary and phytosanitary measures. The submission also considered the implications for Australian exporters and importers if the Protocol entered into force without Australia having signed and ratified it.

The Commission concluded that while there were many points of concern about ratification of the Protocol, one of the most fundamental was the 'target-instrument' question. It is arguable that trade in living modified organisms is a very minor threat to biodiversity, even in developing countries which do not have Australia's sophisticated domestic protective measures. As other analysts have concluded, the Protocol seems to have more to do with restricting and hampering trade in genetically modified products for reasons other than protecting biodiversity.

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## **Productivity Commission supplementary submission to the National Competition Policy Review of the *Wheat Marketing Act 1989***

*November 2000*

The Commission made a supplementary submission to the National Competition Policy Review of the Wheat Marketing Act in response to the Committee's draft report.

The Commission supported the Committee's proposals to narrow the extent of the Australian Wheat Board's export monopoly. However, given the weight of evidence before the Committee that the benefits of the export monopoly at best were very small and did not appear to outweigh the costs, the Commission considered that, consistent with national competition policy criteria, the Committee should recommend removal of the current single-desk arrangements. The Commission concluded that competitive marketing of wheat for export should be introduced *except* in those markets where it could be demonstrated that compulsory selling arrangements were likely to generate net benefits.

## **Productivity Commission submission to the Queensland Parks and Wildlife Service**

*April 2001*

This submission to the review of parts of Queensland's native wildlife legislation drew on the broad stream of Commission research in the area of improving the effectiveness and efficiency of public and private sector conservation of biodiversity. Key messages from the submission were that:

- Conservation of biodiversity can be undertaken by both the private and public sectors. Efficient and effective provision of conservation of biodiversity by both the public and private sectors is desirable.
- Private conservation of biodiversity should not be 'crowded out' through inappropriate public provision and/or subsidy, or thwarted by unnecessary regulation.
- Property rights for native wildlife may improve the incentives for management and use of individual species and their habitat.
- If regulation is necessary, the preferred focus should be to specify the desired outcomes that are to be achieved, rather than prescribing the end use through discrete licence or permit categories.
- The Queensland native wildlife legislation:

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- appears to be more complex than necessary, and more so than in some other jurisdictions such as South Australia; and
  - may not be the most appropriate mechanism to address animal welfare objectives — desired outcomes for animal welfare should apply regardless of whether an animal is domestic, exotic or native.
- The Queensland native wildlife licensing system and broad range of controls on keeping, use and trade in native wildlife may not be necessary to meet the Queensland Nature Conservation Act's objective of 'conservation of nature' and may unnecessarily constrain private conservation initiatives.
  - The Queensland native wildlife licensing system has been designed to address and control specific pre-conceived end-uses; for example, keeping or exhibiting native wildlife. Private conservation initiatives, especially for threatened native wildlife, do not easily 'fit' within the current system of licences and permits, as there is no specific category of licence or permit for these activities.
  - The review provided an opportunity to develop consistent and transparent administration and assessment procedures with standard conditions. The lack of a central permit system, combined with three separate administrative regions across the state, may result in inconsistent approvals and conditions, and increase the costs for business and the community.

## **Conference/workshop proceedings**

### **Microeconomic reform and the environment**

*Workshop proceedings, November 2000*

In September 2000 the Commission convened a workshop to explore the links between economic and environmental policy objectives and outcomes. It brought together a broad cross-section of leading Australian researchers, policy makers and practitioners with knowledge and experience covering a number of disciplines and sectors.

The workshop was structured around a series of contributed papers that considered issues arising in four sectors — water, electricity, transport and forestry — as well as some common themes among them. Key issues explored by participants included: how microeconomic reform can best contribute to meeting existing and future environmental challenges; and the principles that should drive the policies and guide tradeoffs among economic and environmental objectives.

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The proceedings highlighted some challenges for policy makers in terms of:

- evaluating whether environmental outcomes are improving, especially given scientific uncertainties and a lack of information on environmental conditions and problems; and
- ensuring that economic analysis takes into account social and environmental issues and vice versa.

Workshop contributors identified a number of requirements for change, including a need for more effective institutions and policy-making processes, as well as better analytical tools and information.

## **Achieving better regulation of services**

*Conference proceedings, November 2000*

The Commission and the Australian National University jointly hosted a conference on achieving better regulation of services in Canberra in June 2000. The purpose of the conference was to learn from experience around the world in how best to design and implement services regulation to ensure good outcomes, both nationally and internationally.

The conference volume brought together papers by leading Australian and international experts in the fields of regulation, services and international trade. It also included assessments of each paper by prominent discussants and summaries of the issues raised in general discussion. The conference proceedings canvass:

- why services are regulated;
- the range of regulatory responses open to government;
- frameworks for assessing potential regulatory action;
- ways of promoting competition in network industries with natural monopoly characteristics, especially in the areas of telecommunications, rail transport and international aviation;
- the scope for regulation to promote consumer confidence in banking, pharmacies and the professions;
- the potential for regulation to achieve social objectives by drawing on issues relevant to gambling, community services and culture;
- issues associated with measuring the effects of regulation;
- the potential gains from international regulatory reform; and
- whether domestic or international institutions (such as the WTO) can facilitate better regulation.

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## Staff research papers

*The views expressed in staff research papers are those of the individual authors and need not reflect the views of the Productivity Commission.*

### Single-desk marketing: assessing the economic arguments

*Lisa Gropp, Tom Hallam and Vince Manion, July 2000*

The paper provided a framework for analysing the potential benefits and costs of single-desk (or monopoly) marketing arrangements in Australian agricultural industries. Its key messages were that:

- Most of the potential benefits of single-desk arrangements can be achieved without the compulsion of a single desk.
- In export markets where premiums might be obtained (for example, due to quotas imposed by importing nations), targeted export licences can be used to control exports. Monopoly marketing of all exports is not required.
- Economies of scale and scope in marketing can be captured without monopoly selling, while premiums could still be ‘earned’ for high quality and customised service.
- Activities which deliver industry-wide benefits, such as research and development and quality control, can be delivered and funded by more targeted mechanisms.
- Whereas the potential benefits of single-desk marketing are likely to be small (or could be achieved in a more competitive marketing framework), the costs of single-desk arrangements have the potential to be large. Because single-desk arrangements inevitably discourage product and marketing innovations, costs may be especially large in markets where product variety and value adding are essential for success.
- Importantly, statutory marketing authorities can be reconstituted to operate on a commercial basis in a competitive environment, continuing to offer services to producers and providing a vehicle for continued grower ownership of marketing functions. Voluntary producer organisations can continue to give producers a voice.

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## **The growth of non-traditional employment: are jobs becoming more precarious?**

*Greg Murtough and Matthew Waite, July 2000*

This paper examined the limitations of available statistics for the analysis of non-traditional employment. Particular attention was given to problems in interpreting the measure of casual employees in data published by the Australian Bureau of Statistics (ABS).

The key points in the paper were that:

- Much of the discussion about non-traditional employment in Australia has focused on the ABS measure of casual employees because:
  - it is one of the few regularly published measures of non-traditional employment;
  - it is often interpreted as an indicator of ‘precarious’ employment; and
  - it shows that the share of all employed persons who are casuals grew from 13 per cent in 1984 to 22 per cent in 1999.
- However, less than half the people classified as casual employees by the ABS in August 1998 were genuine employees (working in somebody else’s business) and worked in a way that was casual (in the sense of being occasional, irregular or short term):
  - the ABS measure of casual employees was overstated by 34 per cent because it included people who were not genuine employees with a casual employment contract; and
  - at least one-third of all employees with a casual employment contract did not work in a way that was casual (occasional, irregular or short term).
- The problems with the casuals data illustrate the limitations of ABS labour statistics for the analysis of non-traditional employment: the types of employment identified are very broad; many owner managers are treated as employees; and the terminology can be confusing.
- The ABS has made a considerable effort to address some of the deficiencies with its labour statistics.
- Many labour market analysts are aware of the limitations of ABS labour statistics but there has been a tendency to use the data regardless in statistical analyses. The limitations of such research need to be borne in mind, given the significant measurement problems identified.

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## **Population distribution and telecommunication costs**

*Peter Cribbett, August 2000*

This paper examined the impact of population distribution on the costs of providing local telephone service. The study was undertaken to examine the extent to which price differences observed in international benchmarking of telecommunications services can be attributed to differences in the distribution of population, thereby providing insights into the importance of other factors such as industry and regulatory performance.

The key points in the paper were that:

- The average cost of providing local telephone service is increased in Australia because it has a relatively large proportion of its population (and hence lines) in areas with low population densities.
- Previous benchmarking by the Commission indicated that Finland has lower prices than Australia. This new study suggested that this is not the result of cost advantages due to a more favourable population distribution.
- Depending on assumptions about the cost of providing each line, average line costs in low-density areas of Australia of less than about 2 lines per square kilometre were found to be between 6 and 10 times the average cost per line in the rest of Australia.
- Similarly, low density areas were estimated to account for some 25 per cent of the total cost of providing local telephone service, despite having only about 5 per cent of the total number of lines. This compared with a 10 per cent cost share for the equivalent low-density areas in Washington State and 5 per cent for those areas in California.

## **Restrictions on trade in professional services**

*Duc Nguyen-Hong, August 2000*

The paper identified and quantified restrictions affecting domestic and international trade in legal, accountancy, architectural and engineering services in more than 29 economies in the Asia-Pacific, European and American regions. The paper also examined the price and cost effects of restrictions in engineering services.

Key findings were that:

- legal and accountancy services are more highly restricted than engineering and architectural services in most economies studied, including Australia;



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- Australia's trade in professional services is relatively open when measured against a majority of economies;
  - Indonesia, Malaysia, Turkey and Austria have the most restrictive trading regimes in the four professional service industries, while Finland and the Netherlands are the most open markets; and
  - restrictions can increase prices of engineering services by at least 15 per cent in highly restrictive economies.

### **Restrictions on trade in distribution services**

*Kaleeswaran Kalirajan, August 2000*

The paper identified and quantified restrictions trade in distribution services — mainly wholesaling and retailing — in 38 economies, including Australia. Distribution services are traded primarily by firms establishing a commercial presence in another country and regulations can hinder both domestic and foreign firms from entering and/or operating in the market. The paper also explored the price and cost implications of restrictions in food distribution services.

The study found that:

- Belgium, India, Indonesia, France, Korea, Malaysia, the Philippines, Switzerland and Thailand have the most restrictive regimes of the economies studied. These economies are characterised by stringent requirements on 'establishment' — the ability to 'set up shop' — such as restrictions on the acquisition of commercial land, on foreign direct investment, and on large-scale stores. These economies also impose restrictions on the 'ongoing operations' of a firm, such as nationality requirements on management and local employment requirements.
- Singapore and Hong Kong are the most open economies, having minor restrictions, primarily on the ability to source labour temporarily from abroad.
- Australia's trade in distribution services is relatively open when measured against a majority of economies.

### **The increasing demand for skilled workers in Australia: the role of technical change**

*Craig de Laine, Patrick Laplagne and Susan Stone, September 2000*

Over the past 20 years there has been a shift towards the employment of skilled workers in Australia, as well as in many other industrialised economies. This paper

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examined how technological change has affected the demand for skilled workers in Australia. Major findings of the study were that:

- The proportion of skilled workers in total employment has increased significantly in Australia since 1978. This trend has been mirrored by an increase in their share of the total wage bill over the years for which data were available (1986 onward). These trends were evident in all but the primary sector.
- These changes were primarily due to the increase in the share of skilled workers (of both genders) across all industries — as opposed to one industry increasing its share at the expense of another. This pattern is consistent with changes being more due to technology than increases in international trade. That is not to say that trade cannot influence the manner and speed with which industries take up new technologies.
- For the manufacturing sector, there was a strong positive association between technological change and the share of employment and the wage bill of skilled workers. This finding is consistent with the results of several overseas studies.
- A majority of industries showed a relationship between technological change and the increased demand for skilled workers. This support, however, was not as strong as that found for the manufacturing sector by itself.
- This relationship appeared to have strengthened since the mid-1980s, coinciding with a period of extensive microeconomic reform. Thus, recent deregulation may have assisted producers in adopting new technologies requiring skilled workers.
- The majority of industries showed a positive association between the amount of software and machinery and equipment used and the share of skilled workers demanded.
- Adding trade to the analysis showed that, for the most part, imports had not influenced the relative demand for skilled workers. However, exports were positively associated with the demand for skilled workers.

## **Productivity in Australia's wholesale and retail trade**

*Alan Johnston, Darrell Porter, Trevor Cobbold and Robert Dolamore, October 2000*

This paper examined the main sources of the improved productivity growth in the wholesale and retail trade sectors in light of their significant contribution to Australia's record productivity performance in the 1990s. Key findings from the paper were that:

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- At 11 per cent of gross domestic product, the wholesale and retail sectors make a major contribution to the overall performance of the Australian economy.
  - The wholesale sector underwent a transformation in the 1990s. Annual multifactor productivity growth, which was negative from the mid-1970s to the end of the 1980s, accelerated to 2.5 per cent throughout the 1990s. From 1993-94 to 1998-99, the sector was easily the most significant contributor to Australia's record aggregate productivity growth.
  - Developments within the wholesale sector consistent with this productivity surge included:
    - the widespread adoption of productivity-enhancing technologies (such as barcoding, paperless pick systems and automatic re-ordering processes) which moved the sector from a storage-based system to a fast flow distribution network; and
    - greater competition acting as a catalyst for industry rationalisation (through mergers, acquisitions and firm exits) and outsourcing of non-core functions.
  - Overall, wholesalers were able to handle very strong output growth in the 1990s (3.5 per cent per year) with reduced growth in labour and capital inputs.
  - The retail sector also returned to positive productivity growth in the 1990s after a period of decline in the 1980s. The extent of change, while significant, was not as striking as in wholesaling. Nonetheless, the sector also made an important contribution to Australia's productivity growth.
  - Key developments within retailing consistent with this improvement included:
    - intensified competition (for example, Korean entry-level cars) leading to rationalisation in tandem with the widespread adoption of labour saving technologies;
    - retailers' responses to social and demographic changes (such as the growth in 'income-rich and time-poor' consumers); and
    - changes in legislation governing trading hours and reforms to industrial relations legislation which increased the focus on enterprise-based work conditions.
  - Overall, the retail sector met strong output growth with a reduction in labour growth and an increase in capital input growth.
  - The impact of many factors such as technology, social changes, institutional reforms and increased competition mean that it is appropriate to view wholesale and retail trade as part of an integrated 'value network', rather than simply as elements of a sequential distribution function linking producers and consumers.

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## Unemployment and re-employment of displaced workers

*Greg Murtough and Matthew Waite, October 2000*

This paper examined the incidence and adjustment experiences of workers who are displaced by economic change. The key findings of the paper were that:

- Since the mid 1970s, the aggregate annual rate of retrenchment (number of people retrenched relative to the number who had a job at some time in a 12 month period) fluctuated in a counter-cyclical pattern around a relatively stable long term trend of about 5 per cent.
- The probability of retrenchment and the nature of post-retrenchment adjustment were found to vary between different groups of workers. For example:
  - a disproportionate share of retrenchments occurred among males, people who had been working in their job for less than five years, those with low levels of education, who had worked in a blue collar occupation, were full-time casual employees, or were employed in manufacturing;
  - the probability of being retrenched increased markedly during recessions for people who had been working in their job for less than five years (especially for males);
  - males were more likely than females to continue searching for a job after being retrenched (one in four females retrenched during 1994–97 left the labour force compared to around one in ten males); and
  - the probability of being re-employed was relatively high for people aged 25–44 years; or whose last retrenched job involved working in a high skill occupation, or as a permanent employee, or in the Mining, Finance and insurance, or Property and business services industries.
- The data also suggested that since the 1980s there had been an increase in the (low) rate of retrenchment for people who had been working in their job for 10 or more years and a decrease in the (high) retrenchment rate for people whose job duration was less than one year.
- An econometric analysis using individual-level data on people who were retrenched between July 1994 and June 1997 revealed that:
  - re-employment became more likely as the time since being retrenched increased, suggesting that the adverse employment effects of retrenchment dissipate over time; and
  - retrenched people were more likely to find re-employment if they were aged less than 50 years; had been retrenched from a high skill occupation, a part-

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time job, a job with high tenure, or as a permanent employee; or had been born in an English speaking country.

- The evidence examined in this paper supported the conclusion that the adjustment costs experienced by workers who are displaced by structural changes in the economy depend on the phase of the business cycle and the types of workers affected.

## **Long-term aged care: expenditure trends and projections**

*Alan Madge, October 2000*

This paper discussed the factors that influence long-term aged care demand and provided projections of future expenditure. Long-term aged care in this context comprised mainly residential care (nursing homes and hostels) and community care services for the infirm aged. The main findings were that:

- Underlying demand for long-term aged care services will increase because of the increasing numbers of the aged in our population. For example, the population of people aged 80 or more years will increase by over 200 per cent over the next three decades, compared to around 30 per cent for the population as a whole.
- Usage of care services may not increase by as much as the raw population numbers suggest because of offsetting factors, such as the possibility of declining disability rates and supply-side influences.
- There is likely to be upwards pressure on the unit costs of providing long-term aged care, which will add to the demographic pressure on long-term aged care expenditure.
- Long-term aged care expenditures were projected to increase in real terms by about \$8.5 billion (or 145 per cent) between 1997 and 2031. However, Australia's capacity to meet these rising costs would also increase. Thus, the share of long-term aged care expenditure to GDP was projected to rise from about 1.1 per cent to 1.38 per cent from 1997 to 2031 — an increase of only about 25 per cent.

These projections were based on relatively conservative GDP projections. Australia's capacity to deal with increased demand for long-term care services by the aged will be considerably enhanced if GDP growth — and its underlying determinant, productivity growth — are of a similar magnitude to recent years.

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## **Distribution of the economic gains of the 1990s**

*Dean Parham, Paula Barnes, Paul Roberts and Sharon Kennett, November 2000*

This paper examined the effects of the surge in Australia's productivity growth in the 1990s on the growth and distribution of incomes in Australia. It focused in particular on the distribution of income between labour (wages and salaries) and capital (profits). The key messages from the paper were that:

- Australia's surge in productivity growth in the 1990s fuelled an acceleration in growth in total income and average income (income per person in Australia).
  - Annual average income growth accelerated from 1.4 per cent in the 1970s and 1980s to 2.5 per cent in the 1990s.
  - Faster productivity growth accounted for over 90 per cent of the acceleration.
- The income growth of the 1990s was distributed evenly between labour (wages and salaries) and capital (profits). The labour and capital shares in economy-wide income were stable throughout the 1990s. Concerns that productivity-enhancing factors have adversely affected the income-earning potential of labour appear to be unfounded at the aggregate level.
- Strong productivity growth enabled strong growth in both real wages and profits. The growth in real wages was accompanied by employment growth and falls in unemployment. Thus, those already in employment and those looking for work have both benefited.
- A change in the distribution of income toward capital in some industries — Electricity, gas and water and Communication services — was counteracted by a change in the distribution toward labour in other industries.
- Productivity gains at the industry level have predominantly been passed on in the form of lower prices. This is particularly true of the 1990s, suggesting that stronger competitive pressures have been at work.

## **The diversity of casual contract employment**

*Greg Murtough and Matthew Waite, December 2000*

This paper examined the characteristics of casual contract employees, using individual-level data from a new irregular ABS survey. These data provide a more accurate picture than has been reported in past studies. The study found that:

- There were 1.5 million casual contract employees in August 1998 (equivalent to 17.7 per cent of employed persons, compared to 23.2 per cent who would have satisfied the ABS definition of a casual employee).

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- In August 1998, 95 per cent of casual contract employees had an implicit contract for ongoing employment, only 4 per cent had a job which their employer had indicated was short term, and many perceived that they were able to progress to an ongoing contract job.
  - More than a third of casual contract employees had an implicit contract for ongoing employment *and* regular earnings in August 1998. Many of these ‘ongoing casuals’ could access entitlements associated with ongoing employment (such as long service leave) because the true nature of their work was ongoing.
  - However, 80 per cent of casual contract employees in August 1998 were not protected by unfair dismissal laws, 62 per cent had irregular earnings (excluding overtime), and 40 per cent wanted to work more hours. They were also concentrated in low skill occupations.
  - The welfare impacts of particular job traits will depend on the preferences of those affected. Casual contract employees tend to be young, female, and full-time dependent students. A large minority (29 per cent in August 1998) were aged over 24 and had dependants, although this group was more likely to have employment conditions closer to ongoing contract employees.
  - Hence, whether an employee has a casual contract provides little information about his or her well-being. Where the concern is about so-called ‘precarious’ employment, analysts need to look more closely at the employee’s actual work arrangements rather than just the type of employment contract.

### **Business failure and change: an Australian perspective**

*Ian Bickerdyke, Ralph Lattimore and Alan Madge, December 2000*

This paper presented the most recent evidence on business exits and failures and examined institutional arrangements and policy mechanisms for dealing with insolvent businesses. Contrary to common perceptions, it found that most new businesses survived for a considerable time — for example, around two-thirds of businesses were still operating after five years and almost one-half were still operating after ten years. The paper also found that:

- Around 7.5 per cent of businesses exit each year — cessations account for around 80 per cent of exits (changes in ownership account for the remainder) but most exits are *not* firm failures.
- Each year, cessations account for, at most, between 9 to 10 per cent of total job losses and 3 to 4 per cent of GDP. However, in net terms, these impacts are outweighed by the corresponding gains from new business start-ups.

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- Less than 0.5 per cent of businesses exit each year due to ‘catastrophic’ failure (bankruptcy or liquidation). The failure rate has fallen significantly in the past decade — the estimated failure rate was 3.6 failures per 1000 enterprises in 1999-2000, one-third of the rate in 1991-92, with the decline attributable to fewer company liquidations rather than any fall off in unincorporated business bankruptcies.
  - Governments play an important role in regulating the orderly closure or reorganisation of insolvent businesses. Some countries (including Australia) have so-called ‘creditor-oriented’ insolvency arrangements that allocate control rights to creditors, while others (such as the US) have ‘debtor-oriented’ arrangements that allow the existing owners a continued stake in the management of a reorganised business.
  - A comparative assessment of the Australian and US approaches to reorganisation reveals advantages and disadvantages of both systems. A possible weakness of the Australian system may be a bias towards premature liquidations. However, this is a relatively minor consideration in light of the evidence suggesting that US-style reorganisation typically fails, is protracted, costly and does not honour contracts.
  - An insolvency regime cannot fully protect the interests of all parties and its prime intent is to create incentives for prudence among business owners and for a willingness for creditors to provide funds.
  - To the extent that employees of insolvent businesses are low in the order of priority for claims, this is best handled through insurance arrangements. Governments around the world use a variety of mechanisms to protect employee entitlements. The Australian scheme is administratively simple, has few transactions and adjustment costs for business, and has relatively low ongoing costs (although liabilities may be significantly higher during economic downturns).

### **Resource movements and labour productivity, an Australian illustration: 1994-95 to 1997-98**

*Steven Bland and Lou Will, April 2001*

The paper presented the results of an exploratory analysis of industry change to shed light on the adjustment processes of Australian firms and the impact of adjustments caused by firm entry, exit, merger, acquisition and incorporation on firm and industry labour productivity. The analysis showed that, for the firms in the sample (a non-representative sample of about 4400 Australian firms between 1994-95 to 1997-98):



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- labour productivity varied considerably between firms within the same industry;
  - average labour productivity in an industry increased through a combination of improvements by incumbent firms and the exit of other firms;
  - incumbent firms were the most important source of productivity gain over the three years covered by the sample. Labour productivity increased in half of incumbent firms;
  - firms that exited had, on average, relatively low labour productivity; and
  - new firms exhibited relatively low labour productivity on average, suggesting that they take some time to become established and show strong labour productivity improvement.

### **Cost sharing for biodiversity conservation: a conceptual framework**

*Barbara Aretino, Paula Holland, Anna Matysek and Deborah Peterson, May 2001*

Clarifying resource users' property rights is an important first step in deciding who should pay for conservation on private land. This paper discussed principles for sharing the costs of conservation between individuals, groups and governments on behalf of the general community. The key points of the paper were that:

- Many resource users undertake actions that conserve biodiversity. If, however, there were public demand for more conservation than would be provided voluntarily by the private sector alone, there are two broad principles for determining who should bear the costs — 'impacter pays' or 'beneficiary pays'. The two principles have different efficiency and distributional effects.
- A fundamental step in determining which cost sharing principle to apply is the clarification of the rights and responsibilities implied by existing property rights. This is an important issue that requires further work.
- If property rights effectively require resource users to meet an environmental standard, resource users who fail to achieve this may be considered to generate external costs. In these circumstances, on efficiency grounds, the impacter pays principle should generally be adopted to internalise external costs. This effectively amounts to enforcement of an individual's existing legal responsibilities. However, if the costs of implementing the impacter pays principle were to outweigh its efficiency advantages, the beneficiary pays principle may be considered.
- In the short term, the community may expect a higher environmental standard than is required under existing property rights. The beneficiary pays principle

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may be relevant to encourage additional conservation in this case, provided the benefits warrant the costs.

- If the ‘beneficiary pays’ principle were adopted and a government chose to meet some share of costs, its share need not equal the full public benefits of the additional conservation. In principle, the public contribution should be the minimum necessary to trigger additional conservation by the private sector. Calling for bids (auctions) for the voluntary provision of conservation by the private sector may be one way to determine this minimum.
- Long-term payments to resource users for undertaking conservation can be costly for the community. Alternatively, property rights may change to reflect new social expectations. This may occur through the evolution of the common law, or through government legislation. This may in turn enable application of the ‘impacter pays’ principle if resource users subsequently failed to meet the new (higher) obligations. However, redefinition of property rights is rarely undertaken lightly, and gives rise to questions of compensation or other assistance.

## **Consultancy reports**

*The views expressed in consultancy reports are those of the individual authors and need not reflect the views of the Productivity Commission.*

### **Computable general equilibrium models for evaluating domestic greenhouse policies in Australia: a comparative analysis**

*Dr Jack Pezzey and Mr Ross Lambie, Centre for Resource and Environmental Studies, Australian National University, April 2001*

The Commission engaged the consultants to undertake an independent review of four main models used to assess the economic impacts of policies to reduce greenhouse gas emissions in Australia. The models considered were: MMRF–Green developed by Monash University; MM600+ developed by Econtech; GTEM developed by the Australian Bureau of Agricultural and Resource Economics; and G-Cubed developed by the Australian National University and the University of Texas. The consultancy report:

- documented the considerable model development which had occurred since a previous review in 1996;
- compared and contrasted the underlying assumptions and structure of each model (as at September 2000);

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- identified the relative strengths and weaknesses of the models for possible use in different policy scenarios; and
  - identified priorities for further model development to improve understanding of greenhouse policy impacts in the medium term.

### **A duty of care for the protection of biodiversity on land**

*Dr Gerry Bates, Australian Centre for Environmental Law, Australian National University, May 2001*

This consultancy report considered the appropriateness and potential effectiveness of a ‘duty of care’ in legislation as a policy tool for the conservation of biodiversity on land in Australia. The report, which forms part of a stream of work undertaken by the Commission on private incentives for the conservation of biodiversity:

- reviewed recommendations for the introduction of a duty of care to protect the environment;
- discussed the strengths and weaknesses of existing legislative approaches to protect biodiversity;
- explained the concept of a duty of care in existing law;
- discussed the application of the concept of a duty of care in common law and legislation; and
- discussed the strengths and weaknesses of a duty of care as a possible tool for biodiversity conservation.

The report suggested that the introduction of a statutory duty of care could bring considerable benefits in protecting biodiversity by providing guidance to resource users on what practices are acceptable. However, a statutory duty of care is unlikely to be a panacea. It would need to be supported by complementary approaches, such as encouragement of voluntary action, education and financial incentives.

## **Research memorandum**

### **The structure of the FTAP Model**

*Kevin Hanslow, Tien Phamduc and George Verikios, January 2001*

The FTAP model is a comparative static, computable general equilibrium model of the world economy that includes a treatment of foreign direct investment on a

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bilateral basis. The FTAP model was developed in stages from the GTAP model, with the addition of the structure necessary to support the analysis of services liberalisation. A major component of this liberalisation is the removal of barriers to foreign direct investment in the tertiary sector.

This research memorandum, available from the Commission's website, relates to version 2 of the FTAP model. It updates the documentation and model software released on the Commission's website in December 1999.

## **Measures of restrictions on trade in services database**

*May 2001*

In a collaborative project, the Productivity Commission and the Australian National University have been measuring restrictions on trade in services for a number of economies in Europe, Asia, and North and South America. The results from this work have produced tax equivalents of the price and/or cost effects of restrictions in selected service sectors. This research is published in Productivity Commission staff research papers and in Findlay and Warren (2000).

A methodology, developed from the collaborative project, estimates the direct price and/or cost effect of restrictions on trade in services. This methodology involves two steps. First, qualitative information about regulations is converted into a quantitative 'restrictiveness index'. Second, the effect of this measure of restrictions on prices and/or costs is estimated. The two databases relating to this work were released on the Commission's website in May 2001.

## **Staff working papers**

*The views expressed in staff working papers are those of the individual authors and need not reflect the views of the Productivity Commission. Staff working papers are available on request, but are not for quotation without the permission of the authors.*

## **Genetically modified products: a consumer choice framework**

*Andrew Dolling and Deborah Peterson, July 2000*

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## **Industrial relations practices and workplace productivity growth**

*Jumana Salaheen and Paulene McCalman, September 2000*

## **Environmental labelling**

*Ann Jones and Nicola Lansdell, December 2000*

## **Tricks and traps of the Business Longitudinal Survey**

*Lou Will and Hugh Wilson, May 2001*

## **Historical simulations with the Monash Regional Equation System**

*Andrew Welsh and Brian Parmenter, May 2001*

## **International investment rules: an efficiency perspective**

*Monika Binder, John Papadimitriou and Ian Monday, May 2001*

**Table E.1 Speeches and presentations by the Chairman, Commissioners and staff, 2000-01**

<i>Organisation/event</i>	<i>Topic</i>	<i>Date</i>
<b>Gary Banks, Chairman:</b>		
Australian Hotels Association National Convention and Trade Expo, Cairns	Australia's gambling industries	July 2000
PC Workshop on Microeconomic Reform and the Environment, Melbourne	Introduction	Sept 2000
Private Sector Involvement in the Provision of Public Infrastructure PC Roundtable, Melbourne	Introduction: infrastructure issues	Oct 2000
Manufacturing and Business Affairs Committee of the Australian Chamber of Commerce and Industry, Melbourne	The Productivity Commission's role and activities	Oct 2000
Institute of Public Administration of Australia, Renaissance of the Regions Symposium, Melbourne	Meeting the challenge of change in regional Australia	Nov 2000
CEDA meeting, Perth	Competition: the best price regulator	Nov 2000
Melbourne Institute of Applied Economic and Social Research, Public Economics Forum, Canberra	Productive R&D assistance	Nov 2000
Centre for Corporate Public Affairs, 2001 Politics and Public Policy Review, Canberra	Policy issues and priorities for the Commission	March 2001
Centre for Independent Studies Liberty and Society Seminar, Melbourne	Challenges in policy reform	April 2001
PC/Department of Industry, Science and Resources Seminar, Sources of Growth: An International and Australian Perspective, Canberra	Introduction	June 2001
<b>Commissioners:</b>		
29 <sup>th</sup> Annual Conference of Economists, Surfers Paradise (Richard Snape)	Regional trade agreements and WTO – Panel participant	July 2000
2 <sup>nd</sup> Environmental Economics Round Table, Canberra (Neil Byron)	Economic instruments for natural resource management	July 2000
International Society of Ecological Economics, Canberra (Neil Byron)	What policy makers want from research and why they rarely get it	July 2000
Economic Society of Australia ACT Branch Forum: Hard Heads, Soft Hearts – The State of Economics, Canberra (Richard Snape)	Commentator on the results of a survey of Canberra economists	Aug 2000

Network Insight and RMIT conference: Convergence and regulation, Sydney (Mike Woods)	PC inquiry on telecommunications competition regulation	Aug 2000
CEDA forum: Australian telecommunications – the way forward, Sydney (Mike Woods)	PC inquiry on telecommunications competition regulation	Aug 2000
PC Workshop on Microeconomic Reform and the Environment, Melbourne (Neil Byron)	Opening address	Sept 2000
Victorian Public Accounts & Estimates Committee, Follow-Up Inquiry into Environmental Accounting and Reporting, hearings, Melbourne (Neil Byron)	Environmental accounting and reporting	Sept 2000
Biosecurity Australia, International Workshop on Quarantine, Melbourne Business School, Melbourne (Richard Snape)	Discussant on integrating import risk and trade benefit analysis (remarks subsequently developed and published in the workshop proceedings as a joint paper with David Orden)	Oct 2000
Australian Conservation Foundation/National Farmers Federation Forum, Delivering National Leadership in Natural Resource and Environment Investment, Canberra (Neil Byron)	Creating a national policy framework	Oct 2000
Australian APEC Study Centre 5 <sup>th</sup> Annual Conference on International Trade Education and Research, Melbourne (Richard Snape)	WTO under threat – Discussant	Oct 2000
International Development Law Institute, Development Lawyers Course, Melbourne (Richard Snape)	The economics of the WTO	Nov 2000
ANU Law Faculty Roundtable: China and the WTO, Canberra (Richard Snape)	Discussant	March 2001
Natural Step Institute Conference: Sustainability – the outcomes, Melbourne (Neil Byron)	Sustainable development in government	March 2001
DFAT Trade Policy Training Course (David Robertson)	Globalisation: new opportunities, old prejudices	April 2001
Service Providers Industry Association General Meeting, Sydney (Mike Woods & Ralph Lattimore)	PC's draft report telecommunications competition regulation	April 2001
Australian Chemical Specialties Manufacturers Association 26 <sup>th</sup> Annual General Meeting, Melbourne (Helen Owens)	Cost recovery: health and safety regulations	May 2001
Senate Finance and Public Administration References Committee Inquiry on the Government's Information Technology Outsourcing Initiative, hearings, Canberra (Mike Woods, Ian Gibbs & Stuart Wilson)	PC's competitive neutrality work	May 2001

(Continued on next page)

Table E.1 (continued)

<i>Organisation/event</i>	<i>Topic</i>	<i>Date</i>
Melbourne Institute of Applied Economic and Social Research, Roundtable on the Economics of Health and Health Policy, Melbourne (Helen Owens)	Discussant	May 2001
Centre for Independent Studies Consilium, Katoomba (David Robertson)	Global phobias	May 2001
Centre of Policy Studies, Monash University, Alan Powell Retirement Conference, Melbourne (Richard Snape)	Alan Powell	June 2001
OECD Global Forum for Trade Workshop, Santiago de Chile (David Robertson)	Trade and development issues	June 2001
Australian Institute for International Affairs Forum: Opportunities for Regional Economic Cooperation, Canberra (Richard Snape)	The lure of bilateral agreements	June 2001
12 <sup>th</sup> NBER Annual East Asian Seminar on Economics, Hong Kong (Helen Owens)	Rail reform: privatise, corporatise, franchise or contracts? & discussant	June 2001
12 <sup>th</sup> NBER Annual East Asian Seminar on Economics, Hong Kong (Richard Snape)	Discussant at two sessions	June 2001
<b>Staff:</b>		
International Data Envelopment Analysis Symposium 2000, University of Queensland, Ipswich (Patrick Jomini)	Production technology, operating environment and quality issues in data envelopment analysis: a case study of railway efficiency	July 2000
29 <sup>th</sup> Annual Conference of Economists, Surfers Paradise (Greg Murtough & Matthew Waite)	The growth of non-traditional employment: are jobs becoming more precarious?	July 2000
29 <sup>th</sup> Annual Conference of Economists, Surfers Paradise (Craig de Laine)	Changing demand for skilled workers	July 2000
29 <sup>th</sup> Annual Conference of Economists, Surfers Paradise (Peter Cribbett)	Population distribution impact on telecommunications costs in low density areas	July 2000
29 <sup>th</sup> Annual Conference of Economists, Surfers Paradise (Rick Johnson)	Characteristics of the supply of and demand for advertising space in Australia's broadcast market	July 2000
29 <sup>th</sup> Annual Conference of Economists, Surfers Paradise (Xiao-guang Zhang)	Analysing the sectoral impacts of liberalising trade in services	July 2000
OECD Regulatory Management and Reform Group, Public Management Committee, Paris (Paul Bek)	Peer review of the capacity to assure high quality regulation in Greece	July 2000



Industry Economics Conference 2000, Canberra (Hugh Wilson)	Firm size, supervision and hierarchy effects on wages	July 2000
Australian APEC Study Centre, APEC 2000 Trade Policy Training Course, Melbourne (Paul Gretton)	Evaluating tariff protection	July 2000
Backflow Prevention Association of Australia, Melbourne (Chris Sayers)	Setting standards for drinking water	July 2000
Melbourne Institute of Applied Economic and Social Research, Seminar, Melbourne (Lynne Williams)	Free trade, wages, social security and income distribution – Discussant	July 2000
ANU, Lecture to 3rd Year students, Canberra (Paul Gretton)	Analysis of the contribution of productivity to growth	Aug 2000
ABS Seminar, Canberra (Paul Gretton)	Land degradation and Australian agricultural industry	Aug 2000
ABS Population Statistics Group, Canberra (Robyn Sheen & Ilias Mastoris)	Review of Commonwealth/State Service Provision	Aug 2000
ABS Economic Statistics Group Seminar, Canberra (Lynne Williams & Garth Pitkethly)	The use of ABS statistics at the PC	Aug 2000
Australian Agricultural and Resource Economics Society, 3 <sup>rd</sup> AARES Annual Symposium, Brisbane (Herb Plunkett)	Impact of national competition policy on rural and regional Australia	Sept 2000
DFAT Trade Training Course, Canberra (Herb Plunkett)	Review of Australia's general tariff arrangements	Sept 2000
Communications Research Forum 2000, Canberra (Nick Berger)	Population distribution and telecommunication costs	Oct 2000
Research School of Pacific and Asian Studies (ANU), Seminar, Canberra (Paul Gretton)	Determinants of growth in transition economics: an empirical study	Oct 2000
Biosecurity Australia, International Workshop on Quarantine, Melbourne Business School, Melbourne (Monika Binder)	Quarantine decision making in Australia	Oct 2000
CEDA, Forum, Melbourne (Lynne Williams)	A New Social Settlement: Rethinking Social Policy Across the Life Course – Discussant	Nov 2000
IIR Conference on National Competition Policy, Sydney (Herb Plunkett)	Impact of national competition policy on rural and regional Australia	Nov 2000
Bureau of Transport Economics Transport Colloquium, Canberra (John Salerian)	Competitive neutrality and transport	Nov 2000
University of Sydney, Australian Labour Market Research Conference, Sydney (Susan Stone)	Technical change and demand for skilled labour in small and medium sized Australian firms	Dec 2000
CEDA Seminar, Canberra (Lynne Williams & Greg Murtough)	Are jobs becoming more precarious?	Feb 2001

(Continued on next page)

Table E.1 (continued)

<i>Organisation/event</i>	<i>Topic</i>	<i>Date</i>
Joint APEC and OECD Inaugural Regulatory Reform Conference, Singapore (Jennifer Bryant)	Regulatory transparency and efficiency in the communications industry in Australia	Feb 2001
Community Services Ministers Advisory Council, Sydney (Robyn Sheen)	Review of Commonwealth/State Service Provision	March 2001
Australasian Fire Authorities Council, Strategic Information Management Strategy Group (Helen Mignot)	Proposal to improve the comparability of effectiveness data	March 2001
Australian Water Association 19 <sup>th</sup> Convention, Canberra (Chris Sayers)	Moving on from de facto standards and quasi-regulation	April 2001
Centre of Policy Studies Modelling Workshop, Monash University, Melbourne (George Verikios & Xiao-guang Zhang)	Liberalising trade in telecommunications and financial services	April 2001
Queensland Treasury Seminar, Brisbane (Dean Parham & Norm Gingell)	Australia's productivity surge in the 1990s; Major reforms and their impacts; Distribution of the economic gains of the 1990s; Impacts of the 'New Economy' on Australia's output and productivity growth	April 2001
Department of Communications, IT and the Arts Seminar, Canberra (Ralph Lattimore)	Telecommunications competition regulation: findings of the draft report	May 2001
ABS Seminar Series, Canberra (Dean Parham)	Productivity, processors, pay and profits	May 2001
Melbourne Institute of Applied Economic and Social Research, Roundtable on the Economics of Health and Health Policy, Melbourne (Ian Monday)	Research priorities and associated issues	May 2001
Carriers World Australasia 2001, Sydney (Ralph Lattimore)	Regulation versus self-regulation: is telecommunications regulation working? – Panel discussant	June 2001
ANU Graduate Program in Public Policy, Canberra (Herb Plunkett)	Impact of national competition policy on rural and regional Australia	June 2001
PC/Department of Industry, Science and Resources Seminar on Sources of growth: an international and Australian perspective, Canberra (Dean Parham)	Role of productivity in Australia's growth; Contribution of ICTs to output and productivity growth	June 2001
Joint Committee of Public Accounts and Audit, Canberra (Robert Kerr)	Roundtable on the review of the accrual budget documentation – Discussant	June 2001
Reserve Bank of Australia Seminar, Sydney (Susan Stone)	The role of technology in changing skilled labour employment	June 2001
4 <sup>th</sup> Annual Conference on Global Economic Analysis, Centre for Global Trade Analysis, Indiana (Xiao-guang Zhang)	The economic effects of removing barriers to trade in telecommunications and financial services	June 2001

**Table E.2 Visits from international organisations and foreign delegations, 2000-01**

<i>Organisation/delegation</i>	<i>Purpose of visit to the Commission</i>	<i>Date and location</i>
Bangladesh Tariff Commission	Briefing on the PC's work on assistance measurement and impediments to trade	Oct 2000 Canberra
Korea Institute of International Economic Policy	Briefing on Australian industry policy and an exchange of views on Korea's trade and investment policies	Nov 2000 Melbourne
Delegation from the Government of China	Briefing on the Review of Government Service Provision and the role and functions of the PC	Nov 2000 Melbourne
International Monetary Fund	Briefing on PC research for Article IV Consultations	Dec 2000 Melbourne
Delegation from the Japanese Ministry of Public Management, Home Affairs, Post and Telecommunications	Briefing on the PC's role and Commission reports of interest to the delegation	Jan 2001 Melbourne
Director-General, World Trade Organization	Discuss the PC's work and trade policy issues	Feb 2001 Melbourne
OECD Economic and Development Review Committee	Discuss PC research on national competition policy	Feb 2001 Canberra
New Zealand Ministry of Economic Development	Briefing on the Office of Regulation Review	Feb 2001 Canberra
OECD Agriculture Directorate	Discuss the PC's measurement of agricultural assistance and its annual <i>Trade and Assistance Review</i>	Mar 2001 Canberra
Delegation from the Philippines Government	Briefing on the Review of Government Service Provision	Mar 2001 Melbourne
US Embassy	Discuss research on bilateral trade agreements	Mar 2001 Melbourne
Delegation from the Vietnam Office of Government	Briefing on the PC's role and progress in microeconomic reform	April 2001 Canberra
Heritage Foundation	Briefing on the PC's role and its trade and regulatory review work	May 2001 Canberra
Delegation from Indonesian economic agencies	Discuss policy applications of modelling and benchmarking competition	June 2001 Melbourne

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## F Publications

This appendix provides a list of Commission reports, papers and submissions to other review bodies that it completed in 2000-01. The appendix also lists staff research papers and staff working papers, the views of which do not necessarily reflect those of the Commission. The Commission has a comprehensive website providing public access to its publications.

### Government-commissioned projects

#### Inquiries — draft and interim reports and position papers

Draft and interim reports and position papers can be obtained from the Commission during the course of an inquiry and from the Commission's website.

- Review of the *Prices Surveillance Act 1983*, Inquiry Interim Report (20 October 2000)
- Review of the *Prices Surveillance Act 1983*, Inquiry Draft Report (29 March 2001)
- Review of the National Access Regime, Inquiry Position Paper (29 March 2001)
- Telecommunications Competition Regulation, Inquiry Draft Report (29 March 2001)
- Cost Recovery, Inquiry Draft Report (12 April 2001)

#### Inquiries — final reports

Copies of final reports can be obtained from Government Info Shops upon release by the Government and from the Commission's website thereafter.

- *Review of Australia's General Tariff Arrangements*, Inquiry Report No. 12 (22 July 2000)
- *Review of Legislation Regulating the Architectural Profession*, Inquiry Report No. 13 (4 August 2000)

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## Performance reporting

### Steering Committee for the Review of Commonwealth/State Service Provision

The Commission acts as the Secretariat for the COAG Steering Committee. Copies of these publications are available from Government Info Shops and from the Commission's website. Publications marked with an asterisk (\*) and many previous Secretariat reports are also available on compact disk from Government Info Shops.

- *Report on Government Services 2001*, Volume 1: Education, Health, Justice (January 2001)\*
- *Report on Government Services 2001*, Volume 2: Emergency Management, Community Services, Housing (January 2001)\*
- *National Satisfaction Survey of Clients of Disability Services*, Consultancy Report (July 2000)

### Other performance monitoring

Copies of reports can be obtained from Government Info Shops and from the Commission's website.

- *Financial Performance of Government Trading Enterprises, 1994-95 to 1998-99* (July 2000)
- *Financial Performance of Government Trading Enterprises, 1995-96 to 1999-00* (May 2001)

### Competitive neutrality research

Copies of reports are available from Government Info Shops and the CCNCO and PC websites.

- *Competitive Neutrality in Forestry*, CCNCO Research Paper (May 2001)

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## Supporting research and annual reporting

Copies of reports can be obtained from Government Info Shops and from the Commission's website. Most submissions made by the Commission to other review bodies can be accessed from the Commission's website. Staff working papers are available only on request from the authors.

### Annual reports

- *Annual Report 1999-2000* (October 2000)
- *Regulation and its Review 1999-2000* (November 2000)
- *Trade & Assistance Review 1999-2000* (December 2000)

### Inquiry report supplements

- *Modelling the Effects of Removing General Tariffs, Supplement to Inquiry Report No. 12* (July 2000)

### Submissions to other review bodies

- *Productivity Commission Submission to the House of Representatives Standing Committee on Environment and Heritage* (May 2000, released August 2000)
- *Productivity Commission Submission to the National Competition Policy Review of the Wheat Marketing Act 1989* (July 2000)
- *Productivity Commission Submission to the National Competition Policy Review of the Hazardous Waste (Regulation of Exports and Imports) Act 1989* (October 2000)
- *Productivity Commission Submission to the Department of Foreign Affairs and Trade on the Cartagena Protocol on Biosafety* (November 2000)
- *Productivity Commission Supplementary Submission to the National Competition Policy Review of the Wheat Marketing Act 1989* (November 2000)
- *Productivity Commission Submission to the Queensland Parks and Wildlife Service* (April 2001)

### Conference/workshop proceedings

- *Microeconomic Reform and the Environment, Workshop proceedings* (November 2000)
- *Achieving Better Regulation of Services, Conference proceedings* (November 2000)

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## Staff research papers

- *Single-Desk Marketing: Assessing the Economic Arguments*, Lisa Gropp, Tom Hallam and Vince Manion (July 2000)
- *The Growth of Non-Traditional Employment: Are Jobs Becoming More Precarious?*, Greg Murtough and Matthew Waite (July 2000)
- *Population Distribution and Telecommunication Costs*, Peter Cribbett (August 2000)
- *Restrictions on Trade in Professional Services*, Duc Nguyen-Hong (August 2000)
- *Restrictions on Trade in Distribution Services*, Kaleeswaran Kalirajan (August 2000)
- *The Increasing Demand for Skilled Workers in Australia: The Role of Technical Change*, Craig de Laine, Patrick Laplagne and Susan Stone (September 2000)
- *Productivity in Australia's Wholesale and Retail Trade*, Alan Johnston, Darrell Porter, Trevor Cobbold and Robert Dolamore (October 2000)
- *Unemployment and Re-employment of Displaced Workers*, Greg Murtough and Matthew Waite (October 2000)
- *Long-term Aged Care: Expenditure Trends and Projections*, Alan Madge (October 2000)
- *Distribution of the Economic Gains of the 1990s*, Dean Parham, Paula Barnes, Paul Roberts and Sharon Kennett (November 2000)
- *The Diversity of Casual Contract Employment*, Greg Murtough and Matthew Waite (December 2000)
- *Business Failure and Change: An Australian Perspective*, Ian Bickerdyke, Ralph Lattimore and Alan Madge (December 2000)
- *Resource Movements and Labour Productivity, an Australian Illustration: 1994-95 to 1997-98*, Steven Bland and Lou Will (April 2001)
- *Cost Sharing for Biodiversity Conservation: A Conceptual Framework*, Barbara Aretino, Paula Holland, Anna Matysek and Deborah Peterson (May 2001)

## Staff working papers

- *Genetically Modified Products: A Consumer Choice Framework*, Andrew Dolling and Deborah Peterson (July 2000)
- *Industrial Relations Practices and Workplace Productivity Growth*, Jumana Salaheen and Paulene McCalman (September 2000)

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- *Environmental Labelling*, Ann Jones and Nicola Lansdell (December 2000)
  - *Tricks and Traps of the Business Longitudinal Survey*, Lou Will and Hugh Wilson (May 2001)
  - *Historical Simulations with the Monash Regional Equation System*, Andrew Welsh and Brian Parmenter (May 2001)
  - *International Investment Rules: An Efficiency Perspective*, Monika Binder, John Papadimitriou and Ian Monday (May 2001)

### **Consultancy reports**

Copies of consultancy reports to the Commission are available from Government Info Shops, or where marked with an asterisk (\*) from the Commission.

- *CGE Models for Evaluating Domestic Greenhouse Policies in Australia: A Comparative Analysis*, Jack Pezzey and Ross Lambie (April 2001)\*
- *A Duty of Care for the Protection of Biodiversity on Land*, Gerry Bates (May 2001)

### **Research memoranda**

- *The Structure of the FTAP Model*, Kevin Hanslow, Tien Phamduc and George Verikios (January 2001, available from the Commission's website).
- *Measures of Restrictions on Trade in Services Database* (May 2001, available from the Commission's website)

### **Other publications**

Copies of these publications are available from the Commission and its website.

- *Productivity Commission Research Program 2000-2001* (July 2000 and February 2001, now incorporates the *Digest of Current Research Projects*)
- *pc update*, a quarterly newsletter on Productivity Commission activities, covers key events on work program, major activities, publications released, website and other news (Issue 10, September 2000; Issue 11, December 2000; Issue 12, March/April 2001; and Issue 13, June 2001)





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# G Financial statements

**This appendix presents the audited financial statements for the Productivity Commission for 2000-01. The statements have been prepared on an accrual accounting basis.**

<b>Contents</b>	<i>page</i>
Independent audit report	170
Certification	172
Statement of financial performance	173
Statement of financial position	174
Statement of cash flows	175
Schedule of commitments	176
Schedule of contingencies	176
Notes to the financial statements	177



Independent audit report 1<sup>st</sup> page

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Independent audit report 2<sup>nd</sup> page

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## Statement by the Chairman

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### Certification

In my opinion, the attached financial statements give a true and fair view of the matters required by Schedule 1 to the Financial Management and Accountability (Financial Statements 2000-2001) Orders made under section 63 of the *Financial Management and Accountability Act 1997*.

Gary Banks  
Chairman

31 August 2001

<b>Productivity Commission</b>
<b>STATEMENT OF FINANCIAL PERFORMANCE</b>
<i>for the year ended 30 June 2001</i>

	Note	2000-01 \$'000	1999-00 \$'000
<b>Revenues from ordinary activities</b>			
Revenues from government	4A	22,148	21,662
Interest		214	40
Sales of goods and services	4B	206	81
Proceeds from disposal of assets	4C	4	13
Other	4B	22	425
Resources received free of charge	4A	<u>33</u>	<u>36</u>
<b>Total revenues from ordinary activities</b>		<b><u>22,627</u></b>	<b><u>22,257</u></b>
<b>Expenses from ordinary activities</b>			
Employees	5A	16,876	15,554
Suppliers	5B	4,719	4,971
Depreciation and amortisation	5C	833	766
Write-down of assets	5D	–	131
Disposal of assets	4C	<u>5</u>	<u>42</u>
<b>Total expenses from ordinary activities</b>		<b><u>22,433</u></b>	<b><u>21,464</u></b>
<b>Net operating surplus (deficit) from ordinary activities</b>		<b><u>194</u></b>	<b><u>793</u></b>
<b>Net surplus (deficit)</b>		<b><u>194</u></b>	<b><u>793</u></b>
<b>Total changes in equity other than contributions/withdrawals of capital</b>	9	<b><u>194</u></b>	<b><u>793</u></b>

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

**Productivity Commission**  
**STATEMENT OF FINANCIAL POSITION**

*as at 30 June 2001*

	Note	2000-01 \$'000	1999-00 \$'000
<b>ASSETS</b>			
<b>Financial assets</b>			
Cash		80	228
Investments		3,800	1,500
Receivables	6	<u>64</u>	<u>1,709</u>
<b>Total financial assets</b>		<b><u>3,944</u></b>	<b><u>3,437</u></b>
<b>Non-financial assets</b>			
Infrastructure, plant and equipment	7	2,417	2,088
Intangibles	7	219	260
Prepayments		<u>193</u>	<u>169</u>
<b>Total non-financial assets</b>		<b><u>2,829</u></b>	<b><u>2,517</u></b>
<b>Total Assets</b>		<b><u>6,773</u></b>	<b><u>5,954</u></b>
<b>LIABILITIES</b>			
<b>Provisions</b>			
Capital use charge		49	–
Employees	8A	<u>6,155</u>	<u>5,356</u>
<b>Total provisions</b>		<b><u>6,204</u></b>	<b><u>5,356</u></b>
<b>Payables</b>			
Suppliers	8B	181	345
Other		<u>30</u>	<u>40</u>
<b>Total payables</b>		<b><u>211</u></b>	<b><u>385</u></b>
<b>Total liabilities</b>		<b><u>6,415</u></b>	<b><u>5,741</u></b>
<b>EQUITY</b>			
<b>Parent entity interest</b>			
Capital	9		1,686
Reserves	9	1,686	1,686
Accumulated surpluses (deficits)		<u>96</u>	<u>96</u>
<b>Total parent entity interest</b>		<b><u>358</u></b>	<b><u>213</u></b>
<b>Total equity</b>		<b><u>358</u></b>	<b><u>213</u></b>
<b>Current liabilities</b>		<b>3,385</b>	<b>3,124</b>
<b>Non-current liabilities</b>		<b>3,030</b>	<b>2,617</b>
<b>Current assets</b>		<b>4,137</b>	<b>3,606</b>
<b>Non-current assets</b>		<b>2,636</b>	<b>2,348</b>

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

<b>Productivity Commission</b>
<b>STATEMENT OF CASH FLOWS</b>
<i>for the year ended 30 June 2001</i>

	Note	2000-01 \$'000	1999-00 \$'000
<b>OPERATING ACTIVITIES</b>			
<b>Cash received</b>			
Appropriations for outputs		22,148	21,662
Interest		227	24
Sales of goods and services		211	97
Other		22	425
GST refunds		<u>352</u>	<u>—</u>
<b>Total cash received</b>		<b><u>22,960</u></b>	<b><u>22,208</u></b>
<b>Cash used</b>			
Employees		16,076	15,554
Suppliers		4,926	4,741
Other		<u>370</u>	<u>—</u>
<b>Total cash used</b>		<b><u>21,372</u></b>	<b><u>20,295</u></b>
<b>Net cash from operating activities</b>	10	<b><u>1,588</u></b>	<b><u>1,913</u></b>
<b>INVESTING ACTIVITIES</b>			
<b>Cash received</b>			
Proceeds from property, plant and equipment		<u>4</u>	<u>13</u>
<b>Total cash received</b>		<b><u>4</u></b>	<b><u>13</u></b>
<b>Cash Used</b>			
Investments		2,300	1,500
Purchase of property, plant and equipment		<u>1,126</u>	<u>220</u>
<b>Total cash used</b>		<b><u>3,426</u></b>	<b><u>1,720</u></b>
<b>Net cash used by investing activities</b>		<b><u>(3,422)</u></b>	<b><u>(1,707)</u></b>
<b>FINANCING ACTIVITIES</b>			
<b>Cash received</b>			
Proceeds from equity injections		<u>1,686</u>	<u>—</u>
<b>Total cash received</b>		<b><u>1,686</u></b>	<b><u>—</u></b>
<b>Net cash from financing activities</b>		<b><u>1,686</u></b>	<b><u>—</u></b>
<b>Net increase (decrease) in cash held</b>		<b>(148)</b>	<b>206</b>
Cash at the beginning of the reporting period		<u>228</u>	<u>22</u>
<b>Cash at the end of the reporting period</b>		<b><u>80</u></b>	<b><u>228</u></b>

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



**Productivity Commission**  
**SCHEDULE OF COMMITMENTS**

*as at 30 June 2001*

	Note	2000-01 \$'000	1999-00 \$'000
<b>COMMITMENTS</b>			
Operating leases		6,557	7,923
Other commitments		<u>334</u>	<u>404</u>
<b>Total commitments</b>		<b><u>6,891</u></b>	<b><u>8,327</u></b>
<b>BY MATURITY</b>			
<b>All commitments</b>			
One year or less		1,695	1,670
From one to five years		5,196	6,519
Over five years		<u>—</u>	<u>138</u>
<b>Total commitments</b>		<b><u>6,891</u></b>	<b><u>8,327</u></b>
<b>Operating Lease Commitments</b>			
One year or less		1,580	1,571
From one to five years		4,977	6,214
Over five years		<u>—</u>	<u>138</u>
<b>Total operating lease commitments</b>		<b><u>6,557</u></b>	<b><u>7,923</u></b>

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

**Productivity Commission**  
**SCHEDULE OF CONTINGENCIES**

*as at 30 June 2001*

	Note	2000-01 \$'000	1999-00 \$'000
<b>CONTINGENT LOSSES</b>		—	—
<b>CONTINGENT GAINS</b>		—	—
<b>Net contingencies</b>		—	—

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

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## Productivity Commission

### Notes to and forming part of the Financial Statements for the Year Ended 30 June 2001

<b>Note</b>	<b>Description</b>
1	Objectives of the Productivity Commission
2	Summary of Significant Accounting Policies
3	Events Occurring after Balance Date
4	Operating Revenues
5	Operating Expenses
6	Financial Assets
7	Non-financial Assets
8	Provisions and Payables
9	Equity
10	Cash Flow Reconciliation
11	Appropriations
12	Reporting of Outcome
13	Remuneration of Executives
14	Contingencies
15	Act of Grace Payments and Waivers
16	Average Staffing
17	Financial Instruments

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## **Note 1 Objectives of the Productivity Commission**

The Productivity Commission is the Commonwealth Government's principal review and advisory body on microeconomic policy and regulation.

The Government's outcome objective for the Productivity Commission is:

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

## **Note 2 Summary of Significant Accounting Policies**

### **2.1 Basis of Accounting**

The financial statements are required by section 49 of the *Financial Management and Accountability Act 1997*.

The statements have been prepared in accordance with:

- Schedule 1 to Orders made by the Finance Minister for the preparation of Financial Statements in relation to financial years ending on or after 30 June 2001;
- Australian Accounting Standards and Accounting Interpretations issued by Australian Accounting Standards Boards;
- other authoritative pronouncements of the Boards; and
- Consensus Views of the Urgent Issues Group.

The statements have been prepared having regard to:

- Statements of Accounting Concepts; and
- the Explanatory Notes to Schedule 1, and Guidance Notes issued by the Department of Finance and Administration.

The Statements of Financial Performance and Financial Position have been prepared on an accrual basis, and are in accordance with historical cost convention, except for certain assets which, as noted, are at valuation. Except where stated, no allowance is made for the effect of changing prices on the results or the financial position.

Assets and liabilities are recognised in the Statement of Financial Position when and only when it is probable that future economic benefits will flow and the amounts of the assets or liabilities can be reliably measured. Revenues and expenses are recognised in the Statement of Financial Performance when and only when the flow or consumption or loss of economic benefits has occurred and can be reliably measured.

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The continued existence of the Commission in its present form, and with its present outputs, is dependent on Government policy and on continuing appropriations by Parliament for the Commission's outputs.

## **2.2 Changes in Accounting Policy**

There were no changes in accounting policy in 2000-2001. However the presentation of the financial statements has been changed in accordance with the best practice guide issued by the Australian National Audit Office.

## **2.3 Agency and Administered items**

Commission assets, liabilities, revenues and expenses are those items that are controlled by the Commission. They include:

- computers, plant and equipment used in providing goods and services;
- liabilities for employee entitlements;
- revenues from appropriations or independent sources; and
- employee, supplier and depreciation expenses incurred in producing agency outputs.

The Commission had no administered items in 2000-2001. Administered items are those items which are controlled by the Government and managed or oversighted by an agency on behalf of the Government. These items include benefit payments and taxes, fees and fines.

## **2.4 Reporting by Outcome**

A comparison of Budget and Actual figures by outcome specified in the Appropriation Acts relevant to the Commission is presented in Note 12.

## **2.5 Revenue**

The revenues described in this Note are revenues relating to the outputs of the Commission.

### *(a) Revenues from Government - Appropriations*

From 1 July 1999, the Commonwealth budget has been prepared under an accruals framework.

Appropriations to the Commission for its outputs are recognised as revenue to the extent that the Commission has received or has an unequivocal entitlement to receive the appropriation.

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### *Interest*

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

#### *(c) Resources received free of charge*

Services received free of charge are recognised as revenue when and only when a fair value can be reliably determined and the services would have been purchased if they had not been donated. Use of those resources is recognised as an expense.

#### *(d) Other revenue*

Revenue from the sale of goods is recognised upon the delivery of goods to customers. Interest revenue is recognised on the basis of the interest rates applicable to the financial assets. Revenue from disposal of non-current assets is recognised when control of the asset has passed to the buyer.

## **2.6 Employee Entitlements**

### *Salaries and wages, and leave*

Liabilities for employee entitlements are accumulated as a result of employees rendering services up to the reporting date. These benefits include salaries and wages, annual leave and long service leave.

Liabilities arising in respect of entitlements expected to be settled within twelve months of the reporting date are measured at their nominal amounts. The non-current portion of the long service entitlement is recognised and measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date. In determining the present value of future cash outflows, the interest rates attaching to government guaranteed securities which have terms to maturity approximating the terms of the related liability are used.

### *Separation and redundancy*

No provision has been made for separation and redundancy payments as the Commission has not formally identified any positions as excess to requirements at 30 June 2001.

### *Superannuation*

Staff of the Commission employed under the Public Service Act, contribute to the Commonwealth Superannuation Scheme and the Public Sector Superannuation Scheme. Employer contributions amounting to \$1,968,511 (1999-00: \$1,870,764) in relation to these schemes have been expensed in these financial statements.

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No liability is shown for superannuation in the Statement of Financial Position as the employer contributions fully extinguish the accruing liability which is assumed by the Commonwealth.

## **2.7 Leases**

Lease incentives taking the form of 'free' leasehold improvements and rent holidays are recognised as liabilities to be amortised over the period of the lease.

## **2.8 Cash**

Cash includes notes and coins held and any deposits held at call with a bank or financial institution.

## **2.9 Financial instruments**

Accounting policies for financial instruments are stated at Note 17.

## **2.10 Acquisition of Assets**

Assets are recorded at cost on acquisition except as stated below. The cost of acquisition includes the fair value of assets transferred in exchange and liabilities undertaken.

## **2.11 Property, plant and equipment**

### *Asset recognition threshold*

Purchases of property, plant and equipment 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).

### *Revaluations*

Schedule 1 to the Financial and Management Accountability (FMA) Orders requires that buildings, infrastructure, plant and equipment be revalued progressively in accordance with the 'deprival' method of valuation in successive three-year cycles.

The Commission has implemented the requirements of Schedule 1 as follows:

- plant and equipment was revalued initially at 30 June 1998; and
- the remaining assets (leasehold improvements) were revalued at 30 June 1999.

The financial effect of the move to progressive revaluations is that the carrying amounts of assets will reflect current values and that depreciation charges will reflect the current cost of the service potential consumed in each period. This has been estimated by calculating the written down replacement cost (see Note 7).

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The Commission has assessed the carrying amounts of assets revalued initially at 30 June 1998 and has determined that no adjustment is currently required to be made for those assets to be valued in accordance with the deprival method.

Assets in each class acquired after the commencement of a progressive revaluation cycle are not captured by the progressive revaluation then in progress.

#### *Recoverable Amount Test*

Schedule 2 requires the application of the recoverable amount test to non-current assets in accordance with AAS 10 *Recoverable Amount of Non-Current Assets*. The carrying amounts of these non-current assets have been reviewed and it has been determined that they are not in excess of their recoverable amounts.

#### *Depreciation and Amortisation*

Depreciable property plant and equipment assets are written-down to their estimated residual values over their estimated useful lives to the Commission using, in all cases, the straight-line method of depreciation. Leasehold improvements are amortised on a straight-line basis over the lesser of the estimated useful life of the improvements or the unexpired period of the lease.

Depreciation and amortisation rates applying to each class of depreciable asset are based on the following useful lives:

	2000-2001	1999-2000
Leasehold improvements	Lease term	Lease term
Plant and equipment	3 to 10 years	3 to 10 years
Intangibles (Computer Software)	5 years	5 years

The aggregate amount of depreciation allocated for each class of asset during the reporting period is disclosed in Note 7B.

## **2.12 Taxation**

The Commission is exempt from all forms of taxation except fringe benefits tax and the goods and services tax.

## **2.13 Capital Use Charge**

A capital use charge of 12% is imposed by the Government on the net assets of the Commission. The charge is adjusted to take account of any asset gifts and revaluation increments during the financial year.

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## 2.14 Insurance

The Commission has insured for risks through the Government's insurable risk managed fund, Comcover. Workers compensation is insured through Comcare Australia.

## 2.15 Comparative Figures

Comparative figures have been adjusted to conform to changes in presentation in these financial statements where required.

## 2.16 Rounding

Amounts have been rounded to the nearest \$1,000 except in relation to the following:

- remuneration of executives; and
- remuneration of auditors.

## Note 3 Events Occurring after Balance Date

No significant events requiring disclosure in or adjustment to these financial statements have occurred subsequent to balance date.

## Note 4 Operating Revenues

### *Note 4A – Revenues from Government*

	2000-01 (\$'000)	1999-00 (\$'000)
Appropriations for outputs	22,148	21,662
Resources received free of charge – Auditor-General	<u>33</u>	<u>36</u>
Total	<u><b>22,181</b></u>	<u>21,698</u>

The Auditor-General provides financial statement audit services free of charge to the Commission. The fair value of the services was \$33,000 (1999-2000 \$35,700). No other services were provided by the Auditor-General.

The following resources received free of charge are not recognised, as the costs cannot be measured reliably:

- Australian Archives – Storage and disposal facilities.



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*Note 4B – Sales of goods and services / Other revenue*

	2000-01 (\$'000)	1999-00 (\$'000)
Goods and services	206	81
Other	<u>22</u>	<u>425</u>
Total	<u><b>228</b></u>	<u>506</u>

'Other' represents recoveries from Comcare of compensation payments made to employees in previous years and charged as operating expenses at that time.

*Note 4C – Proceeds and expenses from sales of assets*

	2000-01 (\$'000)	1999-00 (\$'000)
Non-financial assets		
Infrastructure, plant and equipment		
Revenue (proceeds) from sales	4	13
Expenses associated with sale	<u>5</u>	<u>42</u>
Total	<u><b>(1)</b></u>	<u>(29)</u>

## **Note 5 Operating Expenses**

*Note 5A – Employee expenses*

	2000-01 (\$'000)	1999-00 (\$'000)
Remuneration (for services provided)	16,575	15,311
Separation and redundancy	<u>301</u>	<u>243</u>
Total	<u><b>16,876</b></u>	<u>15,554</u>

*Note 5B – Suppliers expenses*

	2000-01 (\$'000)	1999-00 (\$'000)
Supply of goods and services	3,219	3,538
Operating lease rentals	<u>1,500</u>	<u>1,433</u>
Total	<u><b>4,719</b></u>	<u>4,971</u>

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*Note 5C – Depreciation and amortisation*

	2000-01 (\$'000)	1999-00 (\$'000)
Depreciation and amortisation of infrastructure, plant & equipment	735	676
Amortisation of intangibles	<u>98</u>	<u>90</u>
Total	<u><b>833</b></u>	<u>766</u>

*Note 5D – Write-down of assets*

	2000-01 (\$'000)	1999-00 (\$'000)
Non-financial assets		
Plant & equipment – write-down	<u>–</u>	<u>131</u>
Total	<u>–</u>	<u>131</u>

**Note 6 Financial Assets**

*Receivables*

	2000-01 (\$'000)	1999-00 (\$'000)
Appropriations carried over	–	1,686
Goods and services	5	16
GST receivable	59	7
<b>Less:</b> Provision for doubtful debts	<u>–</u>	<u>–</u>
Total	<u><b>64</b></u>	<u>1,709</u>
Receivables (gross) which are overdue are aged as follows:		
Not Overdue	64	1,709
Overdue by:		
Less than 30 days	–	–
30 to 60 days	–	–
60 to 90 days	<u>–</u>	<u>–</u>
	<u><b>64</b></u>	<u>1,709</u>

## Note 7 Non-financial Assets

### *Infrastructure, Plant and Equipment, and Intangibles*

Table A Summary of fixed assets

	2000-01	1999-00
	(\$'000)	(\$'000)
<b>Leasehold improvements</b>		
Leasehold at cost	670	9
Accumulated amortisation	<u>97</u>	<u>—</u>
	<b><u>573</u></b>	<b><u>9</u></b>
Leasehold improvements – at 1999-2002 valuation	3,198	3,198
Accumulated amortisation	<u>2,343</u>	<u>2,023</u>
	<b><u>855</u></b>	<b><u>1,175</u></b>
<b>Total Leasehold improvements</b>	<b><u>1,428</u></b>	<b><u>1,184</u></b>
<b>Plant and equipment</b>		
Plant and equipment at cost	1,071	686
Accumulated depreciation	<u>359</u>	<u>181</u>
	<b><u>712</u></b>	<b><u>505</u></b>
Plant and equipment – at 1998-2001 valuation	1,318	1,415
Accumulated depreciation	<u>1,041</u>	<u>1,016</u>
	<b><u>277</u></b>	<b><u>399</u></b>
<b>Total Plant and equipment</b>	<b><u>989</u></b>	<b><u>904</u></b>
<b>Total Infrastructure, plant and equipment</b>	<b><u>2,417</u></b>	<b><u>2,088</u></b>
<b>Intangibles</b>		
Computer software at cost	528	471
Accumulated amortisation	<u>309</u>	<u>211</u>
<b>Total Intangibles</b>	<b><u>219</u></b>	<b><u>260</u></b>
<b>Total Infrastructure, plant and equipment, and intangibles</b>	<b><u>2,636</u></b>	<b><u>2,348</u></b>

In accordance with Note 2.11, assets purchased since the revaluations carried out in 1998 and 1999, are shown at cost and have been disclosed separately from those recorded at valuation in the table above. The Commission has determined that the plant and equipment valuation performed in 1998 remains current.

Table B Analysis of property, plant, equipment and intangibles.  
Movement summary 2000-2001 for fixed assets irrespective of valuation

Item	Leasehold improvements (\$'000)	Plant and equipment (\$'000)	Total infrastructure, plant and equipment (\$'000)	Intangibles (\$'000)	Total (\$'000)
<b>Gross value</b>					
As at 1 July 2000	3,207	2,100	5,307	471	5,778
Additions	661	408	1,069	57	1,126
Disposals	—	(119)	(119)	—	(119)
As at 30 June 2001	<u>3,868</u>	<u>2,389</u>	<u>6,257</u>	<u>528</u>	<u>6,785</u>
<b>Accumulated depreciation/amortisation</b>					
As at 1 July 2000	2,023	1,196	3,219	211	3,430
Charge for additions	94	54	148	10	158
Charge for assets held 1 July 2000	323	264	587	88	675
Disposals	—	(114)	(114)	—	(114)
As at 30 June 2001	<u>2,440</u>	<u>1,400</u>	<u>3,840</u>	<u>309</u>	<u>4,149</u>
<b>Net book value as at 30 June 2001</b>	<u>1,428</u>	<u>989</u>	<u>2,417</u>	<u>219</u>	<u>2,636</u>
Net book value as at 1 July 2000	1,184	904	2,088	260	2,348

Leasehold improvements were revalued as at 30 June 1999 in accordance with progressive revaluation policy stated at Note 2.11 and was completed by Mr W Philpott CPV, an employee of the Australian Valuation Office, a body independent to the Commission. Plant and equipment was revalued at 30 June 1998. The 'deprival method of valuation' was adopted as the basis of valuation, which was estimated by calculating the current written down replacement cost.

Table C Summary of valuation adjustments as at 30 June 2001

	2000-01 (\$'000)	1999-00 (\$'000)
Valuation		
Cost adjustment	—	—
Depreciation adjustment	—	—
<b>Net increment (decrement) on revaluation</b>	—	—

## Note 8 Provisions and Payables

### Note 8A – Employee provisions

	2000-01	1999-00
	(\$'000)	(\$'000)
Salaries and wages	380	333
Annual leave	2,192	1,854
Long service leave	3,530	3,117
Superannuation	53	51
Other	–	1
<b>Total</b>	<b><u>6,155</u></b>	<b><u>5,356</u></b>
Current	3,125	2,739
Non-Current	3,030	2,617

### Note 8B – Suppliers

	2000-01	1999-00
	(\$'000)	(\$'000)
Trade creditors	<u>181</u>	<u>345</u>
	<b><u>181</u></b>	<b><u>345</u></b>

## Note 9 Equity

	Accumulated Results	Asset Revaluation Reserve	Capital	Total Equity	
	2000-01	2000-01	2000-01	2000-01	1999-00
	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Balance 1 July	(1,569)	96	1,686	213	(704)
Net surplus (deficit)	194	–	–	194	793
Equity injection:					
Appropriation	–	–	–	–	124
Capital use charge	<u>(49)</u>	<u>–</u>	<u>–</u>	<u>(49)</u>	<u>–</u>
<b>Balance at 30 June</b>	<b><u>(1,424)</u></b>	<b><u>96</u></b>	<b><u>1,686</u></b>	<b><u>358</u></b>	<b><u>213</u></b>

## Note 10 Cash Flow Reconciliation

	2000-01 (\$'000)	1999-00 (\$'000)
Reconciliation of operating surplus to net cash provided by operating activities:		
Operating surplus (deficit)	<u>194</u>	<u>793</u>
Depreciation/Amortisation	833	766
Loss (profit) on sale of non-current assets	1	29
Write down of assets	–	131
Decrease (increase) in receivables	(41)	(23)
Decrease (increase) in prepayments	(24)	(38)
Increase (decrease) in employee liabilities	799	(27)
Increase (decrease) in suppliers liability	(164)	168
Increase (decrease) in other liabilities	(10)	(10)
Increase in Equity	<u>–</u>	<u>124</u>
Net cash provided (used) by operating activities	<b><u>1,588</u></b>	<b><u>1,913</u></b>

## Note 11 Appropriations

### *Annual appropriations for outputs*

	2000-01 (\$'000)	1999-00 (\$'000)
Balance available at 1 July	1,706	–
Add: Appropriation Act No 1 – s6 – basic appropriations (budget)	22,148	21,662
Add: FMA Act appropriations		
s30A appropriations (GST recoverables)	352	–
s31 appropriations	<u>450</u>	<u>559</u>
Total appropriations available for year	22,950	22,221
Cash outflows during the year	<u>22,498</u>	<u>20,515</u>
Balance of appropriations held for future cash outputs at 30 June	<b>2,158</b>	1,706

## Note 12 Reporting of Outcome

### *Note 12A – Reporting by outcome*

	Budget (\$'000)	Actual (\$'000)
Net cost to budget outcome (Operating result before revenue from government)	22,148	21,987
Total assets deployed as at 30 June 2001	4,965	6,773
Net assets deployed as at 30 June 2001	(1,401)	358

*Note 12B – Major revenues and expenses by output*

	Output 1	Output 2	Output 3	Output 4	Output 5	Total	
	Actual	Actual	Actual	Actual	Actual	Budget	Actual
	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)
<b>Operating revenues</b>							
Revenues from government	7,196	3,156	2,062	255	9,479	22,148	22,148
Sale of goods and services	136	60	39	5	180	275	420
Other	<u>19</u>	<u>8</u>	<u>6</u>	<u>1</u>	<u>25</u>	<u>40</u>	<u>59</u>
<b>Total operating revenues</b>	<b><u>7,351</u></b>	<b><u>3,224</u></b>	<b><u>2,107</u></b>	<b><u>261</u></b>	<b><u>9,684</u></b>	<b><u>22,463</u></b>	<b><u>22,627</u></b>
<b>Operating expenses</b>							
Employees	5,272	2,385	1,658	201	7,360	15,950	16,876
Suppliers	1,754	693	348	48	1,876	5,747	4,719
Other	<u>262</u>	<u>119</u>	<u>82</u>	<u>10</u>	<u>365</u>	<u>766</u>	<u>838</u>
<b>Total operating expenses</b>	<b><u>7,288</u></b>	<b><u>3,197</u></b>	<b><u>2,088</u></b>	<b><u>259</u></b>	<b><u>9,601</u></b>	<b><u>22,463</u></b>	<b><u>22,433</u></b>

As indicated in Note 1, the Commission has one outcome, which consists of 5 outputs:

Output 1 – Government-commissioned projects;

Output 2 – Performance reporting and other services to government bodies;

Output 3 – Regulation review activities;

Output 4 – Competitive neutrality complaints activities; and

Output 5 – Supporting research and activities and annual reporting.

Revenues and expenses have been allocated to outputs based on the direct costs of the activities undertaken together with a proportion of corporate overheads.

### **Note 13 Remuneration of Executives**

The amounts of total remuneration received/receivable by Holders of Public Office and Senior Executive Service staff, where such amounts exceed \$100,000 during the year, are shown in the table.

Total remuneration includes salary, superannuation, performance pay, accrued leave and other package components such as executive vehicles.

	2000-01	1999-00
<b>Total remuneration</b>	No.	No.
\$100,000 to \$110,000	1	–
\$110,000 to \$120,000	–	4
\$120,000 to \$130,000	1	3
\$130,000 to \$140,000	–	4
\$140,000 to \$150,000	6	5
\$150,000 to \$160,000	3	1
\$160,000 to \$170,000	6	1
\$170,000 to \$180,000	–	1
\$180,000 to \$190,000	–	2
\$190,000 to \$200,000	2	1
\$200,000 to \$210,000	1	2
\$210,000 to \$220,000	2	–
\$220,000 to \$230,000	1	–
\$230,000 to \$240,000	2	1
	<b>25</b>	<b>25</b>
Aggregate amount of total remuneration of executives shown above	\$4,263,770	\$3,793,823
Aggregate amount of performance pay during the year to executives shown above	\$198,754 <sup>1</sup>	\$208,526 <sup>1</sup>
Aggregate amount of redundancy payments during the year to executives	–	–

<sup>1</sup> Included in total remuneration

## Note 14 Contingencies

To the best of its knowledge, the Commission was not exposed to any unrecognised liabilities that would have any material effect on the financial statements.

## Note 15 Act of Grace Payments and Waivers

### *Note 15A – Act of grace payments*

No act of grace payments were made during the reporting period.

### *Note 15B – Waiver of rights to payment of moneys*

No waivers of amounts owing to the Commonwealth were made pursuant to subsection 34(1) of the *Financial Management and Accountability Act 1997*.



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**Note 16 Average Staffing**

The average staffing level is in respect of all employees of the Commission, including Holders of Public Office.

	2000-01	1999-00
	No	No
Average staffing level	<b>200</b>	202

Further information on staffing levels is provided in appendix A of the Annual Report.

## Note 17 Financial Instruments

### Note 17A – Terms, conditions and accounting policies

<b>Financial Instrument</b>	<b>Accounting Policies and Methods (including recognition criteria and measurement basis)</b>	<b>Nature of underlying instrument (including significant terms &amp; conditions affecting amount, timing and certainty of cash flows)</b>
<i><b>Financial Assets</b></i>	Financial assets are recognised when control over future economic benefits is established and the amount of the benefit can be reliably measured.	
Cash	Deposits are recognised at their nominal amounts. Interest is credited to revenue as it accrues.	The Commission maintains its bank accounts with the Reserve Bank of Australia at call. Monies in the Commission's bank accounts are swept into the Official Public Account nightly and interest is earned on the daily balance at rates based on money market call rates. Rates have been fixed at 2% for the year. Interest is paid quarterly.
Investments	Investments are recognised at the nominal amounts. Interest is credited to revenue as it accrues.	The Commission invests funds with the Reserve Bank of Australia and interest is earned on the investment. Rates averaged 5.8% for the year. Interest is paid on maturity.
Receivables for goods and services	These receivables are recognised at the nominal amounts due less any provision for bad and doubtful debts. Collectability of debts is reviewed at balance date. Provisions are made when collection of the debt is judged to be less rather than more likely.	All receivables are with entities external to the Commission. Credit terms are net 30 days. (1999-2000: 30 days).
<i><b>Financial Liabilities</b></i>	Financial liabilities are recognised when a present obligation to another party is entered into and the amount of the liability can be reliably measured.	
Lease incentives	The lease incentive is recognised as a liability on receipt of the incentive. The amount of liability is reduced on a straight-line over the life of the lease by allocating lease payments between rental expense and the reduction of the liability.	The Commission received a fitout incentive on entering a property operating lease in September 1996. Lease payments are made monthly.
Trade creditors	Creditors and accruals are recognised at their nominal amounts, being the amounts at which the liabilities will be settled. Liabilities are recognised to the extent that the goods or services have been received (and irrespective of having been invoiced).	All creditors are entities that are not part of the Commonwealth legal entity. Settlement is usually made net 30 days.

Note 17B – Interest rate risk

**2000-2001**

Financial Instrument	Notes	Floating Interest Rate 2000-01 (\$'000)	Fixed Interest Rate 2000-01 (\$'000)	Non-Interest Bearing 2000-01 (\$'000)	Total 2000-01 (\$'000)	Weighted Average Effective Interest Rate 2000-01 (%)
<b>Financial assets</b>						
Cash at bank			80	–	80	2.0
Term deposit			3,800		3,800	5.8
Receivables	6	–	–	64	64	n/a
<b>Total Financial assets</b>		<u>–</u>	<u>3,880</u>	<u>64</u>	<u>3,944</u>	
Total Assets					<u>6,773</u>	
<b>Financial liabilities</b>						
Lease incentive				30	30	n/a
Suppliers				181	181	n/a
<b>Total Financial liabilities</b>				<u>211</u>	<u>211</u>	
Total Liabilities					<u>6,415</u>	

**1999-2000**

Financial Instrument	Notes	Floating Interest Rate 1999-00 (\$'000)	Fixed Interest Rate 1999-00 (\$'000)	Non-Interest Bearing 1999-00 (\$'000)	Total 1999-00 (\$'000)	Weighted Average Effective Interest Rate 1999-00 (%)
<b>Financial assets</b>						
Cash at bank		228	–	–	228	4.5
Term deposit		–	1,500	–	1,500	5.9
Receivables	6	–	–	1,709	1,709	n/a
<b>Total Financial assets</b>		<u>228</u>	<u>1,500</u>	<u>1,709</u>	<u>3,437</u>	
Total Assets					<u>5,954</u>	
<b>Financial liabilities</b>						
Lease incentive				40	40	n/a
Suppliers				345	345	n/a
<b>Total Financial liabilities</b>				<u>385</u>	<u>385</u>	
Total Liabilities					<u>5,741</u>	

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*Note 17C – Net fair values of financial assets and liabilities*

The net fair values of cash and non-interest-bearing financial assets, lease incentive liability and trade creditors equate to their carrying amounts.

*Note 17D – Credit risk exposures*

The Commission's maximum exposure to credit risk at reporting date in relation to each class of recognised financial assets is the carrying amount of those assets as indicated in the Statement of Financial Position.

The Commission has no significant exposures to credit risk.

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# Index

- access regulation, 1, 5, 6, 10, 11, 12, 13, 14, 15, 19, 115, 116
- accrual-based budgeting and accounting framework, 69, 70, 71, 72
- aged care, 17, 29, 74, 75, 78, 93, 94, 111, 147
- airport services pricing inquiry, 5, 6, 19, 116–17
- architects inquiry, 20, 52, 72, 80, 86, 126–7
- ARRB Transport Research Ltd, 105, 129–30
- audited financial statements, 169–95
- Australian Bureau of Meteorology, 132
- Australian Competition and Consumer Commission (ACCC), 11, 12, 116
- Australian Housing and Urban Research Institute, 132
- Australian Institute of Health and Welfare, 91
- Australian Maritime Safety Authority, 132
- Australian National Audit Office, 49, 170–1, 179
- Australian National University, 25, 26, 139, 154
- Australian Research Council, 26, 31, 73
- Australian Security Vetting Service, 130
- Australian Workplace Agreements, 40
- Australia's general tariff arrangements inquiry, 19–20, 30, 72, 80, 85, 86, 106, 124–6, 133
- benchmarking, 2, 21, 28, 87, 90, 92, 93, 95, 117, 142, 161
- biodiversity, *see* conservation of biodiversity
- broadcasting inquiry, 29, 30, 31, 33, 72, 73, 75, 78, 85, 86
- business failure, 149–50
- Capricorn Capital Ltd, 129
- Cartagena Protocol on Biosafety, 136
- casual employment, 25, 110, 141, 148–9
- Certified Agreement 2000–2003, 40, 41, 43, 45, 48
- children's services, 20, 29, 74, 93
- citrus inquiry, 122–3

---

Civil Aviation Safety Authority, 131–2  
Commissioners, 37–8  
Commissioners, Associate, 37, 39  
Commonwealth Competitive Neutrality Complaints Office, 23, 49, 65, 102–5, 129–32, 164  
community consultation, 23, 25, 81, 83, 107, 109  
competition, role of, 7  
Competition Principles Agreement, 5, 20, 95, 115, 118, 120, 123  
competitive neutrality complaints, 23, 28, 69, 70, 71, 72, 102–5, 129–32  
Competitive Neutrality Roundtable, 103  
compliance index, 68  
conservation of biodiversity, 17, 18, 24, 30, 53, 79, 107, 111, 136, 137, 151, 153  
cost recovery by Commonwealth agencies inquiry, 19, 27, 32, 39, 75, 80, 86  
    Office of the Gene Technology Regulator, 32, 75, 86  
Council of Australian Governments (COAG), 4, 20–1, 87, 92, 96, 97, 99

disability services, 17, 21, 94  
DocImage Business, 105, 131  
drinking water quality standards project, 95  
duty of care for the environment, 24, 111, 153

Earth Sanctuaries Ltd, 24, 79, 107  
ecologically sustainable development, 52–3  
ecologically sustainable development inquiry, 24, 52, 72, 134  
ecologically sustainable land management inquiry, 24, 72, 134  
economic modelling, 26, 133, 152–3, 153–4  
Electricity Supply Association of Australia, 79  
employment, 141, 143–4, 146–7, 148–9  
environmental outcomes, 22, 24, 26, 27, 52, 53, 109, 126, 134, 135–6, 138–9, 151, 153  
environmental groups, 25, 65, 109  
*Environment Protection and Biodiversity Conservation Act 1999*, 52

financial and staffing resources summary, 46  
*Financial Management and Accountability Act 1997*, 54, 172  
*Freedom of Information Act 1982*, 53, 54, 65  
Freedom of Information, 53, 65–7

---

gambling inquiry, 25, 29, 30, 31, 32, 33, 75, 78, 85, 86  
Global Trade Analysis Project, 26, 50, 110  
government-commissioned projects, 19–20, 46, 47, 50, 54, 61, 69, 70, 71, 72, 80–6, 110  
greenhouse gas modelling, 152–3

hazardous waste legislation review, 135–6  
Heads of Treasuries, 21, 87, 90, 92  
Hilmer Review, 4, 7  
hospitals, 29, 74, 78, 88, 93

impact of competition policy on rural and regional Australia inquiry, 29, 31, 75, 78, 85  
indigenous Australians, 20–1  
Industry Commission, 24, 31, 72, 73, 75, 78, 79, 134  
infrastructure  
    benchmarking, 21, 87, 90, 92, 95  
    investment, 1, 2, 3, 10–13, 14, 16  
    performance, 1–3, 21  
    private sector involvement, workshop 21, 90, 92  
    regulation of, 1–16, 19, 80  
international liner cargo shipping inquiry, 39, 75, 85  
International Monetary Fund, 30, 32, 111, 161  
Internet, 28, 30, 55, 83, 85, 110

Job Network inquiry, 121–2

Legal Support Association of Australia, 131  
living standards, 1, 17, 23, 53, 69, 71

market power, 1, 4, 6, 7–8, 9, 11, 14, 15, 19, 116, 117  
media coverage of the Commission, 33, 86, 94, 112  
media policy, 30, 73  
Melbourne Institute of Applied Economic and Social Research, 25, 50  
Metra, 105, 131–2  
microeconomic reform, 15, 21, 23, 27, 29, 32, 52, 89, 106, 110, 111, 138, 144  
Ministerial Council for Aboriginal and Torres Strait Islander Affairs, 21

---

multilateral trade negotiations, 125

national access regime, 6, 14, 115–16

national access regime inquiry, 5, 6, 14, 15, 19, 27, 80, 83, 84, 86, 115–16

National Centre for Social and Economic Modelling (NATSEM), 26, 50

National Competition Council, 96, 99, 116

national competition policy, 4, 5, 7, 19, 31, 85, 86, 100, 126, 134, 135, 137, 161

National Occupational Health and Safety Commission, 31, 73

native wildlife legislation review, 137–8

natural monopoly, 4, 7–8, 10, 15, 139

nursing home subsidies inquiry, 31, 75, 85

occupational health and safety, 43–4, 53, 115, 118, 120, 123

inquiry report, 31, 72, 73, 78

*Occupational Health and Safety (Commonwealth Employment) Act 1991*, 54

OECD, 22, 24, 26, 30, 32, 38, 79, 97, 107, 110, 111, 161

Office of Regulation Review, 21–2, 47, 95–101, 161

OmniStar, 132

parliamentary committees, 22, 25, 30, 32, 75, 76–7, 79, 104, 111, 133, 134

*pc update*, 54, 167

performance

management and pay, 41–2

monitoring of government trading enterprises, 21, 87, 89, 91–2, 94

reporting activities, 20–1, 69, 70, 87–95

pharmaceutical price differences research study, 20, 80, 83, 84, 127–8

price regulation, 1, 5, 6, 10, 11, 12, 13, 14, 15

of airport services, *see* airport services pricing inquiry

Prices Surveillance Act inquiry, 5, 6, 15, 19, 78, 80, 84

pro-competition regulation, 1, 4–5, 7, 8, 15–16, 19

productivity, 2, 3, 7, 17, 19, 23, 26, 30, 32, 69, 71, 106, 111, 144–5, 147, 148, 150–1

Productivity Commission

activities in 2000-01, 17–25, 80–3, 87–90, 95–7, 102–4, 106–7

appointments in 2000-01, 37, 38, 39, 56

competitive neutrality complaints activities, 23, 70, 102–5, 129–32

---

consultative processes, 23, 25–8, 83, 104, 107, 109–10

consultancies let, 50, 61–4

disability strategy, 59–60

feedback, 28–33, 69, 71, 74–5, 83, 89, 91, 93, 94, 97, 101, 104, 105

financial statements, 169–95

government-commissioned projects, 18, 19–20, 70, 72, 80–6, 113–28, 163

    project costs, 82

government responses to reports, 30–1, 72, 73, 85–6, 125–6, 127, 128

information technology, 48–9, 52

organisation chart, 38

performance reporting, 20–21, 70, 87–95, 164

program performance, 28–33, 69–112

publications, 17, 18, 108, 109, 163–7

public inquiries, 19–20, 70, 80–6, 113–27, 163

quality assurance processes, 25–8, 83–4, 90–92, 107, 109–10

regulation review activities, 20–2, 70, 95–101

*see also* Office of Regulation Review

role, 17, 37

service charters, 49

speeches and presentations, 25, 32, 156–60, 161

staffing statistics, 56–8

staff survey, 42, 48

submissions to other review bodies, 106, 111, 134–8

supporting research and statutory annual reporting, 23–5, 70, 106–112, 133–55, 165–7

training, 41, 42–3, 44

visiting officials, 32, 161

visiting researchers, 26–7

website, 28, 29, 33, 38, 40, 51, 54, 55, 59, 66, 67, 74, 78, 83, 86, 94, 101, 105, 112, 115, 154, 163

workers compensation, 44, 183

workshops, 21, 27–8, 83, 90, 91, 95, 107, 109, 138

*Productivity Commission Act 1998*, 37, 52, 54

*Public Service Act 1999*, 37, 180

radiocommunications inquiry, 119–21

---

rail reform inquiry, 5, 29

railways, 2, 3, 9, 11, 139

referees, 107

references to Commission work

- in Federal Parliament, 30, 31, 75, 85, 94, 111
- in House of Representatives and Senate committee reports, 30, 32, 75–8, 79, 94, 111
- in Parliamentary Library reports, 78
- in State and Territory parliaments, 30, 32, 79, 85, 111

Regulation Impact Statements, 22, 70, 95, 96, 97, 98, 99, 100, 101

- compliance with government requirements, 22, 96

regulatory bias or capture, 5, 13–14, 150

Review of Commonwealth/State Service Provision, 20, 28, 47, 53, 65, 70, 72, 74, 87, 88–9, 90–1, 92–4, 164

schools, 20, 29, 74, 93

section 2D Trade Practices Act inquiry, 123–4

service charters, 49

service provision, *see* Review of Commonwealth/State Service Provision

services, regulation of, 25, 139

services trades restrictions, 110, 111, 142–3, 154

single-desk marketing, 134–5, 137, 140

staff research papers, 106, 108, 140–52, 166

StaffSure Pty Ltd, 105, 130

staff working papers, 106, 108, 154–5, 166–7

Steering Committee on National Performance Monitoring of Government Trading Enterprises, 87, 89, 94, 164

Steering Committee for the Review of Commonwealth/State Service Provision, 20, 47, 65, 72, 87, 88, 89, 90, 93, 94, 164

superannuation legislation inquiry, 19, 80, 118–19

Sydney Basin and Essendon airports, 105, 131

technology, 1, 10, 13, 23, 31, 136, 144, 145

telecommunications, 2, 3, 4, 8, 9, 12, 15, 79, 139

- benchmarking, 21, 28, 95, 142
- costs affected by population distribution, 142

telecommunications competition regulation inquiry, 5, 6, 15, 19, 30, 80, 84, 85, 86

---

Trade Practices Act, 5, 6, 7, 15, 115, 123

training, 22, 96, 101, 130

unemployment research, 26, 50, 146–7

unions, 109

Wheat Marketing Act review, 134–5, 137

wholesale and retail trade, 144–5

workers compensation inquiry report, 31, 72, 73, 75, 78

workplace diversity, 45

*Workplace Relations Act 1996*, 40

World Bank, 24, 38, 79, 107

World Trade Organization, 79, 97, 99, 106, 136, 139, 161