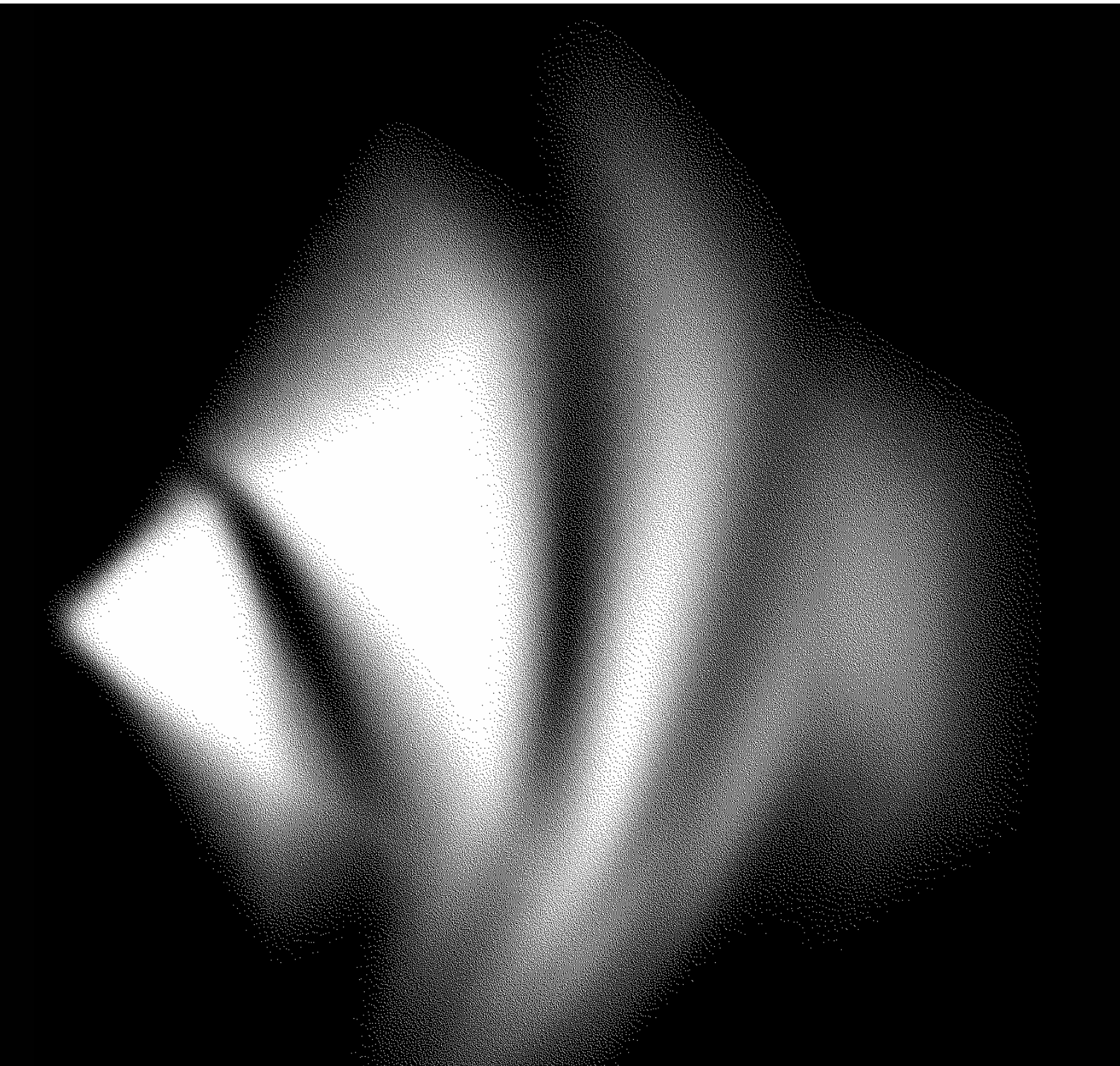




Australian Government
Productivity Commission

Annual Report 2002-03

Productivity
Commission
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The Productivity Commission

The Productivity Commission, an independent agency, is the Australian 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 or by contacting Media and Publications on (03) 9653 2244.

28 November 2003

The Treasurer
Parliament House
CANBERRA ACT 2600

Dear Treasurer

We submit to you the Productivity Commission's annual report for 2002-03. 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

Neil Byron
Commissioner

David Robertson
Commissioner

Tony Hinton
Commissioner

Judith Sloan
Commissioner

Helen Owens
Commissioner

Michael Woods
Commissioner

Chairman and Commissioners



David Robertson and Gary Banks (Chairman)



Tony Hinton, Judith Sloan and Neil Byron



Mike Woods and Helen Owens

Acknowledgments

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

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Abbreviations

ABS	Australian Bureau of Statistics
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
ICTs	Information and communications technologies
LDCs	Least developed countries
MFP	Multifactor productivity
NCC	National Competition Council
NCP	National competition policy
OECD	Organisation for Economic Co-operation and Development
OHS	Occupational health and safety
ORR	Office of Regulation Review
PC	Productivity Commission
RIS	Regulation Impact Statement
SES	Senior Executive Service
TCF	Textiles, clothing and footwear
US	United States of America
WTO	World Trade Organization

1 Sustaining national productivity

It is now a decade since the pick up in Australia's productivity growth first looked significant. At the time, there were questions as to whether it would endure and what lay behind it. As subsequently shown, the productivity turnaround was sustained through the 1990s, due in no small measure to broad structural reforms and policy changes. At a time when governments are looking to re-invigorate the reform process, past lessons can inform preparations for the challenges that lie ahead in sustaining productivity growth and raising living standards.

A strong economic and productivity performance

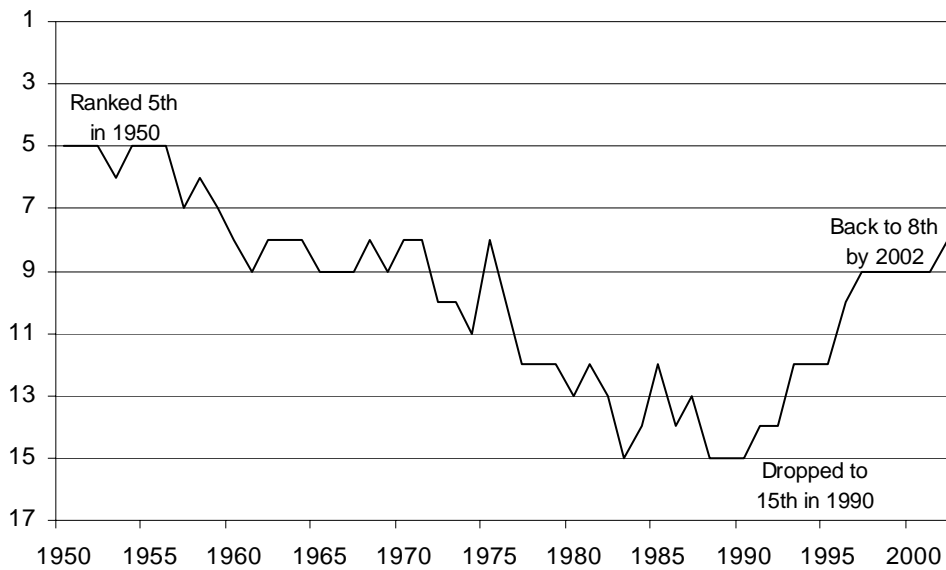
Australia's annual economic growth averaged nearly 4 per cent in real terms in the decade to 2001-02, a feat not achieved since the 1960s and early 1970s. Importantly, growth in the average real incomes of Australians also accelerated: GDP per capita grew at 2.7 per cent a year compared to an average of 1.4 per cent in the previous two decades.

The Australian economy has been one of the best performers in the OECD since the early 1990s, thereby reversing a long decline in comparative average income levels (figure 1.1). Australia's international ranking in per capita GDP among 22 OECD countries rebounded from its low point of 15th in 1990 to 8th in 2002. This higher national income has increased the purchasing power of Australian households and improved the community's capacity to fund infrastructure and services in areas such as health, education, the environment and social safety nets.

Productivity growth has been the mainspring of this good performance and it has co-existed with a greater use of capital and improved employment outcomes. Australia's productivity growth was stronger and more sustained in the 1990s than previously. It surpassed the growth achieved in the late 1960s, accelerating to record highs (figure 1.2).

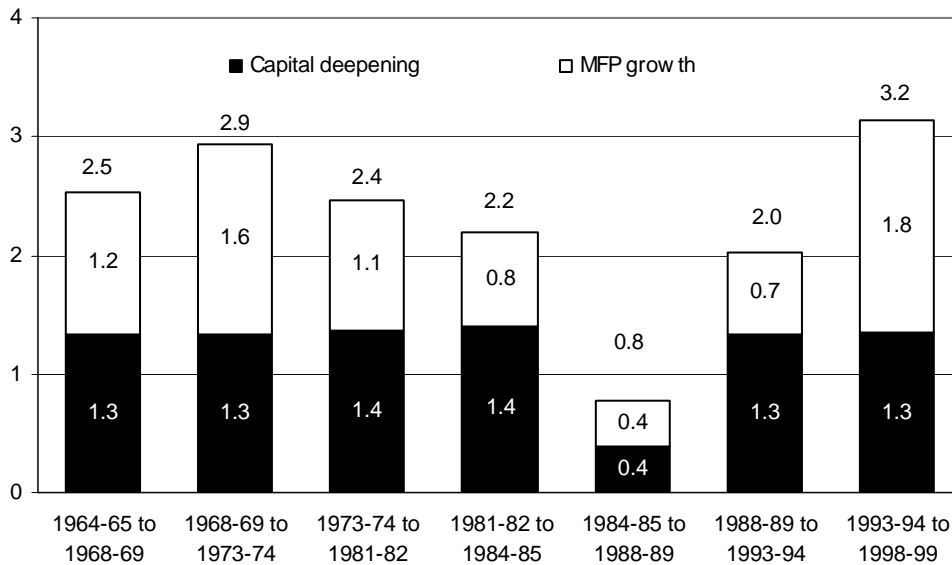
- The rate of growth in labour productivity in the market sector of the economy from 1993-94 to 1998-99 (the last complete productivity cycle) was 3.2 per cent a year, compared to 2.0 per cent, 0.8 per cent and 2.2 per cent in the previous three productivity cycles between 1981-82 and 1993-94.

Figure 1.1 Australia's per capita GDP ranking
 OECD countries, purchasing power parity 1999 US\$



Data source: GGDC 2003.

Figure 1.2 Sources of Australia's labour productivity growth
 ABS productivity cycles for the market sector^a, per cent



^a Productivity cycles are determined by the ABS and capture growth from productivity peak to productivity peak. The market sector covers about two-thirds of the measured economy but excludes such sectors as government administration, health and education in which output cannot be measured satisfactorily for productivity purposes.

Data source: ABS 5204.0 (November 2003) and Commission estimates.

-
- Similarly, the rate of multifactor productivity growth — a measure of how efficiently Australia’s human and capital resources are being used — averaged 1.8 per cent a year between 1993-94 and 1998-99, up from an average of 0.6 per cent a year across the three previous productivity cycles from 1981-82 to 1993-94. It has been the major contributor to improved labour productivity and average income, since the rate of capital accumulation per worker — ‘capital deepening’ — has remained stable at around 1.3 per cent a year.

The underlying productivity performance of the economy since 1998-99 is more difficult to assess. To date, capital deepening has maintained its stable rate but multifactor productivity growth averaged only 0.4 per cent a year in the first four years of the latest cycle. Variability in macroeconomic conditions and so few observations in an incomplete productivity cycle suggest caution in drawing firm conclusions at this stage, particularly as multifactor productivity in the market sector jumped by 2.6 per cent in 2001-02 and a further 0.5 per cent in 2002-03.

From an international perspective, Australia switched in the 1990s from being a productivity growth laggard during the previous four decades to being a productivity growth leader, outperforming even the benchmark US economy.

A key area for Commission research in recent years has involved monitoring and analysing these trends in Australia’s productivity growth and investigating their determinants. This work, which was undertaken to inform policy debate and formulation, has provided some important insights into the drivers of productivity growth and the policies likely to sustain it. While overall living standards depend on a complex matrix of social, environmental and economic factors, productivity improvements remain central to the wellbeing of Australians.

Policy reforms have driven productivity

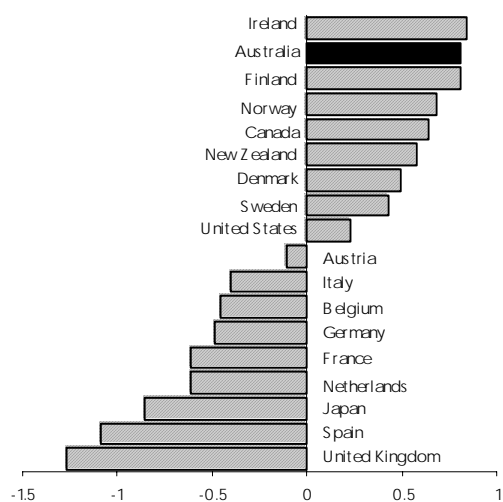
That Australia’s productivity surge in the 1990s represented a significant break from past trends is no longer in doubt. Notwithstanding successive data revisions and methodological improvements by the ABS and the use of a variety of analytical approaches, an acceleration of around 1 percentage point in labour and multifactor productivity in the 1990s over the 1980s is now clear. The productivity boost has provided the equivalent of an additional \$7000 on average to Australian households.

The timing, strength and internationally atypical nature of the acceleration in Australia’s productivity growth help to eliminate some of the ‘usual suspects’ as credible principal causes of the turnaround.

The surge in productivity cannot be explained away as the normal result of recovery from the early 1990s recession. The improved performance was both longer and stronger than in previous recoveries. Further, the relevant ABS measure of peak-to-peak productivity cycles reduces business-cycle effects on productivity estimates.

Australia was one of the three developed countries showing the strongest productivity acceleration in the 1990s (figure 1.3). Although the performance of the United States economy attracted much international attention, Australia's productivity surge started earlier and was of much greater magnitude (Parham et al. 2001). Unlike the experience of the 1950s and 1960s, Australia was not simply carried along by an international productivity boom. Indeed, as its post-World War II experience shows, an international boom is no guarantee of Australia doing better than the world's productivity leaders.

Figure 1.3 **Recent MFP trends^a**



^a Percentage points change in average annual MFP growth 1980-1990 to 1990-2000.

Data source: Derived from OECD 2003b, table A1.9.

Nor can it be said that Australia has been favoured by any special technological 'leap forward'. Other countries, including the United States, derived some benefit from rapid advances in the *production* of information and communications technologies (ICTs) in the 1990s. However, Australia produces little in the way of ICTs. In terms of the uptake of ICTs in the 1990s, Australia did move toward the top of the OECD ladder but they largely substituted for other forms of capital. While *use* of ICTs did contribute to Australia's pick up in multifactor productivity, research at both the aggregate and

firm level suggests a limited impact — around 2 tenths of a percentage point, a significant but relatively small part of multifactor productivity growth of 1.8 per cent a year (Parham et al. 2001; Gretton et al. 2003).

It has been asserted that increased 'work intensity' — an increase in hours worked and an unsustainable pace of work — meant that Australia's productivity performance in the 1990s was both mismeasured and unsustainable (box 1.1). However, hours worked are already taken into account in ABS productivity estimates. 'Unsustainability' has been disproved by the eight years of continuous productivity growth to 1998-99 and, though dipping for the next two years, multifactor productivity growth subsequently rebounded.

Workforce skills are an important contributor to national productivity and to the capability to absorb and develop the technologies and other innovations necessary for long-run growth. It does not appear, however, that the productivity surge of the 1990s was due to any acceleration in Australia's workforce skills. To the contrary, skills grew faster and made a greater contribution to multifactor productivity growth in the 1980s (Barnes and Kennard 2002). Moreover, while Australia had relatively high average schooling attainment in the 1960s and 1970s, other countries' growth in average years of education exceeded that of Australia in the 1980s and 1990s.

Box 1.1 Microeconomic reform, productivity and work intensity

Was Australia's 1990s productivity surge produced 'on the backs' of workers and therefore illusory and unsustainable? There have been claims that increased work intensity — manifested in longer hours, unmeasured increases in hours worked and an increased pace of work — is sufficient to account for all the acceleration. Some disentangling is required.

- The trend to longer working hours in Australia over the last two decades is not disputed, but it is already captured in the ABS measures of productivity. Between 1982 and 1994, average hours worked by full-time workers increased from 42 to 45 hours per week, largely reflecting growth in the number of Australians working 50 hours or more per week (ABS 2003).
- There was a structural break in the mid-1990s, however, with working hours levelling off, and in the period since 2000, average hours worked fell back to around 44 per week. Wooden (2003) has examined claims that microeconomic reforms, such as enterprise and individual workplace agreements, eroded working time standards, and found them wanting. The trend to longer working hours was established long before these labour market reforms came into force; if the critics of reform were correct, working time hours would have accelerated from the mid-1990s when in fact they stabilised and then declined; and any erosion of working time standards was more likely a response by workers to constraints on real wage rates imposed under a more highly regulated and centralised system for setting wages and conditions. Far from being imposed by employers, long working hours in the main appear to reflect worker preferences for higher remuneration and other compensating job features (ABS 2003; Wooden and Loundes 2001).
- As expected, workplace and other reforms have entailed more effective use of labour *during* working hours — a genuine source of productivity gains. There is no evidence of any increase in unmeasured hours at work. Hours worked data used in estimating productivity are collected by the ABS directly from workers through household surveys and are beyond the reach of employer influence.
- Some critics of reform and the significance of its productivity pay-off argue that the 'pace of work' in the 1990s accelerated to an unsustainable extent so that the effect on productivity growth would be temporary. While acknowledging the results of surveys on perceptions of stress and pace of work and wider community debate on the appropriateness of work/life choices, it should be noted that Australia's multifactor productivity growth was sustained year on year from 1990-91 to 1998-99.

With such conventional explanations unable to account for the productivity surge, attention turned to other domestic factors that took hold in the 1990s. Although formal economic ‘proof’ is unattainable, studies of Australia’s aggregate productivity performance and its principal components, research on particular sources of productivity growth and on industry sectors, firm level studies, and cross-country analysis all point in the same direction.

This research has led to general agreement that microeconomic policy reforms have played a central role in Australia’s recent productivity surge. These reforms, with their focus on openness to foreign trade and investment and enhanced domestic competition, have been the drivers and enablers of Australia’s recent productivity growth. Together with stable macroeconomic settings for monetary and fiscal policies, the productivity surge has allowed Australia to pursue higher economic growth and living standards with fewer fears of inflationary pressures.

Concerted reform began in the 1980s with the lowering of barriers to foreign competition in goods and financial markets, deregulation of access to finance and the floating of the Australian dollar. As tariff reform and competitive pressures started to bite, managers began to devote more attention to improving the performance of their businesses rather than relying on government to provide shields against adjustment.

Two major impediments to improving competitiveness were the high costs of energy, transport and other services provided by inefficient public monopolies and a centralised system for ‘fixing’ wages and conditions, irrespective of the diverse circumstances of individual enterprises. Reforms in these areas followed.

A presumption of competition being in the public interest found ultimate expression in the national competition policy — the systematic program, agreed by all Australian governments in 1995, to extend competition throughout the economy.

This multifaceted reform effort was neither seamlessly implemented nor without adjustment costs. Reforms kicked in at different times, involved a mix of industry-specific and economy-wide measures with varying degrees of gradualism and occasional slippages and backsliding. Nevertheless, the overall thrust was to set in place the mechanisms to spur productivity growth by:

- encouraging greater specialisation and incentives to apply up-to-date technology and know-how through opening the economy to global trade and investment;
- creating stronger incentives for businesses to improve efficiency through a focus on cost control, innovation and responsiveness to customer needs by sharpening competition; and
- providing greater flexibility for businesses to use the managerial, production and distribution processes best suited to their workplaces.

These various reforms, when taken together, culminated in Australia's improved economic and productivity performance in the 1990s. Evidence of the pay-off to Australians can also be found in a range of additional indicators.

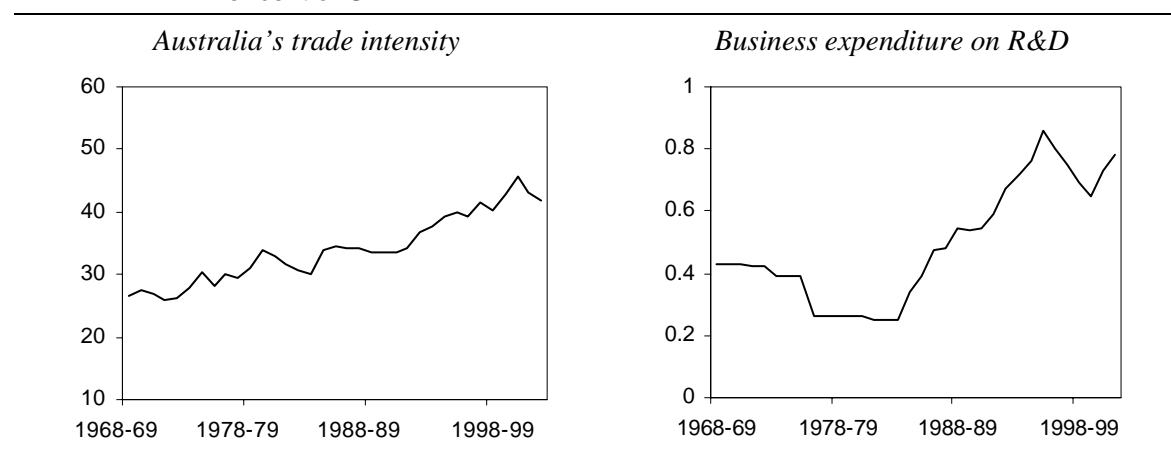
Other impacts of reform

Consistent with the objectives of reform and the observed step-up in aggregate productivity performance, there have been a range of important structural and behavioural changes in the Australian economy.

With the progressive relaxation of Australia's barriers to trade and investment, the economy has become more internationally integrated. The trade intensity of the economy — the ratio of exports plus imports to GDP — increased rapidly from around 27 per cent in the mid-1980s to 44 per cent in the early 2000s (figure 1.4). This reversed the trend from the 1950s through to the early 1970s of a closed economy and a declining trade intensity. Foreign direct investment in Australia also increased as a proportion of GDP, from around 17 per cent in early 1980s to around 30 per cent at present, and direct investment overseas by Australians has increased markedly.

Consistent with increased competitive pressures to raise performance, business expenditure on R&D as a proportion of GDP has doubled since the mid-1980s (figure 1.4). The industry mix of R&D has also changed, with strong growth in mining, property and business services, finance and insurance and, to a lesser extent, wholesale and retail trade. Broader measures of innovation — such as the rate at which new technologies, products and services, and managerial and organisational changes are introduced — are scarce, but the Australian Workplace Industrial Relations Surveys for 1990 and 1995 showed an increased incidence of innovation in medium-sized to large workplaces in Australia.

Figure 1.4 Trade intensity and R&D have increased
Per cent of GDP



Data source: ABS 5204.0, ABS 8104.0 and Commission estimates.

In response to reductions in protection, Australia's manufacturing sector has become increasingly globally oriented and production as a whole has risen by 40 per cent since the mid-1980s. Exports increased from 15 per cent to 24 per cent of manufacturing output in the 1990s, with import shares also rising. Highly assisted manufacturing activities (such as textiles, clothing and footwear) have declined, but there has been strong growth in activities linked to Australia's natural endowments and elaborately transformed manufactures, involving the production of differentiated products requiring higher skills and R&D intensities (PC 2003d).

Consistent with the incentive to shift to activities with a comparative advantage, manufacturing has continued to become more specialised. While volatile at times, intra-industry trade in Australian manufacturing has increased substantially, particularly since the late 1980s, indicating a capacity for Australia to develop capabilities within almost all areas of manufacturing, even those where international competitiveness has generally been declining. However, Australia's manufacturing sector does not appear to have shared in the expected productivity surge; indeed, its productivity growth slumped in the mid to late 1990s (box 1.2).

Box 1.2 Manufacturing's productivity performance is a 'puzzle'

Australia's manufacturing sector did not appear to experience the productivity surge that characterised the market economy as a whole from 1993-94 to 1998-99. Indeed, at an average annual growth of 0.5 per cent in this period, manufacturing's multifactor productivity growth was well below its long-run average of 1.8 per cent a year from 1974-75 to 2001-02. A productivity response to tariff reductions and industrial relations reforms might reasonably have been expected in the late 1990s.

The Commission's analysis of the performance of the manufacturing sector could not find any decisive factor underlying this slowdown in productivity growth (PC 2003d). However, aggregate trends appear to have masked action within the sector and responses to specific developments. For example, studies of whitegoods and automotive production show a response to reductions in high levels of trade protection (PC 1999c; PC 2002c). There is evidence of productivity benefits arising from use of ICTs and industrial relations reform, and the sharp rise in intra-industry trade in manufactures suggests greater efficiency of resource use. The gains from better management of supply chains in manufacturing will not show up as productivity gains in this sector but as improvements in wholesaling (where productivity growth *has* surged).

More recently, there are signs of manufacturing improving its multifactor productivity growth. Between 1998-99 and 2001-02, growth averaged 2.8 per cent a year, 1 percentage point above the sector's historical trend. It is not yet clear whether these high rates will merely return productivity to its long-run trend or will herald a real shift in the underlying trend of multifactor productivity in Australian manufacturing.

Trends in infrastructure prices over the past decade and a half have generally been consistent with government reform objectives across sectors such as electricity, gas, water and sewage, urban transport, ports, railways and telecommunications (PC 2002b). For example, electricity prices for businesses fell markedly (30 to 60 per cent in real terms) as efficiency improved and cross subsidies to households were unwound. Between 1990-91 and 2000-01, port authority charges fell in real terms by between 50 per cent and 60 per cent in Sydney and Melbourne, respectively; coal rail freight rates in the Hunter Valley fell by 60 per cent in real terms; and, under the influence of increased competitive pressures and technological advances, the real price of telecommunications services in Australia fell by more than 20 per cent. In areas such as urban transport, where prices were too low, fares rose, thereby reducing the drain on taxpayers. These price movements were not at the expense of service quality and the direction and magnitude of price trends were broadly similar in city and country areas. However, many government businesses in these sectors are still failing to achieve a commercial rate of return after more than a decade of reform (PC 2003a).

The productivity performance of individual utility sectors over time shows some strong linkages with earlier microeconomic reforms. These are most apparent for those industries previously dominated by uncompetitive public sector monopolies. Taking Commission estimates of average annual industry multifactor productivity growth between 1974-75 and 2001-02 as the benchmark, productivity in the electricity, gas and water sector nearly doubled between the mid-1980s and early 1990s; and productivity in communication services increased by 30 per cent from the late 1980s through to the end of the 1990s.

Reforms to Australia's industrial relations institutions and regulations have promoted a focus on enterprise and workplace productivity which was unachievable when employment conditions and work practices were determined by centrally-prescribed awards. The Commission's series of studies on workplace arrangements showed that inefficient work practices reflected incentives embedded in industry awards. In the case of stevedoring, for example, this included manipulating work flows to maximise overtime payments. But as also found in black coal mining, meat processing and on large capital city building projects, a wide range of restrictive practices were inhibiting productivity enhancements.

Reform of labour market regulation has made a difference. As a consequence of the flexibilities which today characterise waterfront enterprise agreements, the Commission recently found that Australia's ports have largely bridged the productivity gap with their overseas counterparts, notwithstanding the relatively small trade volumes and throughput at Australian terminals (PC 2003b). There has

also been some reduction in relative charges at container terminals since 1997, even though they incorporate a compulsory loading to finance redundancy payments.

Finally, as a consequence of greater competitive pressures in the Australian market place, productivity gains have not simply been appropriated by enterprises and employees in higher profits and wages. The evidence is that the productivity gains at the industry level have been predominantly passed on in the form of lower relative prices. The income growth that occurred in the 1990s was distributed evenly at an aggregate level between labour and capital (Parham et al. 2000).

Some lessons for policy re-affirmed

A range of Commission research on the recent performance of the Australian economy, of particular industry sectors and of firms, provides insights on the determinants of productivity but also points to some broader messages for policy development.

Pay-offs from broadly based reform

Sustaining microeconomic reform across sectors and activities is demanding of government but the pay-offs are there. A policy of broad-based reform recognises that there are increasing interdependencies among industries and complex complementarities in natural resources, capital, skills and entrepreneurship. Moreover, the productivity gains from such an approach can arise in ways that may not be anticipated by policy makers.

To illustrate, the stand-out contributor to Australia's productivity surge of the 1990s was wholesale trade — not itself a direct target of microeconomic reform. From a long-term average annual decline of 0.4 per cent between 1974-75 and 1993-94, the multifactor productivity growth of the wholesale trade industry accelerated to an average of 5.8 per cent a year between 1993-94 and 1998-99. Commission research showed that wholesale trade achieved a significant uplift in productivity in part through the innovative use of ICT (Johnston et al. 2000). Developments such as bar coding and scanning, computer-based inventory management, and communications and tracking systems, helped transform wholesaling from a storage-based activity to a fast flow-through logistics system.

However, it was the *reorganisation* of wholesale businesses that generated the greatest productivity gains — from reduced warehousing and handling — rather than the mere availability and acquisition of ICT. These organisational changes were driven in part by reforms which intensified competitive pressures in downstream activities. Australian automotive producers, for example, sought cost reductions all along the value chain, including wholesaling, as their protection

against imports fell. At the same time, organisational change in wholesaling was facilitated by the reform of industrial relations that allowed workplace changes such as split shifts and reduced rigidity of job demarcations.

These benefits from broad-based reform are demonstrated in firm-level research on ICT use in Australian services and manufacturing (Gretton et al. 2003). Although varying in degree across industry sectors, what matters for firm productivity are complementarities between management skills, the ability to reorganise production and investment in associated innovations including, but not limited, to ICT use. Broad-based reform best guarantees the flexibilities needed throughout product and factor markets if firms are to respond to the opportunities arising from such general-purpose technologies as ICT.

Such conclusions have also been supported by OECD researchers as part of the ‘Growth Project’. They found that the regulatory and institutional settings — governing prices and competition in goods and services markets, workplace relations and firm entry and exit — are important explanators of firm level productivity across OECD countries (box 1.3). Reforms which focus on opening markets to trade, removing anti-competitive regulation and promoting flexibility in workplace arrangements can enhance productivity throughout the economy.

Box 1.3 International insights on productivity performance

The OECD Growth Project set out to explore why some OECD economies performed better than others in the 1990s. It employed an array of analytical tools — including growth accounting, cross-country industry productivity models and comparative analysis of firm level longitudinal datasets — to provide a comprehensive analysis of recent trends in and determinants of productivity and economic growth (OECD 2003b).

The study confirmed the importance of underlying economic variables in the growth process — such as the accumulation of physical and human capital — that are promoted by stable macroeconomic conditions. However, the OECD also assessed how specific policy and institutional settings in product and labour markets shape productivity growth. Key findings were that:

- anti-competitive product market regulation inhibits productivity growth by reducing incentives for the uptake of existing technologies and for further innovation (as proxied by R&D expenditure);
- countries that have decentralised bargaining systems and lower hiring and firing costs are better equipped to innovate in industries characterised by multiple and rapidly evolving technologies (such as ICT); and
- regulations that raise the start-up and hiring and firing costs of small new entrants diminish incentives for market experimentation that underpin innovation and technology adoption when technologies such as ICT are diffusing rapidly and markets are risky and uncertain.

Industry-specific measures no guarantee of success

The Commission's research on the sources of Australia's productivity growth have reconfirmed the value of some longstanding principles for industry policy. First and foremost, good industry policy entails a set of policies directed at creating an environment for *all* Australian industries which is conducive to overall wealth creation and rising living standards. Special treatment of particular sectors is likely to reduce overall economic growth.

Notwithstanding the recognised deficiencies of previous attempts to promote particular industries, there are, for example, continuing calls for the Government to 'redress' Australia's trade deficit in ICT goods by providing selective support for domestic ICT production. This harks back to the mid-1990s debate on whether Australia should be a 'spectator or serious player', and claims that the prosperity of Australians depended on attracting 'information industries investments in the billions of dollars' (Goldsworthy 1997).

The experience has been that Australia has successfully applied ICTs without having to commit substantial taxpayer funds to establishing microchip plants. Furthermore, as a predominantly importing country, the dramatic global fall in ICT prices has helped raise our terms of trade and boosted Australian income. The same price fall also helps to explain the recent rapid growth in investment in ICT capital goods. The use of ICTs and synergies with the broad program of microeconomic reform — involving industry restructuring, the development of new products and services and better production and distribution systems — have been drivers of Australia's prosperity. While there may be some synergies between ICT production and use, and between ICT producers and users, their absence did not detract from Australia's economic performance in the 1990s.

The Commission's research on Australia's manufacturing sector reinforces the view that the pay-off from industry policy comes from improving the basics of economic governance rather than selective industry inducements. The growing trend towards intra-industry trade in manufactures — concurrent exports and imports of similar products — underlines the fact that comparative advantage often relies on highly specific factors (PC 2003d). These include particular local endowments, knowledge, workforce quality and reputation — rather than the industry to which firms belong. Similarly, the export success of Australian manufacturing firms was found to lie with firm-specific characteristics such as management, product design and quality and marketing expertise (Gabbitas and Gretton 2003).

Industry policy that targets particular industries or attributes cannot take account of the highly specific, changing factors that shape competitiveness at the level of individual firms. Micro-management by government of specific parts of industries

is informationally too demanding and can undermine incentives. Rather, effective industry policy should seek to enhance the economic environment in which all businesses operate.

Productivity potential not yet exhausted

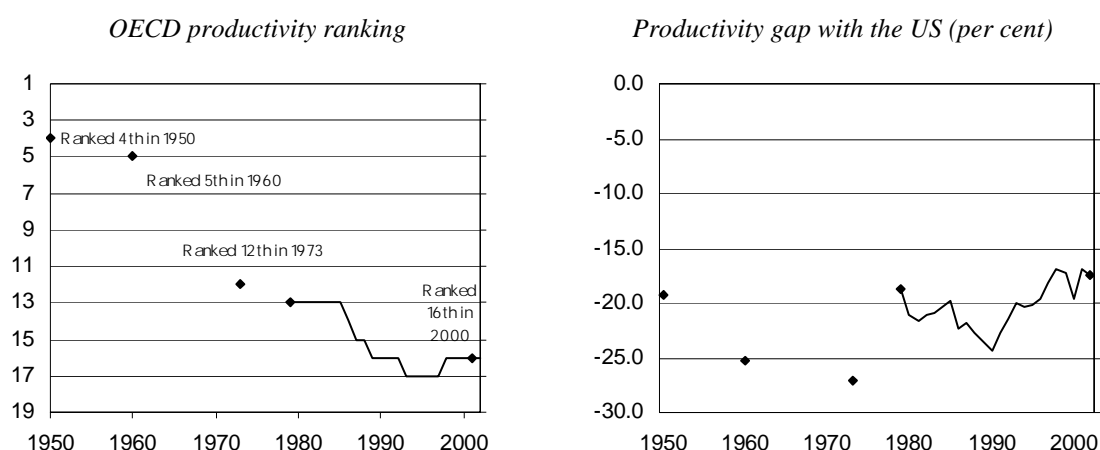
While Australia's productivity growth reached record highs in the 1990s, from an international perspective the economy was still in catch-up mode. Compared to the *levels* of productivity achieved in some other OECD countries, Australia would seem to be far from exhausting its productive potential (figure 1.5).

Though not without the usual caveats applying to such comparisons:

- in terms of GDP per hour worked, in 2002 Australia was at 83 per cent of the US level which, although up from 76 per cent in 1990, was only slightly above where we were in 1950; and
- the labour productivity level in Australian manufacturing, in particular, remains well below US levels.

Levels of productivity of the US economy as a whole, or in particular sectors of it, may not be feasible for Australia's relatively small economy and set of resource endowments. Nevertheless, they point to a potential for achievement that should be actively pursued. This would be reinforced if recent estimates are indicative of a softening in Australia's productivity performance.

Figure 1.5 Indicators of Australia's productivity gap
Purchasing power parity 1999 US\$, GDP per hour worked



Data source: GGDC 2003.

Sustaining Australia's productivity performance

There are both external and domestic challenges to sustaining Australian living standards that heighten the imperative for us to do better.

Internationally, the continuing globalisation of trade and investment and the growing competitive strength of developing economies such as China are providing new opportunities to enhance Australians' living standards through access to cheaper, better and more varied goods and services. At the same time, as the Commission's recent inquiry on Australia's textile, clothing, footwear and leather industries concluded, this will also result in adjustment and job losses, at least in labour-intensive standardised production, regardless of future assistance arrangements. Making the most of global opportunities requires a policy focus on facilitating and supporting adjustment processes and removing those domestic impediments that dull incentives to be cost conscious, innovative and to search for new markets.

Compounding such external challenges is the gathering international retreat from multilateralism in trade policy and the rise of discriminatory 'regional' trade agreements. To the extent that Australia is excluded from preferential deals, we could be exposed to terms of trade and income losses. But by engaging in such deals, Australia may suffer adverse outcomes from trade diversion and the increased transaction costs that are almost inevitably associated with the rules of origin covering bilateral trade agreements. Econometric research by Commission staff supports the proposition that 'preferential' agreements do not necessarily generate welfare gains for their members (Adams et al. 2003). This sharpens the need for Australia to undertake of its own accord those measures that will enhance its economic performance and international competitiveness.

On the domestic front, Australians face two looming challenges that add to the productivity imperative.

- One is environmental sustainability. Dealing with the legacy of (often unwitting) environmental mismanagement will demand additional resources in rectification. Special attention needs to be given to handling the adjustment consequences of policy reforms, especially in regional areas.
- Secondly, while Australia has benefited from a relatively high participation of its population in work, the demographics of our ageing society — with a projected doubling of the proportion of people over 65 years of age by 2040, as people live longer and have fewer children — will reduce per capita income growth for given productivity growth, while potentially raising the costs of health and other services.

In some areas, past reforms will provide useful guidance to the future policy agenda and, indeed, there remain parts of the existing reform program that need to be completed. These include remaining industry protection, as well as some contentious non-tariff issues such as the most appropriate operation of Australia's quarantine system. The latter has been raised in the current negotiations on an Australia–United States preferential trade agreement and under the WTO disputes mechanism. Water reform and industrial relations reform are also unfinished. And, with the existing national competition policy program entering its final phase, governments will need to consider how best to renew and re-invigorate their commitments to competition policy.

There is also a wider reform agenda that Australia needs to grasp. A number of critical policy areas present new complexities for reform and few 'tried-and-true' solutions to fall back on. These include:

- getting the best out of Australia's 'social infrastructure' — health, aged care and other community services — which account for a sizeable and growing share of GDP and whose quality and efficiency is a key to future living standards;
- raising the performance and accessibility of our education and training systems and ensuring appropriate signals for their use — given the importance of education and skill acquisition not only to personal development but also to deepening the human capital on which innovation and economic growth depend;
- raising employment participation of the Australian working-age population, including by reducing long-term unemployment (the major contributor to poverty) and premature 'retirement' from the workforce;
- related to this, ensuring that the incentives in, and the operation of, social safety net mechanisms targeting social hardship, including from job losses associated with policy change, do not detract from personal achievement and economic performance; and
- devising better mechanisms for redressing and avoiding adverse environmental consequences of economic activity.

Such areas are difficult to deal with because of the blend of objectives that arise, but all call for a systematic analysis of the role of incentives on human and economic behaviour and the necessary trade-offs in policy choices. The Commission's inquiry and research work has an important contribution to make in informing community understanding of such complex issues (chapter 2).

The productivity performance of the Australian economy in the 1990s provides confidence that well-conceived and broadly based reforms do enhance overall living standards. Reforms directed at sustaining productivity in all areas of the economy will ensure Australians continue to reap those rewards.

2 Commission activities

The Commission's 2002-03 work program was dominated by a diverse range of inquiries and research studies requested by the Government, many of which had to be completed within tight timetables. The Commission's standing secretariat and research responsibilities were extended to the preparation of a framework for new annual reporting on indicators of indigenous disadvantage. Notwithstanding efforts by the Office of Regulation Review to raise the standard of regulatory advice going to government, compliance with the Government's regulation impact statement requirements for proposals with significant policy impact was noticeably lower than last year. The Commission's research program responded to identified needs for a better understanding of competition policy, productivity, environmental and aged care issues. The Commission continued to monitor reaction to and use of its work in order to improve its performance and its contribution to policy making.

The Productivity Commission is the Australian 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 federal 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 that 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 2002-03 (box 2.1). The topics ranged from health sector and aged care issues, university resourcing, water quality in the Great Barrier Reef catchments, aspects of competition policy and sources of productivity growth through to

Box 2.1 Commission publications in 2002-03

Public inquiries (draft reports and position papers)

Review of TCF assistance

Public inquiries (final reports)

Review of section 2D Trade Practices Act: local government exemptions

Economic regulation of harbour towage and related services

Review of automotive assistance

Government-commissioned research studies (draft reports)

University resourcing: Australia in an international context

Industries in the Great Barrier Reef catchment and measures to address declining water quality

Evaluation of the Pharmaceutical Industry Investment Program

Evaluation of the mutual recognition schemes

Government-commissioned research studies (final reports)

Removing tariffs on goods originating from least developed countries

Public liability claims management

University resourcing: Australia in an international context

Evaluation of the Pharmaceutical Industry Investment Program

Industries, land use and water quality in the Great Barrier Reef catchment

General practice administrative and compliance costs

Performance reporting

Report on Government Services 2003: education, health, justice, community services, emergency management and housing

Report on Government Services 2003: indigenous compendium

Efficiency measure for child protection and support pathways

Draft framework for reporting on indigenous disadvantage: report on consultations

Financial performance of government trading enterprises 1997-98 to 2001-02

Annual report suite of publications

Annual report 2001-02

Regulation and its review 2001-02

Trade & assistance review 2001-02

Conference proceedings

Managed competition in health care

Submissions to other review bodies

Submission to the Review of the *Trade Practices Act 1974*

Submission to the Review of Pricing Arrangements in Residential Aged Care

Commission research papers

Pastoral leases and non-pastoral land use

Published speech

The Productivity Commission's gambling inquiry: 3 years on

(Continued next page)

Box 2.1 (continued)

Staff research papers

Skill and Australia's productivity surge

Role of auctions in allocating public resources

Modelling possible impacts of GM crops on Australian trade

Firm size and export performance: some empirical evidence

Staff working papers

Supplier-induced demand for medical services

Trade and investment effects of preferential trading arrangements — old and new evidence

Consultancy reports

Potential effects of primary producer taxation provisions on the environment

traditional trade and industry assistance issues, such as assistance for passenger motor vehicle, TCF and pharmaceutical production, tariffs on goods from least developed countries and the trade and investment impacts of preferential trading arrangements. A full listing of publications is in appendix E.

Year in review

The Productivity Commission's goal of contributing to public policy making and community understanding of key issues influencing Australia's productivity and living standards is pursued through five major outputs. The principal developments in these activities during 2002-03 were as follows.

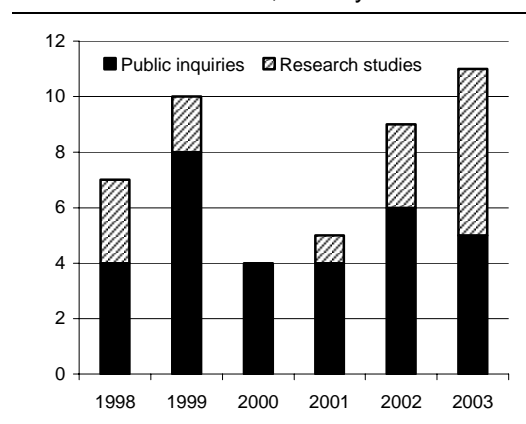
Public inquiries and other commissioned studies

The Commission had eight public inquiries and eight government-commissioned research studies underway at some time during the year. A notable feature of this year's work program was the rise in the number of research studies commissioned by the Government, many of which had to be completed to tight timetables because they fed directly into other policy processes (figure 2.1). The inquiries on post-2005 assistance arrangements for the automotive and TCF industries also had relatively short reporting periods. Compressed reporting periods presented challenges for participants as well as the Commission.

In addition to completing three inquiries — on post-2005 assistance options for Australia's automotive industry, the economic regulation of harbour towage services and local government exemptions from the Trade Practices Act — the Commission commenced five new inquiries in 2002-03:

- a review of industry performance, current assistance programs and options for post-2005 assistance arrangements for Australia's textile, clothing, footwear and leather industries;
- an examination of the social impacts of the Disability Discrimination Act and associated regulation on people with disabilities and on the community as a whole, including the costs and benefits of the Act and its effectiveness in achieving its objectives;
- an assessment of possible models for establishing national frameworks for workers' compensation and occupational health and safety arrangements;
- an inquiry on the impacts of the regulation of native vegetation clearance and biodiversity conservation on farmers, other economic activities, regional communities, environmental outcomes and Australians generally; and
- an assessment of the operation of the access regime for natural gas pipelines and the scope to improve it.

Figure 2.1 **References received**
number, fiscal years



As noted in last year's annual report, the Commission received terms of reference in June 2002 for two research studies: one on the comparative international resourcing of universities, to provide factual information that would assist the Government's policy review of higher education in Australia; and a technical study to help the Government assess the effects, both at home and abroad, of removing remaining tariffs on imports from the world's least developed countries.

An additional six research studies requested by the Government commenced in 2002-03:

- a review of the efficiency of managing public liability claims in Australia, initiated because of concerns that measures taken by governments to improve the availability and affordability of public liability insurance might not be reflected in premiums;
- an evaluation of the rationale, effectiveness and efficiency of the Pharmaceutical Industry Investment Program in advance of its expiry in 2004 and in time to inform preparations for the 2003-04 Budget;
- an analysis of the administrative and compliance costs borne by general practitioners and their practices associated with Australian Government

programs that specifically affect them, and the scope to reduce such costs without compromising the benefits these programs deliver;

- a study of the importance of industries in the Great Barrier Reef catchment and policy options to address declining water quality entering the Great Barrier Reef lagoon that would assist the development of a reef water quality protection plan by the Australian and Queensland governments;
- technical modelling input for WTO trade negotiations; and
- a review of the Mutual Recognition Agreement and Trans-Tasman Mutual Recognition Arrangement, covering the sale of goods and the registration of occupations, which provide a way to overcome unnecessary regulatory impediments to economic integration within Australia and across the Tasman.

Reporting periods for these studies were typically around six months, though they ranged from two to nine months. Moreover, some studies also required delivery of an interim report to inform policy development processes. In addition to meeting these formal reporting commitments, the Commission maintained its practice of providing exposure of its preliminary findings and advice before forwarding a final report to the Government.

Further information on public inquiries and the commissioned research studies 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 role as secretariat to the Steering Committee for the Review of Commonwealth/State Service Provision is in its tenth year. The *Report on Government Services 2003* is a comprehensive source of comparative information on the performance of 14 services central to the wellbeing of Australians — spanning education, health, justice, community services, emergency management and housing. These services collectively accounted for nearly \$70 billion of government expenditure and almost 10 per cent of gross domestic product in 2001-02. The collaborative efforts of more than 80 federal, state and territory government agencies contributed to the 2003 Report. (To accord with government policy on use of the term 'Commonwealth', the Review will be known as the Review of Government Service Provision.)

Data presented in the 2003 Report were a general improvement over prior years. For example, new performance indicators were reported for the first time in the areas of education, health, police and emergency management, while the quality of data in other areas of the Report was further improved. Reporting on nationally

comparable learning outcomes in school education and on services for indigenous Australians was also improved. In May 2003 the Review released for the first time a separate compendium of all indigenous data in the 2003 Report to make it more accessible.

The Review's philosophy is one of continuous improvement and it has undertaken a number of research projects over the years to improve data comparability. For example, the Steering Committee has reviewed the general framework for performance indicators and agreed on changes to be introduced in the 2004 Report. The revised framework is designed to highlight the distinction between outputs and outcomes and give greater emphasis to the equity dimensions of outcomes. A report on *Efficiency Measures for Child Protection and Support Pathways* was released in May 2003. This project developed and tested a method to allow the States and Territories to calculate more meaningful, comparable and robust efficiency measures for the protection and support services they deliver.

In April 2002 the Council of Australian Governments (COAG) requested that the Review prepare a regular report on key indicators of indigenous disadvantage — a markedly different task to the Review's existing collation of indigenous data. This new work is focused on outcomes, not individual government services. Building on work by the Ministerial Council for Aboriginal and Torres Strait Islander Affairs, the reporting framework has two tiers: 'headline' indicators for the longer term outcomes sought; and a second tier of 'strategic areas for action' indicators that are potentially responsive to government policies and programs. The framework has a whole-of-government perspective, looking at the combined impact of policy interventions across portfolio areas. Following extensive consultation with indigenous leaders and communities, researchers and government officials, a reporting framework was developed and formally endorsed by COAG in August 2003 (box 2.2). The report, *Overcoming Indigenous Disadvantage: Key Indicators 2003*, was released in November 2003.

The Commission's standing responsibilities under its performance reporting activity also include a program of research on the performance of Australia's economic infrastructure industries and the impact of related microeconomic reforms. Although the Commission has discretion as to the content and frequency of its reporting and international benchmarking studies, it endeavours to ensure that these will be relevant to the policy concerns of government.

The Commission reviewed its ongoing involvement in monitoring the performance of government trading enterprises in late 2002 and surveyed State and Territory officials on the usefulness of the research. Survey results were reported in last year's annual report. A subsequent proposal by the Commission to Treasuries to continue this performance monitoring was generally supported, as was a new three

year work program covering external governance arrangements. The first report in this new series, which was released in June 2003, reported on the financial performance of 84 Australian Government, State and Territory businesses with combined revenues of \$55 billion and assets exceeding \$162 billion in 2001-02. The report also provided an overview of aspects of external governance — the corporatisation frameworks used by governments, and the specification of corporate objectives and of the roles of boards, CEOs and ministers — as a precursor to forthcoming research on accountability, reporting, performance management and the implications of price regulation and competitive neutrality.

Box 2.2 A strengthening COAG connection

In addition to its new task of reporting on key indicators of indigenous disadvantage, most of the Commission's standing tasks under its performance reporting activities derive from decisions agreed by the Council of Australian Governments or its predecessor.

- The origin of the Commission's current reporting on the performance of government trading enterprises lies in an initiative by heads of government in July 1991. In addition to its annual reporting, the Commission has published research on trends in infrastructure performance and pricing, and on issues such as measuring the productivity of GTEs, asset valuation, and the definition, costing and funding of community service obligations. This stream of work has raised community awareness of the outcomes of microeconomic reform and informed policy development.
- The Review of Commonwealth/State Service Provision was established by COAG in July 1993. Its main task is to develop and publish nationally comparable indicators on the efficiency and effectiveness of key government services. Over time, the *Report on Government Services* has become an important tool for governments in strategic budget and policy planning, policy evaluation and information sharing. This stream of Commission work has also included assessments of some service provision reforms and research to improve the comparability of indicators.
- With the Treasurer's agreement, the Commission has also undertaken a number of specific research tasks for COAG over the years. These have included an assessment of the growth and revenue implications of national competition policy and related reforms (1995), an assessment of the potential economic, social and environmental impacts on Australia of a range of hypothetical outbreaks of foot and mouth disease (2002), an evaluation of the Australian and trans-Tasman mutual recognition schemes (2003) and a forthcoming study on the future impacts of an ageing population structure. The Commission's study of public liability claims management practices arose from a joint request by federal, state and territory ministers and local government (2002).

During 2002-03 the Commission continued work on its international benchmarking studies on container handling rates and charges on Australia's waterfront (released July 2003) and in the contentious area of water rights (released October 2003).

Further information on 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 Australian Government, more than 60 of its departments, regulatory agencies and statutory authorities, and about 40 Ministerial Councils and national standard-setting bodies, on processes for the development of regulatory proposals and for the review of existing regulations.

Since March 1997 the Australian 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. Limited exceptions apply and these are outlined in *A Guide to Regulation* (1998).

The purpose of the RIS process is to ensure that proposed regulation will result in net benefits to the community — allowing for all costs as well as benefits — and to discard options that fail to meet this test. A RIS provides a consistent, systematic and transparent process for assessing different policy approaches to problems. It should ensure consideration of the social and environmental as well as economic impacts of any proposed regulation, include an assessment of alternative approaches and consider impacts on different groups and the community as a whole. A RIS can thus assist government by making sure 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 Australian Government's objective of effective and efficient legislation by providing advice on, and monitoring compliance with, the Government's RIS guidelines (box 2.3). It also examines and provides advice on RISs for Ministerial Councils and national standard-setting bodies. The ORR provided formal RIS training on regulatory best practice to 510 Australian Government officials in 2002-03.

Box 2.3 Compliance with RIS guidelines in 2002-03

The Commission is required to report annually on compliance with the Government's Regulation Impact Statement (RIS) requirements. Its report for 2002-03 reveals that:

- 139 regulatory proposals from 23 government departments and agencies affected business or restricted competition and therefore required the preparation of a RIS;
- overall, RIS compliance was lower than in 2001-02, but broadly in line with compliance rates for earlier years;
- adequate RISs were prepared for the policy approval/decision-making stage for 81 per cent of those proposals (down from 88 per cent in 2001-02); and
- compliance was noticeably lower for those proposals assessed as having a significant impact — with only 46 per cent of RISs rated as adequate (down from 70 per cent in 2001-02).

Compliance varied considerably both among and within portfolios: while 12 departments and agencies fully complied with the Government's RIS requirements, 11 did not. 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.

Further compliance details, including performances for individual departments and agencies as well as for Ministerial Councils (which involve Ministers from the Australian Government, States, and Territories, and in many Councils, the New Zealand Government) and national standard-setting bodies, are provided in *Regulation and its Review 2002-03* (PC 2003e).

The ORR liaises with State and Territory government officials, federal and state parliamentary committees concerned with regulation, officials from other national governments — including New Zealand — and international organisations such as the OECD and APEC. Such dialogue results in greater consistency in regulation making processes in each jurisdiction, which in turn generates better quality regulations and reduces unnecessary impediments to trade and commerce. Improvements in the quality of regulations in Australia and overseas generate higher productivity and incomes.

Competitive neutrality complaints activities

The Productivity Commission administers the Australian 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 one written complaint in 2002-03. That complaint did not proceed to formal investigation because the activity in question did not lie within the jurisdiction of the Australian Government. The Office also provides informal advice and assists agencies in implementing the competitive neutrality requirements. During 2002-03 it provided advice around five times a week, on average, to agencies or in response to private sector queries.

Details of the activities of the Commonwealth Competitive Neutrality Complaints Office are reported in appendix B. (To accord with government policy on use of the term 'Commonwealth', the Office will become the Australian Government Competitive Neutrality Complaints Office.)

Supporting research activities and annual reporting

The Commission has a statutory mandate to undertake research — on 'matters relating to industry, 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 is guided by government statements on policy priorities, parliamentary debate and committee work, and wide ranging consultations with Australian Government departments and agencies, peak employer and union bodies, community and environmental groups, and academics. The broad research themes that guided the 2002-03 program of supporting research were:

- the economic, social and environmental impacts of government policy and policy changes, including adjustment and regional dimensions;
- the implications for public policy of economic, social and environmental trends, including globalisation and demographic change;
- impediments to improvements in the living standards of Australians;

with particular emphasis on ageing of the population, environmental sustainability and workforce transitions and dynamics.

In addition to the listing provided in box 2.1, information on the Commission's supporting research activities and publications in 2002-03 is provided in appendix D.

This also details the 86 presentations given by the Chairman, Commissioners and staff during the year to parliamentary committees, industry and community groups, and conferences. These presentations covered the gamut of the Commission's inquiry, research, performance reporting and regulatory review work (table D.1). The Commission briefed 23 international delegations and visitors during 2002-03, with a particular focus on the nature of the Commission, its processes, activities and related policy issues (table D.2).

Transparent and consultative processes

A distinctive 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.

Open inquiry procedures

The Commission's public hearing process, public access to the submissions made to its inquiries and the publication of draft and final inquiry reports are among the better known aspects of its operations. The Commission has adapted these open consultative process to suit the variety of recent commissioned research studies. These studies typically require less public interaction than inquiries, but the Commission tries to provide some opportunity to obtain feedback on its analytic framework, preliminary findings and recommendations.

The Commission has also sought to ensure that the views and experiences of people living in regional areas are taken into account. Their participation has been fostered by the targeting of rural media with information on Commission inquiries and studies of particular relevance. While capital city locations for public hearings and roundtable discussions are often the most convenient for the bulk of participants — and video or phone conferencing can sometimes be an acceptable substitute for face-to-face contact — the Commission's program of visits extended well outside the Melbourne–Canberra–Sydney axis in 2002-03, encompassing regional Australia as well as New Zealand (box 2.4).

Enhancing its own research capabilities

The Commission continues to involve outside policy advisers and researchers in its work. Roundtables and workshops provide valuable opportunities to utilise wider

sources of expertise in the Commission's inquiry and research work. From time to time the Commission also taps specialist external expertise through consultancy reports. Examples from the past year are:

- In August 2002 the Commission organised a workshop to provide an opportunity for a group of 15 leading health policy analysts and practitioners to examine the Scotton model of 'managed competition' in health care. The major focus of the workshop was on practical implementation and transitional issues associated with this particular model for harnessing market incentives to improve the funding and delivery of health services in Australia. The Commission published

Box 2.4 Engaging regional Australia

In the period November 2002 to March 2003, the Commission met with more than 70 organisations and individuals in capital city locations, but also in Devonport (Tasmania), Wangaratta, Bendigo and Geelong (Victoria), and Albury (NSW) in connection with its TCF inquiry. A public hearing on the Commission's Position Paper was held in Geelong.

In addition to holding two workshops in Brisbane on its preliminary findings in its Great Barrier Reef study, the Commission had meetings in Townsville, Rockhampton, the Charters Towers region, Cairns, Innisfail and the Wet Tropics catchments. These included visits to farm properties and a council engineering works designed to manage water quality.

In the period before the release of its draft research report on the Australian and the trans-Tasman mutual recognition schemes, the Commission met with a total of 104 organisations in nearly all States and Territories (the Tasmanian Teachers Registration Board met the Commission in Melbourne), as well as 44 organisations in Wellington and Auckland, New Zealand.

In June 2003 the Commission attended regional forums in Wangaratta, Benalla, Myrtleford, Tallangatta and Wodonga (Victoria) to discuss issues relating to its inquiry on the Disability Discrimination Act. A series of visits in Alice Springs enabled discussion of inquiry issues relating to indigenous Australians. In addition to holding a first round of public hearings in eastern seaboard capital cities, the Commission held hearings in Darwin, Hobart, Perth and Adelaide.

The Commission undertook extensive rounds of regional visits for its inquiry on impacts of native vegetation and biodiversity regulations, encompassing Bairnsdale and Omeo (Victoria); Albany (Western Australia); Nyngan, Tottenham, Wagga Wagga and Deniliquin (New South Wales); the Midlands region (Tasmania); the Daly River region (Northern Territory); and Charleville, Chinchilla, Cardwell, Tully and Goshen (Queensland).

In his role as Chair of the special Working Group assisting in the preparation of the report on indicators of indigenous disadvantage, the Commission's Chairman met with indigenous leaders, organisations and communities on Thursday Island and in Alice Springs, Sale, Bairnsdale and Lake Tyers, as well as in Darwin, Perth and other capital cities.

the workshop papers and discussion summaries to enable wider dissemination of the ideas that emerged from the workshop and to guide future research (PC 2002e). Such activities contribute to the Commission fulfilling its charter to promote well informed debate as a precursor to the achievement of improved policy outcomes.

- An economic modelling workshop was held as part of the Commission's inquiry on the TCF industries. As well as the modellers, industry representatives, the major industry union and Australian, State and local government entities attended. The purpose of the workshop was to provide an opportunity for exposure and comparative assessment of the preliminary findings from five modelling studies looking at the impacts of reducing assistance to the TCF industries after 2005.
- With tight reporting periods becoming common for research studies commissioned by the Government, targeted workshops and roundtable discussions often provide the best opportunity to seek outside views on the Commission's methodology and preliminary findings. Some 60 people from catchment and natural resource management groups, environmental and indigenous organisations, industry associations, primary producers, research institutions and government agencies attended a workshop on policy options canvassed by the Commission to address declining water quality entering the Great Barrier Reef lagoon. An additional workshop, attracting some 30 people, was held to review industry growth projections required to assess growth prospects for industries in the Great Barrier Reef catchment and lagoon. The Commission also provided such 'exposure' opportunities in its studies on university resourcing, public liability claims management and the Pharmaceutical Industry Investment Program.
- To assist it in responding to the Government's request to assess the nature and magnitude of the red tape faced by doctors, the Commission set up an advisory committee with representatives of the peak GP organisations and relevant Australian Government departments. This committee provided advice and feedback to the Commission through two roundtables held during the course of the study.
- As part of its broader research program directed at informing policy analysis and community awareness of natural resource management, the Commission asked a taxation specialist to produce a report for it on the potential environmental impacts of selected taxation arrangements (Douglas 2002). The impact of taxation arrangements and the potential to use tax measures to assist in environmental management have figured prominently in policy discussion in recent years. This consultancy report followed earlier Commission research on taxation arrangements and potential constraints on private conservation of biodiversity.

The Commission continued its program to attract senior academics as ‘Visiting Researchers’ on a regular basis in 2002-03. This program is designed to strengthen the Commission’s expertise and research capacity. Professor Jonathan Pincus of the University of Adelaide and Associate Professor Vivek Chaudhri of the Melbourne Business School continued their participation into the year. Emeritus Professor Peter Lloyd, recently retired from Melbourne University, joined the program for 12 months in March 2003. Dr Geoff Edwards, formerly Associate Professor at La Trobe, returned as a Visiting Researcher for 12 months in April 2003. Dr Mark Harrison, formerly of the Australian National University and since then an independent economic consultant, also joined the program in January 2003 for 12 months. Professor Max Corden joined the program as an honorary Visiting Researcher in April 2003.

Research program consultations

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 Australian Government agencies, peak employer bodies, unions, community and environmental groups during May 2003 to obtain feedback on its previous research contributions and to discuss future directions for the Commission’s supporting research program. The views of State and Territory governments are gathered from a program of regular consultation visits and other exchanges. Discussions were also held with academics and other interested parties and the Commission monitors government statements on policy priorities and parliamentary debate and committee work.

While there were differences in views, there was also considerable agreement on some priorities for the Commission’s research program and expressions of support for the independent, community-wide perspective that the Commission brings. More than 180 specific research proposals were put forward — two-thirds of which came from Australian Government departments and agencies — with a number of common themes that are detailed in PC (2003c). 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 (available on the Commission’s website).

Research collaboration

The Commission also participates in collaborative research projects with academic institutions. Partners in such research projects in 2002-03 were:

-
- 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 regional level (other partner organisations are the Health Insurance Commission and the NSW Health Department);
 - the Melbourne Institute of Applied Economic and Social Research (Melbourne University) on the determinants and effects of enterprise entry and exit on growth and productivity in Australian industry using innovative enterprise data sets (other partner organisations are the Australian Bureau of Statistics, IBISWorld, the Victorian Department of Treasury and Finance, and Austrade); and
 - the Centre of Policy Studies (Monash University) to enable an overhaul of the widely used MONASH model of the Australian economy and the creation of MONASH-USA which, among other benefits, will facilitate comparative studies of technology and labour market performance.

In October 2002 Commission staff presented papers at a joint ANU/Productivity Commission Workshop on Domestic Regulation of Services, covering airport services, telecommunications competition and electricity generation. The workshop demonstrated the continuing cooperative relationship between the Commission and the ANU in research on the impact of domestic regulation on trade in services.

The Commission also works cooperatively with other government agencies on projects of joint interest. During 2002-03 the Commission continued to work with the Australian Bureau of Statistics, the Department of Industry, Tourism and Resources and the National Office for the Information Economy to investigate the links between the adoption of information and communication technologies and productivity performance at the firm level. The joint project was set up to provide an Australian contribution to a set of country studies facilitated and coordinated by the OECD, the results of which are summarised in OECD (2003c).

Early in 2003, staff from the Productivity Commission and the United States International Trade Commission began preparations for a workshop on quantitative methods useful in assessing non-tariff measures and trade facilitation. The Australian and United States Governments, with support from the APEC Trade and Investment Liberalisation Fund, sponsored the workshop as part of APEC's continuing capacity building efforts in support of trade policy making in the developing economies of the Asia-Pacific region, including more effective participation in regional and multilateral activities. The workshop was held in Bangkok, Thailand, in October 2003.

The Commission is a member of the Global Trade Analysis Project Consortium based at Purdue University in the United States. This membership gives the

Commission early access to database updates, priority access to model training and input to the future direction of model and database development.

Research networks and linkages

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

- The Commission is part of a research consortium, comprising the US National Bureau of Economic Research and several Asian research institutes, which arranges the annual East Asian Seminar on Economics. A Commission staff member presented a paper on the trade and investment effects of preferential trading arrangements at the 14th Seminar, held in Taipei in September 2003. The Commission hosted the previous Seminar in Melbourne in June 2002.
- Commission Chairman, Gary Banks, is a member of the Advisory Board of the Melbourne Institute of Applied Economic and Social Research and continues to serve on the Board of Advisory Fellows for the Regulatory Institutions Network (RegNet) at the Australian National University.
- In addition to her existing positions on advisory boards and committees at two universities, Commissioner Helen Owens has been appointed to the CSIRO Health Sector Advisory Council. This is one of seven Sector Advisory Councils that help ensure the continuing effectiveness of CSIRO's R&D.
- In December 2002 Dean Parham, Assistant Commissioner of the General Research Branch, was elected to the Bureau of the Statistical Working Party to the OECD's Committee on Industry and the Business Environment. The Statistical Working Party provides a focus for much of the OECD's productivity research. Also in December 2002, Dean was invited to join the International Advisory Committee for the *International Productivity Monitor*, which serves as a vehicle for international discussion of productivity topics. The *Monitor* is published by the Centre for the Study of Living Standards, a Canadian non-profit, independent organisation that seeks to contribute, through research, to a better understanding of the trends in and determinants of productivity, living standards and economic and social wellbeing.
- The Office of Regulation Review organised and chaired the annual meeting of regulation review units — representing all States (except Tasmania), the ACT and New Zealand — in September 2002. The ORR also represented Australia at an OECD meeting on regulatory reform in Paris in October 2002 and contributed to a discussion on the OECD forward work program. Briefings and training on RIS processes and lessons from the Australian experience were provided to New Zealand Government officials in Wellington in November 2002 and June 2003.

- The CCNCO participated in the annual meeting of the competitive neutrality policy and complaint agencies of the Australian, State and Territory governments held in August 2002.

Informing and communicating via the internet

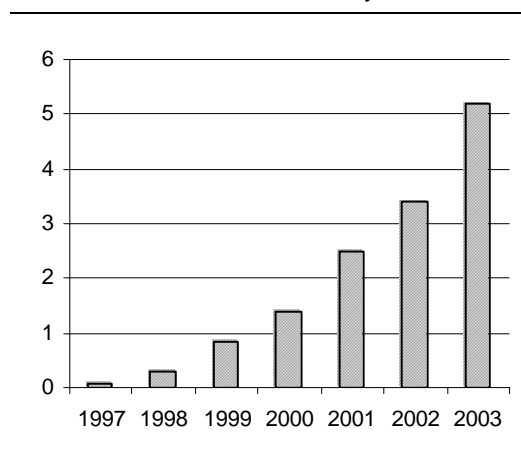
Internet technology has facilitated speedier and easier notification of developments in Commission inquiries and research. The Commission places submissions to inquiries on its website as soon as possible after receipt, thereby increasing opportunities for earlier and less costly public scrutiny of the 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. In addition, the Commission provides an e-mail alert service, to those requesting it, notifying more than 700 recipients of significant weekly events including report releases, the start and completion of inquiries and the Chairman's speeches. This service is additional to the e-mail alerts sent to federal parliamentarians, the media, departmental heads and contacts in the States and Territories.

An accessibility review of the Commission's website was undertaken during the year. As a result, the website and document formats were upgraded to make them more accessible, especially to people with vision impairments.

The index pages for inquiries and government-commissioned research studies current in 2002-03 were accessed by external parties around 86 000 times in the 12 months to 30 June 2003. The references of most interest were assistance options for the automotive industry (15 200 times), the evaluation of the Pharmaceutical Industry Investment Program (8500 times), the review of TCF assistance (7400 times) and the Great Barrier Reef study (7300 times). Even after an inquiry or project is completed, community interest can remain

Figure 2.2 **Website hits**
million, fiscal years



high. For example, during the year, web pages for the Commission's 1999 inquiry on Australia's gambling industries were accessed more than 25 000 times. Other past inquiries also featuring prominently were broadcasting (12 000 times), telecommunications competition regulation (11 500 times) and the Job Network (10 500 times). The 2002 and 2003 Reports on Government Services were also amongst the most frequently accessed publications from the website during the year. The Commission's website received a total of 5.2 million external hits in 2002-03, a 50 percent increase on the previous financial year (figure 2.2).

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 past surveys were reported in previous annual reports and include: external perceptions about the quality of the Commission's inquiry processes and reports and an ORR survey of its 'clients' (PC 2000); users of, and contributors to, the Report on Government Services (PC 2001); and feedback from State and Territory Treasury officials on the quality and usefulness of reporting on the financial performance of government trading enterprises (PC 2002d).

In conjunction with this year's consultations on its supporting research program, the Commission sought the views of participants on the quality and usefulness of Commission research reports of the past two years with which they were familiar. Seventeen survey forms were returned (a 30 per cent response rate), some of which summarised the opinions of a number of expert users within the participating organisation. Almost all respondents rated the Commission's published research highly for rigorous and comprehensive analysis, informing public debate and discussion, contributing to policy development, being an important source of reference material, and clarity and readability. Amongst this small sample, respondents saw the Commission's research outputs having a greater impact on policy development processes than on public debate.

In addition to its rolling program of surveys, the Commission monitors less formal sources of feedback on the public record. Of course, views on the value of the Commission's processes and the quality of its outputs can reflect agreement with, or antagonism to, specific pieces of Commission analysis or advice. The critical reaction from many TCF firms and the Victorian Government to the Commission's TCF proposals is a case in point. Nevertheless, examples from the past year of the regard for the Commission's contribution and expertise — including by the Prime Minister, Treasurer, other parliamentarians and inquiry participants — are provided in box 2.5.

Box 2.5 **Some recent supportive views**

The Prime Minister on the Commission's longer term contribution to trade and industry assistance policy formulation:

The dynamic supporting trade liberalisation in democracies will only succeed if communities in each country believe it's in their interests to liberalise. In the Australian context, the work of the Productivity Commission and its predecessors ... has been fundamental to building and maintaining Australian public understanding of the benefits of greater openness to international competition ...

The Government will of course continue to look to the Productivity Commission as an important source of independent advice. We also recognise the role it can play in stimulating informed public discussion of the economy-wide effects of major trade initiatives.

Because of the Government's belief in the robustness and transparency of the Australian institutional framework, we have regularly advocated the Productivity Commission as a model for other countries to adopt. If other countries could adopt similar transparent institutional responses, public opinion would be better informed on the cost of trade barriers, and support would be built for good policies in broader areas of industry protection. (Howard 2003a)

The Prime Minister on the Commission's review of post-2005 automotive assistance:

The Productivity Commission, if its track record to date is any guide, can be relied upon to look at the industry rigorously but sensibly. And can I say that the recent Productivity Commission report was a very good one. It was strong on economic principle, but it was also sensible and pragmatic about conditions in the industry. (Howard 2002)

The Prime Minister, writing in his capacity as Chairman of COAG:

The framework [for reporting against key indicators of indigenous disadvantage] will provide relevant and meaningful indicators that can demonstrate the impact of government policies and programmes on outcomes for indigenous people. I commend the Steering Committee for the Review of Commonwealth and State Service Provision for its excellent work on this important project. (Howard 2003c)

The Treasurer on the Commission's contribution:

... the Productivity Commission has provided a vital, independent source of public information and advice to government on policy reforms needed to underpin Australia's long-term prosperity. (Costello 2003)

The Shadow Minister for Finance, Small Business and Financial Services on the Commission's trade modelling expertise:

Your organisation is clearly the pre-eminent organisation in this field. (Conroy 2003)

An Australian Democrat Senator on the Commission's general contribution:

One of the invaluable services your commission provides both to government and parliament, and, indeed, to the people, is the overview you are taking of the states and Commonwealth and their intersection in terms of efficiencies, taxes, charges and so on. I am grateful for the material you provide. I use it and it is very helpful ... Generally speaking — not always — a lot of the work you do is just not done by anybody else or not available. You tend to look in the long term at fairly intractable issues which might even span a couple of decades. So I ask you to perhaps consider that side of the needs of users of your material in campaigning for your budget and your work program. (Murray 2003)

Box 2.5 (continued)

Inquiry participants' views on the Commission's inquiry processes:

As the State Government Member for Geelong I would first like to thank and commend the Productivity Commission for taking the time and the initiative for coming to Geelong and allowing this community to put its position and various concerns directly to yourselves as a commission. I appreciate the opportunity to present first-hand my submission to the commission today. (Commission TCF inquiry, Transcript of Proceedings, Geelong, 5 June 2003, p. 240)

... on behalf of Moree Plains, the community and the people that have been here today, I'd like to thank you three commissioners very much for the way in which you treated us all. You gave us a fair opportunity to present our cases. You've had people that have put a lot of research into this and have come up with what they believe are alternatives, and you've even had the students from the university of hard knocks, which made some contribution. However, what I would like to say to you gentlemen is the fact that we appreciate your time in coming here, listening to what we believe are some of the alternative answers to what we feel are the problems ... (Commission inquiry on impacts of native vegetation and biodiversity regulations, Transcript of Proceedings, Moree, 20 August 2003, p. 1027)

Inquiry participants' views on report quality:

I think one of the things that we would like to say up-front is that we appreciate the comprehensive nature of the work undertaken by the Commission and the fact that between having the brief to conduct the inquiry and the publication of the position paper, I guess there is a general feeling within the industry that you're able to embrace the diversity of the industry remarkably well in a very short period of time ... (Council of Textile and Fashion Industries, Commission TCF inquiry, Transcript of Proceedings, Melbourne, 3 June 2003, pp. 3–4)

A media assessment of Commission capability:

The federal government's current review of the Aboriginal and Torres Strait Islander Commission, while understandable is belated and inadequate. ... Because there has been so little improvement in the lives of Aborigines, government spending appears to be wasted. The gross ineffectiveness of these programs suggests their funding is either massively inadequate or massively misdirected. ... But ATSIC plays only a small role in these issues. A better course would be to widen the government's review so that the full extent of programs can be assessed against the full extent of the problems. The Productivity Commission is well placed to undertake such an inquiry because it can reflect social and economic values without being entangled in legal formalities. (AFR editorial 24 March 2003)

Prominent themes in general feedback on the Commission are the value people and organisations place on the Commission's:

- independence — exemplified in the past year in relation to calls for an inquiry on the gas access regime (APIA 2002), and commentary on its report on the national access regime (ESAA 2002) and its current inquiry on first home ownership (HIA 2003);
- community-wide focus — for example, in assessing the full range of impacts on the community of proposed legislation on plastic bags (ACCI 2003); and

-
- open consultative processes — some participants' views of the inquiry process from the TCF and native vegetation inquiries are included in box 2.5.

While the level of response remains low, the Commission systematically offers recipients of its reports the opportunity to provide feedback. Survey cards are inserted into many printed reports, the Commission's website has provision for sending comments via e-mail and an on-line survey form. The Commission also provides an opportunity for people attending its public hearings to give their views on the organisation and conduct of hearings. Though small in number, feedback through these mechanisms in 2002-03 was, on the whole, positive, and respondents' comments were forwarded to management and authors for consideration.

In October 2002 the Commission sought feedback from recipients of 'Productivity Commission News', its e-mail alert on new report releases, the start and completion of inquiries and other Commission activities. In response to comments received, the service now includes notification of the Chairman's speeches and number of other enhancements that should increase its usefulness to recipients.

Policy and wider impacts

The influence of the Commission's work is evident from a range of indicators, including policy decisions that reflect its analysis and recommendations, and the use of Commission work in policy debate by Federal and State parliamentarians, government agencies, other review bodies, business and community groups and the media.

Influence on government policy making

Government decisions on the Commission's inquiry reports reflect their usefulness to the Government, Parliament and the broader community. In responding to inquiry reports completed in 2002-03, the Government:

- endorsed the Commission's preferred policy options for post-2005 tariff reductions and associated transitional adjustment assistance for Australia's automotive industry; and
- accepted all of the Commission's recommendations on regulatory arrangements for harbour towage services, with minor modifications relating to the implementation of price monitoring.

At other times the Government may defer consideration of the Commission's advice until a later stage of policy development, or simply reject the advice. For example, while it accepted most of the Commission's recommendations for the reform of

radiocommunications regulation, the Government decided to postpone consideration of issuing spectrum licences with perpetual tenure pending further consideration and rejected six recommendations.

Recent research studies specifically commissioned by the Government have also been influential in policy development this year. For example:

- The Commission's report *Industries, Land Use and Water Quality in the Great Barrier Reef Catchment* was acknowledged as a valuable contribution to the development of the Reef Water Quality Protection Plan and would continue to inform policy development and implementation (Commonwealth and Queensland Governments 2003).
- In May 2003 the Government announced a replacement program for the Pharmaceutical Industry Investment Program, substantially reoriented to R&D as recommended by the Commission.
- The Government established a high level Red Tape Taskforce to respond comprehensively to the findings and recommendations of the Commission's report on general practice compliance costs and the scope to reduce them.
- The Minister for Education, Science and Training stated that the Commission's draft Research Report on university resourcing provided 'valuable research for further discussion of the ways in which we can improve Australia's higher education system to meet the needs of the 21st century' (Nelson 2002).

In some cases, the Commission's contribution is to provide information and analysis that forestalls unwarranted intervention by government. For example, the Commission's study of public liability claims management and its findings on competition in the sector gave confidence that consumers would reap the benefits of the policy initiatives undertaken by governments to improve the availability and affordability of public liability insurance (Coonan 2003). In announcing its acceptance of all of the Commission's recommendations for citrus growing and processing, the Government endorsed the approach of forgoing special assistance measures for those parts of the citrus industry under competitive pressure, focusing instead on market access arrangements, trade negotiation opportunities, export control arrangements and regulatory compliance costs (Truss 2002).

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

While commentators form their own judgements, a review of the Commission's inquiry outputs since its inception in 1998 shows that governments typically adopt a substantial majority of recommendations and generally endorse its findings (details are provided in appendix B and table B.7). Further, the nature and extent of references to Commission inquiry reports suggests that those reports materially

contribute to the quality of policy debate in Federal, State and Territory Parliaments, as well as more generally within the media and general community.

Furthermore, the impact of the Commission's work on policy debates and outcomes can extend over several years. Examples from the past year include the use of Industry Commission reports from the early 1990s on interstate 'bidding wars' to attract firm investment and major events, meat quota allocation, and local industry involvement in defence procurement and extensive use of the Productivity Commission's 1999 study of work arrangements on large capital city building projects made by the Royal Commission into the Building and Construction Industry. The Commission's reports on gambling (1999) and broadcasting regulation (2000) continue to be prime references in policy discussion and community debate on these issues.

Contribution to parliamentary debate

Commission inquiry and research reports, from this and previous years, were used frequently by parliamentarians in debates and questions. During the 2002-03 sittings of the *Federal Parliament*:

- 55 Members and 30 Senators referred to 36 different Commission reports or inquiries, or to the Commission's role in policy processes;
- of the 153 mentions in debates and questions, federal parliamentarians cited the Commission as an authoritative source three-quarters of the time. More than 90 per cent of mentions were either supportive of, or neutral towards, the particular finding, report or Commission attribute referred to (7 per cent were critical); and
- Commission reports which featured most prominently were the inquiry reports on telecommunications competition regulation, the Job Network and broadcasting.

There were nearly 100 mentions of the Commission and its work in the Hansard proceedings of *federal parliamentary committees* in 2002-03. The Commission was mentioned in the proceedings of 13 different committees, the majority of mentions being in proceedings of the Senate Standing Committee on Economics. Thirteen parliamentary committee reports in 2002-03 referred to 22 different Commission inquiries or research reports.

Examples of the use of a range of Commission reports by the Parliamentary Library and the Australian National Audit Office in 2002-03 are reported in appendix B.

Commission inquiry and research reports, from this and previous years, were also used extensively in debate and questions by *State and Territory parliamentarians*. During the 2002-03 sittings of these eight parliaments:

-
- 78 members referred to 19 different Commission publications, the Report on Government Services, Chairman's speeches, or to the Commission's role in policy processes;
 - of the 114 mentions in debates and questions, State and Territory parliamentarians cited the Commission as an authoritative source 91 per cent of the time. Some 92 per cent of mentions were either supportive of, or neutral towards, the particular finding, report or Commission attribute referred to (8 per cent were critical); and
 - the Commission's gambling report accounted for a quarter of all mentions. Other commonly used resources were the Report on Government Services and the inquiries on the TCF industries and architects.

Other indicators of policy impact

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

- the Government's use of productivity research undertaken in the Commission in the 2003-04 budget papers and elsewhere domestically, and its use in OECD and WTO forums of a variety of the Commission's supporting research reports (box 2.6);
- the extensive use of information in the Report on Governments Services by the States and Territories in their budgetary negotiations, benchmarking and policy reviews and the support from these jurisdictions for research on the external governance arrangements of government trading enterprises;
- continuing international endorsement of the key regulatory review practices overseen by the Office of Regulation Review;
- use by the OECD of Commission research on industry assistance, productivity, modelling and natural resource management (details are in appendix B); and
- the more than 160 citations of the Commission and its reports in economic and policy journals during 2002-03, and use of its reports in university texts and courses.

Proposals made during 2002-03 for the Commission to be asked to undertake assessments of key policy issues indicate confidence that the Commission's independent processes can contribute to well-informed decision making. These include:

- COAG's agreement in December 2002 that the Commission be asked to report on mutual recognition schemes and the impacts on labour supply, productivity and the fiscal position of governments of an ageing population structure;

- support from the New Zealand Government for the Commission to review the Trans-Tasman Mutual Recognition Arrangement and rules of origin under the Australia–New Zealand Closer Economic Relations Trade Agreement;
- recommendations by two parliamentary committees that policy issues relating to cross-jurisdictional regulatory review and to the regulation of financial planners and superannuation investment fund managers be referred to the Commission for investigation and report;

Box 2.6 International use of supporting research outputs by the Australian Government

In addition to its use of Commission supporting research outputs domestically — such as the productivity analysis referred to in this year’s Budget Statement No. 4 — the Australian Government draws on a range of this research in its own input to international forums including OECD committees, forums and working parties and in the WTO. Examples from the past year include:

- industry assistance estimates from the Commission’s annual *Trade & Assistance Review*;
- the conclusion from the Commission Research Paper on offshore investment by Australian firms that merger regulation was not a major influence on decisions to produce or relocate overseas (PC 2002a);
- estimates of the effects of national competition policy reforms obtained from general equilibrium analysis undertaken by the Commission (PC 1999b);
- the 2001 Commission Research Paper, *Structural Adjustment — Key Policy Issues*; and
- research papers on rate of return issues and on costing methodologies useful in assessing the competitive neutrality issues that can arise when public and private firms compete (CCNCO 1998a,b).

In other work for the OECD, the Government referred to print media concentration data (from the Commission’s inquiry report, *Broadcasting*) and the Commission’s assessment of the implications of control over pay TV content in Australia for the development of competition in the pay TV and some telecommunications markets (from the inquiry report, *Telecommunications Competition Regulation*). Details of the use of Commission outputs by the OECD itself are provided in appendix B.

In responding to the 2002 *Trade Policy Review of Australia* prepared by the WTO Secretariat, the Australian Government reported estimates of effective rates of assistance for Australian manufacturing and agriculture from the Commission’s annual *Trade & Assistance Review*. The Secretariat itself made extensive use of the information and Commission estimates in various Trade and Assistance Reviews (28 citations) as well as citing four other research publications and the Commission’s 2000 inquiry report on general tariff arrangements (WTO 2003).

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- the Commission's role as an arbiter of cross-border disputes under the 2003–2008 Australian Health Care Agreements;
 - proposals by various peak industry and other bodies that a diverse range of policy issues be referred to the Commission, including cost shifting to local government, the provision of medical services in rural and regional Australia and proposed regulation of plastic bags; and
 - proposals, such as by Catholic Welfare Australia and the Wentworth Group of Concerned Scientists, to establish new advisory bodies modelled on operating principles and procedures of the Commission (details are in appendix B).

One continuing indicator of interest in the Commission's inquiry and other work is the many invitations it received in 2002-03 to give briefings and present papers to parliamentary, business and community groups and to conferences (table D.1). As part of a rolling program of briefings for the States and Territories on the Commission's work, presentations and visits were made to all State and Territory governments in 2002-03. The Commission also responded to requests from visiting officials and delegations from China, Thailand, India, Egypt, Chile, Sweden, Japan, the US, the United Kingdom, the Netherlands, the OECD and the International Monetary Fund for briefings on the Commission's work, its role in policy advisory processes and discussion on policy issues (table D.2).

A further indicator of public interest in the Commission's work, and its potential influence, is the extent of media coverage. During 2002-03, 33 editorials in eight major newspapers drew on the findings or recommendations in 15 different Commission reports, or referred to the Commission's role in assisting public policy making. The Commission's inquiries on automotive assistance and gambling figured prominently, but editorialists also drew on the analysis in a wide range of other inquiry and research reports for government, the Report on Government Services, other research outputs and Chairman's speeches. The Commission rated an average of 123 mentions a month in the electronic media and an average of 82 mentions a month in print media. The inquiries or studies on TCF assistance, automotive assistance, university resourcing and native vegetation regulation received the most coverage.

Indicators of the influence of Commission activities during the year — its inquiry, performance reporting, regulation review, competitive neutrality work and supporting research — are discussed more fully in appendix B.

Associated reporting

Resourcing and management developments and issues in 2002-03 are reported in appendix A. The audited financial statements for the Commission are contained in appendix F.

In association with this annual report, the Commission has prepared two companion publications:

- *Regulation and its Review 2002-03*, released in November 2003, assesses compliance by departments and agencies with the Australian Government's requirements for the making and review of regulation, reports on the activities of the Office of Regulation Review and examines developments in regulatory policy in selected OECD countries; and
- *Trade and Assistance Review 2002-03*, to be released shortly, reports on trade policy and assistance developments and contains the Commission's latest estimates of assistance to Australian industry.

APPENDICES

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 Australian 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.

Under its Act, 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 2003 are shown in figure A.1.

Commissioners and staff

Commissioners

At 30 June 2003, in addition to the Chairman, there were six other Commissioners, three of whom were part-time (table A1.1 of attachment A1).

No new Commissioners were appointed during the year. The Chairman — Mr Gary Banks — was reappointed for five years from 20 May 2003 and one Commissioner — Professor Richard Snape, the Commission's Deputy Chairman — died, following a short illness, in October 2002.

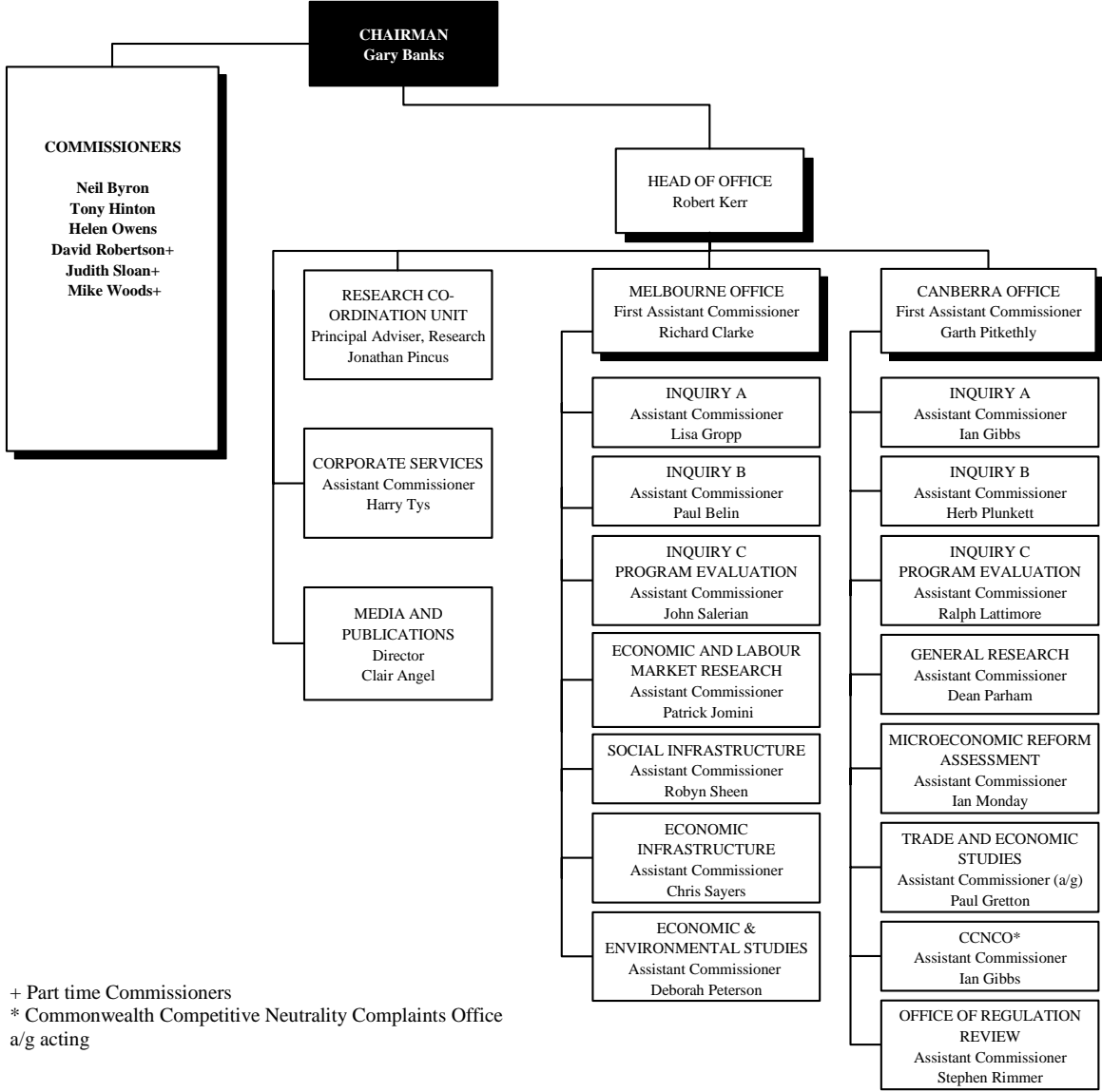
Biographical information on all Commissioners can be found on the Commission's website.

Associate Commissioners

As at 30 June 2003, there were six Associate Commissioners appointed for the duration of a particular inquiry on a part-time basis (table A1.2 of attachment A1).

Mr Philip Weickhardt was appointed a part-time Associate Commissioner to the inquiry on post-2005 textile, clothing and footwear assistance arrangements. As a senior executive in a major corporation, he has had extensive background in corporate management in both the domestic and international environments. Mr Weickhardt also chaired the Business Council of Australia's Energy Reform Taskforce. Mr Weickhardt was an Associate Commissioner on the Commission's 2002 inquiry on automotive assistance.

Figure A.1 Productivity Commission structure and senior staff, 30 June 2003



Dr Gary Johns was appointed to the inquiry on national workers' compensation and occupational health and safety (OHS) frameworks. He was formerly Assistant Minister for Industrial Relations, a position in which he had responsibility for national workers' compensation and OHS arrangements.

Dr Brian Fisher, currently Director of the Australian Bureau of Agricultural and Resource Economics, was appointed to the inquiry on the impacts of native vegetation and biodiversity regulations. He has been Professor of Agricultural Economics and Dean of the faculty at Sydney University.

Professor Warren Musgrave was also appointed to the inquiry on the impacts of native vegetation and biodiversity regulations. Professor Musgrave was formerly Special Adviser (Natural Resources), NSW Premier's Department and currently is an independent consulting economist and Emeritus Professor of Agricultural Economics at the University of New England.

Ms Cathryn McKenzie, currently the Deputy President of the Victorian Civil and Administrative Tribunal, was appointed to the inquiry reviewing the *Disability Discrimination Act 1992*. She has been President of the Anti-Discrimination Tribunal and Chair of the Ethics and Research Committee of the Royal Victorian Eye and Ear Hospital.

Dr Michael Folie was appointed to the inquiry on gas access regime. Dr Folie is a senior businessman with a background in the oil and mining industries and is currently a member of the Australian Research Council, a Director of the Institute of Public Affairs, Chairman of the Pacific Institute, Deputy Chairman of InterOil Corporation and Board Advisor, Western Metals. He has previously held positions at Shell Australia, Acacia Resources and the University of NSW.

The terms of two Associate Commissioners finished during 2002-03 (table A1.3 of attachment A1).

Mr Philip Weickhardt finished his appointment on completion of the inquiry on automotive assistance.

Dr John Paterson was appointed to the inquiry on the Disability Discrimination Act. Dr Patterson was head of four agencies in the Victorian Public Service and was Chair of the New South Wales Disability Advisory Council. Dr Patterson died on 25 February 2003.

Staff

Staff numbers stood at 194 at 30 June 2003, up marginally from 191 in the preceding year.

Staff turnover — excluding departures from end-of-contract and voluntary redundancy packages — remained the same in 2002-03 as in the preceding year at 9 per cent. Turnover continued to be a little lower in the Melbourne office compared to the Canberra office.

The Commission recruited 25 staff during the year, including six through its graduate recruitment program.

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

Employee developments

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

Certified Agreement

About 170 employees are covered by the Commission's certified agreement. The three-year agreement — certified on 25 October 2000 — continued to underpin positive employee relations during the year. Australian Public Service (APS) salary ranges, corresponding to the Commission's broadbanded classifications, are shown in the certified agreement, which is available on the Commission's website.

Negotiations for a third-round agreement commenced in May 2003 and a new agreement put to a staff vote in October 2003.

Australian Workplace Agreements

The Commission's 19 Senior Executive Service (SES) employees are all employed under Australian Workplace Agreements (AWAs). 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 and Workplace Relations. Third-round agreements for most SES employees are due to be negotiated.

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

Commissioner remuneration

All Commissioners, apart from the Chairman, are part of the Principal Executive Office structure. The Chairman, as the 'employing body', is responsible for determining

Commissioners' remuneration within guidelines and parameters set and reviewed by the Remuneration Tribunal. The Chairman's remuneration continues to be set directly by the Tribunal.

Performance management and pay

All employees participate in the Commission's performance management 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.

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 were payable in 2002-03. For SES employees, higher bonuses are able to be achieved, in keeping with the policy of having a higher proportion of SES employees' remuneration 'at risk'. Performance bonuses paid for 2002-03 are summarised in table A.1.

Table A.1 Performance bonuses paid for 2002-03

<i>Classification level</i>	<i>Employees receiving bonus</i>	<i>Total bonuses paid</i>	<i>Average bonus paid</i>
	No.	\$	\$
Staff Level 3	41	94 753	2 311
Staff Level 4	49	156 693	3 198
SES	20 ^a	202 673	10 134
Principal Executive Officer	6	76 225	12 704
Total	116	530 344	

^a Includes one employee acting in the SES for more than 3 months.

Training and development

The Commission continues to encourage employees to undertake training and development in an appropriate mix of 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 2002-03 was 1.6 per cent of the annual salary budget, down from 2.25 per cent last year but marginally up from 1.5 per cent in the preceding year. This expenditure related to: 171 employees who undertook a total of 495 days of specific training and development; two general development programs offered to Staff Level 1 and Staff Level 3 employees and attended by 59 employees; a scholarship for the Executive Masters of Public Administration (see below); and other studies assistance for 25 employees (including post graduate study awards). A further 118 employee-days were devoted to attendance at regular internal professional development seminars. The above activities do not include extensive on-the-job training within the Commission.

A skill enhancement priority for the year included a writing skills course which was offered to all employees. A total of 91 employees participated in the program.

Courses continued to be provided for all employees on workplace behaviour and discrimination awareness. This initiative flows from the Commission's Workplace Diversity Plan.

Other development opportunities are provided by the Commission under its Studies Assistance Scheme for part-time students. Twenty-three employees participated in the Studies Assistance Scheme during 2002-03. In addition to the direct financial assistance, approximately 760 hours of paid leave was granted to participants.

Two employees were granted Post Graduate Study Awards to undertake full-time tertiary study for a semester.

The Commission has funded one scholarship to the inaugural Executive Masters of Public Administration program offered by the Australian and New Zealand School of Government.

Occupational health & safety (OHS)

The Commission's commitment to health and safety is enshrined in its OHS Agreement between management, employees and Community and Public Sector Union. The Agreement was reviewed in September 2002 and continues for a further three years.

The OH&S Committee — which operates under the OHS Agreement — oversees the Commission’s health and safety program. Committee membership includes the health and safety representatives and their deputies from both offices.

The Committee met three times during 2002-03. The Committee has standing agenda items on:

- workplace hazard inspection reports;
- accident/incident/hazard report statistics; and
- quarterly Employee Assistance Program reports.

New OHS activities during the year included:

- OHS awareness training for three Melbourne-office branches by an external OHS professional;
- a follow-up of the ‘healthy heart’ programs conducted in 1997 and 2000. The program included a twenty minute consultation with an exercise physiologist. Seventy-two employees participated in the program which included a follow-up exercise program;
- the formalisation of guidelines on safety at Commission sponsored social events; and
- trialing of an OHS online training package by the OHS Committee.

Ongoing OHS initiatives during the year included:

- ergonomic work station assessments for all new employees and any employee who requires advice, particularly after a workplace relocation. This service has proven beneficial in the early identification of potential workplace injuries;
- free flu vaccinations (with a take-up of around 45 per cent of employees);
- provision of desk calendars promoting emergency evacuation and bomb threat procedures;
- regular workplace hazard inspections;
- opportunity for employees to complete ‘working hours questionnaires’ at the conclusion of projects or on a six monthly basis for non project work. Feedback is provided to relevant senior managers; and
- lunch time yoga classes (class fees paid by employees).

In addition, development of the ‘readiness’ of key OHS personnel continued through activities such as the training of harassment contact officers, the participation of case managers in various forums and the periodic identification of fire wardens and first aid officers at ‘all staff’ meetings.

No formal OHS investigations were conducted during the year and no Provisional Improvement Notices were served.

An indicator of the effectiveness of the Commission's OHS programs is Comcare's workers' compensation premium rate. The Commission's rate for 2003-04 is projected to be just under one-third of the rate for the whole-of-Australian Government pool, a small improvement on the previous year.

Employee Assistance Program

The Commission offers its employees a program which provides independent, confidential and professional counselling, consultation and training assistance for work-related or personal issues. The service is provided by Occupational Services of Australia and is available to employees as well as their immediate families. Around 20 employees and their immediate family utilised the service in 2002-03, about the same number as for the preceding year.

Workplace diversity

The Commission continues to foster a culture that is supportive of employees achieving their potential and which values employee diversity. This is facilitated through the commitment in the Commission's certified agreement, equity and diversity plan and related policies to promote workplace diversity. The Commission's revised Access and Equity Plan was launched in October 2002.

During the year external practitioners provided diversity awareness training, and workplace behaviour training was offered to all new employees as well as to existing employees on a 'refresher' basis.

The Commission's exit procedures and exit questionnaire were reviewed to include more emphasis on diversity issues. The questionnaire designed to collect diversity data for new employees was also updated.

As an initiative associated with the ageing population, a folder of information on resources available for seniors was developed to assist employees with carer responsibilities for the elderly or for those approaching retirement.

The Commission continues to participate in, and contribute to, the APS-wide and Victorian workplace diversity network meetings in Canberra and Melbourne.

Commonwealth Disability Strategy

During 2000-01 the Government refined its Commonwealth Disability Strategy, which is designed to assist Australian Government 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 completed a review of its disability action plan during the year and launched the new plan in November 2002. The plan is available on the Commission's website.

Finances

Appropriations through the Australian Government's Budget are the main source of Commission funds. These funds are directed at achieving the Government's desired outcome for the Commission, through the provision of five mandated 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.

The Commission's audited financial statements for 2002-03 are included in appendix F. A deficit for the year of \$1 009 000 was incurred, which was consistent with the Commission's forward financial plans to use accumulated cash surpluses from previous years to help fund its operations.

Table A.2 Financial and staffing resources summary

	<i>Budget 2002-03^a</i>	<i>Actual 2002-03</i>	<i>Budget 2003-04^a</i>
Price of Outputs	\$'000	\$'000	\$'000
Output 1.1 – Government-commissioned projects	8 400	10 541	9 700
Output 1.2 – Performance reporting and other services to government bodies	3 300	3 788	4 000
Output 1.3 – Regulation review activities	2 100	2 421	2 300
Output 1.4 – Competitive neutrality complaints activities	300	255	400
Output 1.5 – Supporting research and activities and statutory annual reporting	9 409	7 391	8 118
Total Price of Outputs	23 509	24 396	24 518
Revenue from Government	23 014	23 014	24 203
Revenue from other sources	495	373	315
Total Resources	23 509	23 387	24 518
	<i>2002-03</i>	<i>2002-03</i>	<i>2003-04</i>
Commissioner/staff years (number)	195	202	195

^a The notional budget allocation between output groups corresponds with that provided for the Commission's Portfolio Budget Statements. Such allocations are required to be made four months ahead of the financial year to which they relate. Actual expenditure on different outputs responds to demands during the year, particularly work commissioned under terms of reference by the Government.

The Commission's capacity to continue bridging the funding gaps will be largely exhausted during 2003-04. In order to have this issue resolved in a timely manner, the Commission commenced preparations during the year for a review of its funding base. A review is being sought under the input-based cost approach announced by the Government in November 2002, in response to its Budget Estimates and Framework Review.

Management and accountability

The Commission promotes the delivery of its outputs through a robust governance framework as well as through a variety of management initiatives.

Governance

Key elements of the Commission's governance arrangements are outlined below.

Structures

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.

Commissioners also meet monthly, to discuss key issues related to the Commission's work program. Commission meetings, which are attended by some 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:

- presiding Commissioners on government-commissioned projects report monthly on significant issues and progress against key milestones;
- the Research Committee — chaired by the Principal Adviser Research — meets on a monthly basis to discuss the research program and reports on a quarterly basis;
- the activities of the Steering Committee for the Review of Commonwealth/State Service Provision, chaired by the Chairman of the Commission, are 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 to the Commission on a quarterly basis.

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

The effectiveness of structures to promote good governance is monitored on an ongoing basis. No changes to the structures were introduced during the year.

Risk management

A risk management plan, covering all facets of the Commission's operations, was finalised and implemented during the year.

The fraud control plan developed and implemented in 2000-01 remains appropriate to the Commission's operations in 2002-03 and complies with the Australian Government's fraud control guidelines. The three year plan will be reviewed during 2003-04.

During the year a new agency security plan was developed to provide a framework for maintaining an appropriate security environment for the protection of Commission

employees as well as its resources and information. The Plan's recommendations are being addressed progressively.

Ethical standards

The Commission continues to promote a sound ethical environment, underpinned by the APS Values and Code of Conduct. Potential conflict of interest issues are addressed by the ongoing requirement that Commissioners and senior staff provide the Chairman with timely advice about statements of private interests.

Employee involvement

The effective engagement of management and employees facilitates good governance outcomes. Employee participation and feedback in the formulation of workplace policies and improvements in the work environment are encouraged in a number of ways. These include staff representation on committees, broader consultation on sensitive issues and a variety of means of communicating internally. The Productivity Commission Consultative Committee — established as part of the Commission's certified agreement — meets at least quarterly. The Chairman and senior management hold regular meetings with all staff.

In March 2003 the Commission undertook another biennial staff opinion survey. The survey sought staff views on a range of organisational and management issues, 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 April 2001).

The response rate of 90 per cent was high for a voluntary survey and provides a good basis for gauging staff views. A detailed examination of survey responses, and consideration of possible courses of action, is underway. However, as a broad indicator of staff satisfaction, 85 per cent of responses rated the Commission as a 'good' or 'very good' place to work — similar to the responses in the 2001 survey and an improvement on the 70 per cent of responses in the 1999 survey.

Accountability

The Commission promotes accountability for its operations in a number of ways. Chief amongst these are its transparent and consultative processes, which provide for people to participate in and scrutinise its work. These processes were outlined in some detail in last year's annual report (PC 2002d). Another way is through its extensive reporting, in various publications, of different aspects of its work. This annual report is an example and, in

particular, appendix B provides an account of the Commission's performance in its five output groups.

Accountability is also promoted in other ways as outlined in the following sections.

Internal scrutiny

The Commission has an ongoing program of reviewing its policies, procedures and internal activities for effectiveness, efficiency and public accountability. During the year, the following areas were reviewed:

Library services: these were reviewed by an external consultant in late 2002 with the aim of ensuring that services were being provided in the most effective and efficient manner, in light of the latest trends in service delivery, technology and industry developments. The consultant recommended approaches for enhancing the value adding of the service, and for improving service delivery, including the outsourcing of some activities. The recommendations have been largely implemented.

Communications strategy: the strategy was reviewed with the assistance of an external consultant. Communicating its inquiry and research findings, both in reports and to the media and others, is an important element of the Commission's functions. The review found that, while the Commission's approach to communications was proving to be largely successful, improvements in a number of areas could be made. The review's recommendations are in the process of being implemented.

Travel policy: certain aspects of the Commission's travel policy were reviewed to ensure proper accountability for use of public funds.

Printing: printing costs account for a little under 5 per cent of the Commission's non-salary budget. To ensure appropriate value-for-money of this activity, a review of the cost effectiveness, timeliness and quality of printing was commenced. The review should be completed by December 2003.

Audit Committee

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, credit card use, taxi voucher use, disclosure of work-related information and the risk management plan.

Service charters

Both the Commission and the Commonwealth Competitive Neutrality Complaints Office (which has separate functions and is located within the Commission) have service charters. A review of the Commission's charter was completed in August 2002.

Performance against the charters is monitored on an exceptions basis — that is, by complaints to designated senior managers. No complaints were received during 2002-03 in respect to either charter.

External scrutiny

Other than an unqualified Independent Audit Report on the Commission's 2001-02 financial statements, there were no Auditor-General, parliamentary committee or Commonwealth Ombudsman reports specific to the operations of the Commission.

Other

Consultancies

The Commission continued to utilise the services of a range of consultants where it was cost effective to do so. Many of the consultancies are for the purpose of refereeing particular pieces of work and are generally of relatively low cost. Although they are mostly let by direct approach to the prospective consultant, the agreed fees are in the context of the Commission's extensive experience in this market.

A summary of consultancies let in 2002-03 is shown in table A.3. Further details are provided in attachment A3.

Table A.3 Summary of consultancies let in 2002-03

<i>Purpose</i>	<i>No. of consultancies</i>	<i>Contract amount (\$)</i>
Government-commissioned projects	14	392 058
Performance reporting	3	38 060
Supporting research and activities and annual reporting	10	49 160
Corporate management and services	6	57 842
Total	33	537 120

Information technology

During the year the Commission's information technology efforts focused on maintaining an efficient, reliable, secure and ethical operating environment. Planning began for the upgrade of its desktop operating system and application suite from Windows NT 4.0 to Windows XP. A consultant has been selected to implement the upgrade, which is scheduled for conclusion by the end of 2003.

Website developments

The Commission's website continues to grow in importance as one of the primary means of disseminating its work to the public. Total website hits for this financial year numbered 5.2 million, a 50 per cent increase on the previous financial year.

An accessibility review of the website was undertaken by Vision Australia Foundation in early 2003. Several technical improvements were recommended in order to make the site more accessible to people with vision impairments and these were completed in May 2003. The website currently conforms with the *W3C web Content Accessibility Guidelines* 1.0 at level 'A' and will undergo an accessibility review annually.

An 'Accessibility page' has also been added to the site, which outlines the Commission's policies for publishing material on the website so that it is accessible to the widest possible audience. To increase their accessibility, Commission reports and submissions to public inquiries are now published in RTF as well as PDF format.

Purchasing

The Commission is cognisant of, and applies appropriately, the Australian Government's Procurement Guidelines.

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 sized Australian and New Zealand suppliers.

Special payments

The Commission made a number of special payments during 2002-03. Such payments were made to organisations and activities judged by management as making a worthwhile contribution to the Commission's outputs. The main payments were as follows:

Consortium memberships: \$31 827 for membership of the Global Trade Analysis Project Consortium based at Purdue University in the United States. The Commission's contribution supports the development and updating of a publicly available database and model framework for multicountry trade policy analysis. It 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 \$770 for membership of the National Institute of Labour Studies.

Research partnerships: \$22 000 to the University of Canberra (NATSEM) for a partnership project on health policy and socioeconomic status and \$5500 to the Australian National University for research into the determinants of Australia's productivity performance.

Conference sponsorships: \$2200 to the University of Western Australia for part sponsorship of the 2003 PhD Conference in Economics and Business; \$5500 for the 47th Annual Conference of the Australian Agricultural and Resource Economics Society; and \$2000 to the Australian National University for the 2002 PhD Conference in Economics and Business.

Awards: \$500 to the top 2002 student, Master of Economics, at the Australian National University (Robert Jones Prize).

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 have regard to the need 'to ensure that industry develops in a way that is ecologically sustainable' (section 8(1)(i) of the *Productivity Commission Act 1998*). This legislation

also prescribes that at least one member of the Commission ‘must have extensive skills and experience in matters relating to the principles of ecologically sustainable development and environmental conservation’ (section 26(3)). 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). The Commission thus analyses and reports on the implementation of sustainable development by other agencies and industries, as well as ensuring that its own activities are ESD compatible.

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 were provided in the 2000-01 annual report. The research report on industries, land use and water quality in the Great Barrier Reef, completed in February 2003, is another example of policy advice which integrates complex economic, social and environmental considerations.

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

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

In pursuing this outcome, the Commission is required to take into account impacts on the community as a whole — these 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 Commission recently reviewed both its Access and Equity Plan and Disability Action Plan and has undertaken a range of initiatives to maximise accessibility to its activities. This includes working with the Vision Australia Foundation, which certified the Commission’s website as conforming with the W3C Web Content Accessibility Guidelines at level ‘A’. The Commission uses a hearing loop and a range of other accessibility infrastructure as outlined in the Commonwealth Disability Strategy report included in attachment A2.

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, minimising energy consumption and the efficient management of waste. In order to manage its impacts on the environment in a systematic and ongoing way, the Commission developed and implemented an Environmental Management System during the year. The Environmental Management System contains the Commission's environmental policy, an environmental management program to address identified impacts, and provision for monitoring and reporting on performance.

Freedom of Information

No requests were received by the Commission for access to information under the *Freedom of Information Act 1982* in 2002-03.

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

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 \$92 243 was paid for advertising (including recruitment) in 2002-03 to Starcom Worldwide (Aust) Pty Ltd and HMA Blaze Pty Ltd.

Publications and submissions

Appendix E lists all publications and submissions to other review bodies completed in 2002-03.

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

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

This annual report can be found at the above internet address.

Inquiries about any Commission publication can be made to:

Director
Media and Publications Section
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 2003**

	<i>Current period of appointment</i>	
	<i>From</i>	<i>To</i>
Mr G R Banks (Chairman)	20 May 2003	19 May 2008
Dr R N Byron (M)	17 Apr 2002	16 April 2007
Mr A M Hinton (C)	27 Mar 2002	26 Mar 2007
Mrs H J Owens (M)	17 Apr 2001	16 Apr 2006
Dr D H Robertson (C) (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 **Part-time Associate Commissioners, 30 June 2003**

	<i>Inquiry</i>	<i>Period of appointment^a</i>	
		<i>From</i>	<i>To</i>
Mr P L Weickhardt	Review of TCF assistance	19 Nov 2002	31 Aug 2003
Dr G T Johns	National Workers' Compensation and Occupational Health and Safety Frameworks	10 Mar 2003	9 April 2004
Dr B S Fisher	Impacts of Native Vegetation and Biodiversity Regulations	13 April 2003	30 June 2004
Prof W F Musgrave	Impacts of Native Vegetation and Biodiversity Regulations	13 April 2003	30 June 2004
Ms C R McKenzie	Review of the Disability Discrimination Act	1 May 2003	31 May 2004
Dr G M Folie	Review of the Gas Access Regime	13 June 2003 ^b	31 July 2004

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

^b Commenced duty on 15 July 2003.

Table A1.3 Associate Commissioners completing appointments during 2002-03

	<i>Inquiry</i>	<i>Period of appointment^a</i>	
		<i>From</i>	<i>To</i>
Mr P L Weickhardt	Review of Automotive Assistance	20 Mar 2002	30 Sept 2002
Dr J P Paterson	Review of the Disability Discrimination Act	16 Dec 2002	25 Feb 2003 ^b

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

^b Died.

Table A1.4 Staff^a by location and gender, 30 June 2003

<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	2	2	0	1	1	0	3	3
SES Band 1	3	5	8	0	7	7	3	12	15
Staff Level 4	5	21	26	8	14	22	13	35	48
Staff Level 3	12	11	23	7	13	20	19	24	43
Staff Level 2	17	13	30	4	13	17	21	26	47
Staff Level 1	18	5	23	11	3	14	29	8	37
Total	55	58	113	30	51	81	85	109	194
Corresponding totals at 30 June 2002	52	61	113	27	51	78	79	112	191

^a Excludes 16 inoperative staff at 30 June 2003 and 18 at 30 June 2002.

Table A1.5 Staff^a by employment status and gender, 30 June 2003

<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 ^c	0	3	3 ^c	0	3
SES Band 1	3 ^b	0	3	12	0	12	15 ^b	0	15
Staff Level 4	9	4	13	31	4 ^d	35	40	8 ^d	48
Staff Level 3	17 ^b	2	19	23 ^b	1	24	40 ^c	3	43
Staff Level 2	19 ^c	2	21	26	0	26	45 ^c	2	47
Staff Level 1	22	7 ^b	29	8	0	8	30	7 ^b	37
Total	70	15	85	104	5	109	174	20	194
Corresponding totals at 30 June 2001	68	11	79	109	3	112	177	14	191

^a Excludes 16 inoperative staff at 30 June 2003 and 18 at 30 June 2002. ^b Includes 1 non-ongoing employee.

^c Includes 2 non-ongoing employees. ^d Includes 4 non-ongoing employees.

F/t denotes full-time and P/t denotes part-time.

Table A1.6 Staff by level and reason for separation, 2002-03

<i>Level</i>	<i>Promotion</i>	<i>Transfer</i>	<i>Resignation</i>	<i>Retirement</i>	<i>VRP^a</i>	<i>Other</i>	<i>Total</i>
SES	0	0	0	0	0	0	0
Staff Level 4	0	0	7	0	0	1	8
Staff Level 3	0	0	3	0	0	0	3
Staff Level 2	0	0	5	0	2	0	7
Staff Level 1	0	0	3	0	0	3	6
Total	0	0	18	0	2	4	24
Corresponding totals at 30 June 2002	2	2	14	1	0	19	38

^a Voluntary Redundancy Package.

Attachment A2

Commonwealth Disability Strategy (CDS): outcomes against mandatory performance indicators

Performance requirements of the 'policy adviser' role

<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.	<p>New Disability Action Plan and Access and Equity Plan have been introduced to all staff, including checklists for developing reports/policies in consultation with people with a disability.</p> <p>The project evaluation template has been revised to include comment on disability issues as defined in our Disability Action Plan. No projects have been completed since this introduction; however briefings are underway for inquiry teams outlining the CDS and our Plan.</p> <p>The Commission's internal inquiry manuals have been updated to include further accessibility issues in planning stages of projects.</p> <p>Currently one Commission public inquiry is focusing specifically on disability issues, the Review of the <i>Disability Discrimination Act 1992</i> (DDA). Report due April 2004.</p>
People with disabilities are included in consultations about new policy proposals.	Percentage of policy proposals that are developed in consultation with people with disabilities.	<p>Commission inquiries are open to all groups. Where disabilities are identified as an issue, such as with the DDA Inquiry, specific consultations are being undertaken (processes allow for identification by the Commission as well as self identification).</p> <p>Additional access to inquiries has been introduced:</p> <ul style="list-style-type: none">• a TTY machine is now installed;• a portable hearing loop has been used during the hearings;• AUSLAN interpreters have been utilised;• tactile and braille signage is used in public access areas; and• Radio for the Print Handicapped has been used for advertising for DDA Inquiry.

<i>Performance indicator</i>	<i>Performance measure</i>	<i>Outcome</i>
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.	100 per cent available on website. The Commission has worked with Vision Australia to ensure the website continues to conform with W3C. An additional page has been added on 'accessibility', to provide assistance regarding access. DDA Inquiry provided their issues paper and circulars in both audio format and braille. Between one and two weeks if requested. Some circulars from DDA Inquiry were available in braille and audio at time of release.

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.	Percentage of recruitment information requested and provided in: <ul style="list-style-type: none"> • accessible electronic formats; and • accessible formats other than electronic. Average time taken to provide accessible information in: <ul style="list-style-type: none"> • electronic format; and • formats other than electronic. 	All vacancies are advertised in the gazette and on our website. Most vacancies are advertised in the press. 100 per cent available. None requested. Immediate. Dependent on request, none received to date. Information has been sourced on the procedures for requesting alternative formats such as braille and audio and is available should a request be received.
Agency recruiters and managers apply the principle of 'reasonable adjustment'.	Percentage of recruiters and managers provided with information on 'reasonable adjustment'.	Where relevant, selection panels are provided with this information. Managers receive information as required. Folders containing the list of candidates includes a reference to access and equity considerations, including 'reasonable adjustment'. A register has also been developed to record all requests for information in formats such as braille and audiocassette.

<i>Performance indicator</i>	<i>Performance measure</i>	<i>Outcome</i>
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.	Training nomination forms include a section requesting information on the additional needs of employees. It is monitored by the training administrator. To date no assistance has been requested.
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.	<p>Induction and graduate programs include information on these issues including our Access and Equity and Disability Action Plan. Diversity awareness training, including issues related to people with a disability, was provided to Corporate Services Branch.</p> <p>Information sessions were conducted by Vision Australia and Word of Mouth Technology for corporate and DDA Inquiry team.</p> <p>The Commission provided the venue for an APSC Melbourne PSD training course on 'Opening the door to employment for people with disabilities'.</p>
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.	'Review of Action' procedures are available to all employees. No procedures conducted in 2002-03.

Attachment A3

Consultancies let in 2002-03

<i>Consultant</i>	<i>Nature of consultancy</i>	<i>Cost (\$)</i>	<i>Method of selection</i>
Government-commissioned projects			
Centre of Policy Studies Monash University	Modelling Australian assistance arrangements for the post 2005 textile, clothing and footwear inquiry	73 750	Public tender
Centre for International Economics	Modelling international developments for the post 2005 textile, clothing and footwear inquiry	27 500	Public tender
Econtech P/L	Modelling Australian assistance arrangements for the post 2005 textile, clothing and footwear inquiry	49 500	Public tender
Austhink	Assist in identifying core conclusions suggested by the information collected for the Great Barrier Reef report	2 200	Directly approached one provider
ABARE	Estimate growth projections for 2010 and 2020 for industries operating in the Great Barrier Reef lagoon and catchment areas	42 919	Public tender
Prof Warren Musgrave	Review a number of chapters of the report on industries in the Great Barrier Reef catchment and measures to address declining water quality	2 000	Sought tenders from two providers
Cummings Economics	Critical review of the forecast methodology of future economic importance of industries in the Great Barrier Reef catchment and lagoon	1 085	Directly approached one provider
Agtrans Research P/L	Critical review of the forecast methodology of future economic importance of industries in the Great Barrier Reef catchment and lagoon	1 019	Directly approached one provider

(Continued next page)

Consultancies (continued)

<i>Consultant</i>	<i>Nature of consultancy</i>	<i>Cost (\$)</i>	<i>Method of selection</i>
Campbell Research & Consulting P/L	Undertake a series of case studies to provide detailed information about the nature and cost of activities undertaken by general practitioners to comply with government programs specifically relating to general practice	71 111	Public tender
Millward Brown Australia	Undertake a survey of general practitioners to measure the compliance costs for general practitioners and general practice as a whole arising from selected health programs	104 024	Public tender
Deb Doyle: Living Proof Book Editing	To review clarity, comprehensibility of various medical forms	2 230	Directly approached one provider
Mr Louis Vorstermans	To provide translation services for international comparisons of university resourcing	2 300	Directly approached one provider
Double-Dutch Translations	Translations of university annual accounts – Utrecht and Stockholm	2 300	Directly approached one provider
Prof Rick Krever	To provide a report on comparative tax arrangements for gifts and donations to universities in several countries	10 120	Sought tenders from two providers
<i>Government-commissioned projects — total</i>		<i>392 058</i>	
Performance reporting			
AmZ Limited	International benchmarking of container handling rates and charges	29 260	Public tender
Editor's Mark	Hard copy editing — Government Services Report 2003	4 400	Directly approached one provider
Say the Word Productions	Hard copy editing — Government Services Report 2003	4 400	Directly approached one provider
<i>Performance reporting — total</i>		<i>38 060</i>	

(Continued next page)

Consultancies (continued)

<i>Consultant</i>	<i>Nature of consultancy</i>	<i>Cost (\$)</i>	<i>Method of selection</i>
Supporting research and activities and annual reporting			
Dr R Quentin Grafton Australian National University	Referee research paper titled — 'From permits to property'	1 500	Directly approached one provider
Dr Paul Monk Austthink	Develop an argument map for the paper on the implications of GMOs for Australian trade	2 310	Directly approached one provider
Kym Anderson & Associates	Referee research paper on the implications of GMOs for Australian trade	1 650	Directly approached one provider
Prof Mark Wooden University of Melbourne	Referee research paper on the incidence and characteristics of labour hire employment in Australia	600	Directly approached one provider
Prof Tom Valentine	Referee research paper on productive efficiency in Australia's banking industry	1 650	Directly approached one provider
Prof Ian Harper	Referee research paper on productive efficiency in Australia's banking industry	1 650	Directly approached one provider
Dr Necmi Avkiran	Referee research paper on productive efficiency in Australia's banking industry	1 500	Directly approached one provider
Prof Richard Pomfret University of Adelaide	Referee research paper on regional trading arrangements — assessing the third wave	2 750	Directly approached one provider
Dr Ian Winter – Australian Housing and Urban Research Institute	Referee research paper on social capital: concepts, impacts & public policy	550	Directly approached one provider
Centre of Policy Studies, Monash University	Modelling regional impacts of water reform	35 000	Public tender
<i>Supporting research and activities and annual reporting — total</i>		<i>49 160</i>	

(Continued next page)

Consultancies (continued)

<i>Consultant</i>	<i>Nature of consultancy</i>	<i>Cost (\$)</i>	<i>Method of selection</i>
Corporate management and services			
Energetics P/L	Energy audit — Melbourne office	1 650	Sought tenders from two providers
Securitor Financial Group Ltd	Advice on remuneration packaging concepts	4 400	Directly approached one provider
Solved at McConchie P/L	Review of Commission library services	24 577	Public tender
Ker Walsh Communication	Communications strategy review	10 000	Sought tenders from four providers
Veritas Software P/L	Onsite consulting for customised services — check of Commission's IT back-up services	6 600	Directly approached provider of existing software
Deb Doyle: Living Proof – Book Editing	Present writing courses (4) to Commission staff	10 615	Approached four providers for initial course
<i>Corporate management and services — total</i>		<i>57 842</i>	
Total consultancies		537 120	

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 the Australian, 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 Australian, State and Territory governments meet 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 Australian Government, 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;
- Australian Government 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, issue papers, information on the inquiry process and draft reports are sent to interested parties and inquiry participants. They are also available from the Commission's website or free of charge from the Commission. Final reports are distributed, free of charge, to inquiry participants and are also available from the Commission's website.

Documents available from the Commission's website and for purchase from Pirion/J.S. McMillan include:

-
- the Commission's annual report series;
 - final inquiry reports, research reports and performance monitoring reports; and
 - reports by the Steering Committee for the Review of Commonwealth/State Service Provision.

Reports on competitive neutrality matters and submissions made by the Commission to other inquiries are available from the Commission's website, or free of charge, from the Commission.

Copies of submissions made to inquiries, excluding confidential material, and transcripts are available from the Commission's website or can be 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

Attachment A5

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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 2002-03.

Assessment of the Commission's performance

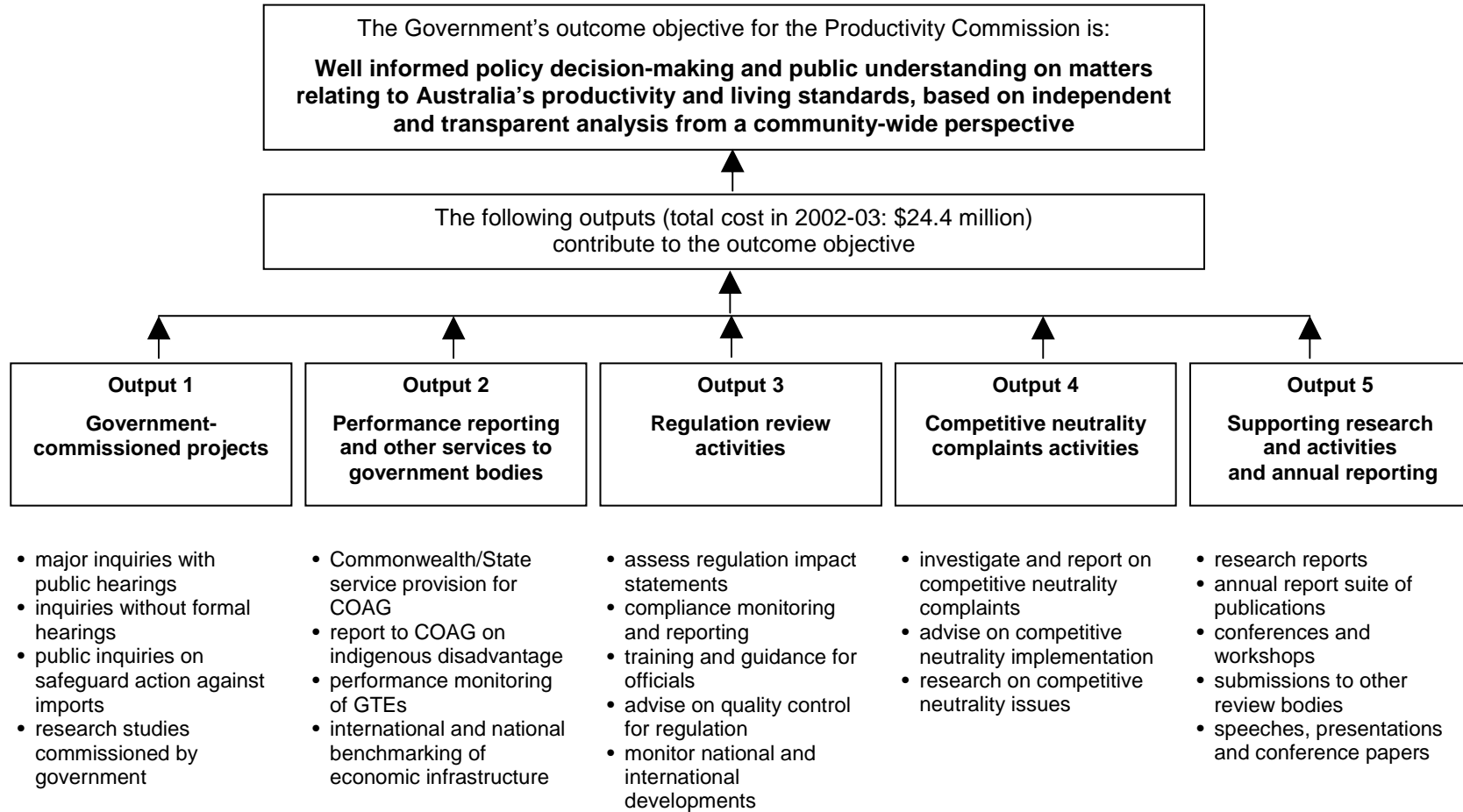
The Commission's inquiry, research, advisory and associated activities derive from its statutory functions. Having regard to the Government's accrual budget outcome and output framework, and with the agreement of the Treasurer, these activities have been classified into five outputs:

- 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 the Commission's overall performance is to be assessed is:

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

Figure B.1 **Productivity Commission outcome/output framework 2002-03**



Commission activities

All of the Commission's activities in its five output groups are directed at meeting the policy needs of the Government, or otherwise fulfilling statutory requirements. These activities are:

- undertaking individual projects specifically commissioned by the Government (Output 1);
- meeting standing research, investigatory and advisory functions nominated by the Government (Outputs 2, 3 and 4); and
- research undertaken in response to emerging needs for policy-relevant information and enhanced analytical frameworks, and for building the Commission's capacity to respond to the Government's policy priorities (Output 5).

Government-commissioned projects have individual terms of reference. *Public inquiries* involve extensive public consultation — such as visits, submissions, workshops and public hearings — in the analysis of information, the development of policy options and in seeking responses to proposed recommendations. Depending on the length of the reporting period, the Commission typically issues either a full draft report or a 'position paper' as part of this consultation process before finalising its report to government. Inquiry reports are tabled in Parliament. *Commissioned research studies* are generally concerned with assembling policy-relevant information or analysis of policy options for tasks that are narrower in scope, and required in shorter timeframes, than inquiries. They typically require less formal transparency of the contributions of participants. The Commission therefore adapts its inquiry processes in conducting these studies, although it aims to expose its preliminary findings in workshops or roundtable discussions. Commissioned research studies are released at a time agreed with the Government.

The Government has established a number of standing research, investigatory and advisory activities for the Commission. These comprise:

- secretariat and research services for the Steering Committee for the Review of Commonwealth/State Service Provision. The Steering Committee is responsible for the publication of national performance indicators for service provision and (more recently) indigenous disadvantage, and related research reports;
- performance monitoring and related research reports on government trading enterprises that fulfil the commitment for the Commission to continue the work of the former COAG Steering Committee on National Performance Monitoring of Government Trading Enterprises;
- national and international benchmarking of key economic infrastructure industries, a standing research direction from the Government. Although the

Commission has some discretion in the choice of industry and timing, reporting is guided by an assessment of the Government's policy needs;

- advisory and research activities related to regulation review, together with annual reporting on compliance with the Government's regulation impact statement requirements (published as *Regulation and its Review*), as set out in the 1997 Charter of the Office of Regulation Review (box B.3);
- reports and related activities necessary to meet the Commission's statutory obligation to investigate complaints about the implementation of the Australian Government's competitive neutrality arrangements; and
- statutory annual reporting on assistance and regulation affecting industry (published as the *Trade & Assistance Review*) and on industry and productivity performance generally (encompassed in the Commission's Annual Report).

Government-commissioned projects and the Commission's standing functions take absolute priority in the deployment of its staffing and financial resources.

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

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

- The suite of three annual reporting publications, as well as Commission Research Papers and submissions to other inquiries or reviews established by government or parliament, present the Commission's views on policy issues.
- Published research by Commission staff aims to provide the information and analysis needed to inform policy discussion within government, parliaments and the broader community. Such research can provide key 'building blocks' for policy development.
- Publication of the proceedings of conferences and workshops sponsored by the Commission, and of consultants' reports to the Commission, is also intended to promote and inform discussion on important policy issues. As with staff publications, the views expressed need not reflect the views of the Commission.

Interpreting performance indicators for the Commission

The Commission aims to demonstrate its effectiveness in meeting its outcome objective through a number of performance indicators which are linked to specific outputs and 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 for assessing 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. 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	
<i>Output</i>	<i>Indicators</i>
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 statutory annual reporting	Reports, projects and associated activities of a high standard, useful to government, raising community awareness and on time

Secondly, the Commission's work program often covers contentious and complex structural policy issues, where 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 — Industry Commission reports from the early 1990s addressing such issues as State Government bidding wars to attract firm investment and major events, meat quota allocation, and local industry involvement in defence procurement and extensive use of the Productivity Commission's 1999 study of work arrangements on large capital city building projects made by the Royal Commission into the Building and Construction Industry — demonstrate the 'shelf life' of Commission reports in policy formulation and debate (box B.2). The Commission's reports on gambling (1999) and broadcasting regulation (2000) continue to be prime references in policy discussion and community debate on these issues.

Thirdly, the Commission has to give priority to certain outputs and allocate its resources accordingly. 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 standing commitments.

Fourthly, the Commission has no control over the release of its final inquiry reports, although the Productivity Commission Act requires that the Minister table inquiry reports in Parliament within 25 sitting days of receipt. The time taken for decisions on such reports or the nature of the decisions themselves are matters for the Government. However, the release of detailed responses to Commission findings and recommendations, as standard administrative practice, is enhancing the transparency of government decision making on Commission reports and permitting better assessment of their contribution to public policy making. Extended delays in the tabling of inquiry reports and decisions on them can compound the difficulties of assessing outcomes.

- The Commission's inquiry reports on radiocommunications, section 2D of the Trade Practices Act and automotive industry assistance were released shortly after the statutory tabling period. The Commission's inquiry report on the economic regulation of harbour towage services was released some four months after the expiry of the statutory period, although the Government announced acceptance of all of the Commission's recommendations at that time. Government responses are reported in appendix C.

Box B.2 The longer term influence of Commission reports

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

- On 5 September 2003 all of Australia's State and Territory governments, except Queensland, signed an Interstate Investment Cooperation Agreement under which they agreed to end interstate bidding wars for business investment and major events (Brumby 2003). The Industry Commission 1996 inquiry report *State, Territory and Local Government Assistance to Industry* documented the extent of assistance provided; argued that most selective assistance had little or no positive effect on the welfare of Australians, at best shuffling jobs between regions; and recommended that the States consider an agreement to cease or limit selective assistance to industry. In view of the lack of policy action subsequently, the Commission reiterated its policy conclusions in a number of annual reports and elsewhere. The Industry Commission report was drawn on by other policy analysts (eg State Audit Offices) and more recently as input to the regional business development analysis initiative of the Department of Transport and Regional Services (SGS 2002). The Commission raised the profile of the issue in 2002 by publishing new estimates of State budgetary assistance to industry (PC 2002f) and in a speech by the Commission's Chairman calling for a truce on interstate 'bidding wars' (Banks 2002).
- The Royal Commission into the Building and Construction Industry, which reported in February 2003, drew extensively on the analysis and findings of the Productivity Commission's 1999 study, *Work Arrangements on Large Capital City Building Projects*. The Royal Commission considered this report, and a 1991 Industry Commission report, *Construction Costs of Major Projects*, 'significant to the work of the Commission'. The Royal Commission's final report also drew on Productivity Commission research on Australia's productivity performance and the link to microeconomic reform and information from its 2001 inquiry report on superannuation industry regulation. In addition, discussion papers issued by the Royal Commission in 2002 drew on a 1999 Commission Research Report, *Microeconomic Reforms and Australian Productivity*, a 1999 Staff Working Paper, *Productivity and Structure of Employment*, a 2001 Staff Working Paper, *Self-Employed Contractors in Australia*, updated industry productivity estimates published on the Commission's website and a recent conference paper on Australia's productivity performance (Parham 2002b).
- The principles that should govern allocating access to restricted foreign markets recommended in the Industry Commission's 1994 inquiry report, *Meat Processing*, were drawn on in debate about administration of Australia's 2003 beef quota to the US market, a decision on which was announced in October 2002.
- In its June 2003 performance audit of the Australian Industry Involvement Program, the Australian National Audit Office referred to the recommendation in the Industry Commission's 1994 inquiry report, *Defence Procurement*, that neither minimum nor target levels of local content should be specified in Defence's procurement process. The Auditor noted that although Defence had rejected the Commission's recommendation 'evidence in the audit indicates that current arrangements by Defence are in accord with the intent of the Industry Commission recommendation' (ANAO 2003a, p. 70).
- Findings and recommendations in the Commission's 1999 inquiry report *Progress in Rail Reform* were used in the Government's Green Paper on land transport infrastructure reform, *AusLink* (DOTARS 2002).

-
- In August 2003 the Government made available its formal response to the Commission's 1999 inquiry report on the implementation of ecologically sustainable development by Commonwealth departments and agencies and provided a postscript on developments since that response had been decided in 2001. Reports for which a formal response remain outstanding are those on broadcasting (March 2000) and section 2D of the Trade Practices Act (August 2002).

While research studies specifically commissioned by the Government do not have to be tabled in Parliament, these reports are generally released very soon after completion. However, because of trade policy sensitivities, the Commission's technical modelling study on the effects of removing tariffs on goods originating from Least Developed Countries was understandably not released until the Government announced its policy decision. Where available, government use of and responses to commissioned research studies are reported in appendix C.

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.

Feedback surveys

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

The results of past surveys, reported in previous annual reports, include:

- a formal survey of perceptions about the quality of the Commission's work and the quality of its inquiry processes in July 2000 (PC 2000);
- a survey of ORR clients in 1999-2000 (PC 2000);
- a survey of users and contributors to the Report on Government Services in July 2001 (PC 2001);
- a survey of 26 'significant opinion formers', users and observers of the Commission's work in March 2002 (PC 2002d); and
- a survey of State and Territory Treasury officials on the quality and usefulness of reporting on the financial performance of government trading enterprises (PC 2002d).

In May 2003 the Commission sought the views of participants in its supporting research program consultations on the quality and usefulness of research reports from the past two years. The positive feedback generally received in this survey is reported in chapter 2.

The Commission surveyed recipients of its e-mail alert service, 'Productivity Commission News', in October 2002, following informal advice that it had a wider distribution than its direct recipients. More than 180 responses were received. Respondents indicated that they forwarded relevant alerts to others (varying between 2 and 800) and many made suggestions for enhancing the usefulness of the service which have since been implemented.

Feedback opportunities provided through report survey cards, e-mail, on-line survey forms and survey forms issued to participants in the Commission's public hearings remained little used in 2002-03. Comments received are passed to management and authors for consideration.

Commission outputs and the work of the Federal Parliament

During the 2002-03 parliamentary proceedings, 55 Members of the House of Representatives and 30 Senators collectively referred to 36 different Commission inquiries or reports, or to the Commission's role in policy processes.

The inquiries and reports which figured most prominently in parliamentary debate were the Commission's reviews of telecommunications competition regulation, broadcasting and the Job Network. These three inquiries, all from previous years, together accounted for more than 40 per cent of the mentions. Inquiry and research reports from the current year drawn on in parliamentary debate by government, opposition and others during 2002-03 included automotive assistance, university resourcing and the TCF Position Paper.

Ministers drawing on specific findings from inquiries and commissioned studies included the Minister for the Environment (fisheries in the Great Barrier Reef lagoon); the Minister for Communications (findings on telecommunications competition regulation); the Minister for Agriculture (the economic cost of an outbreak of foot and mouth disease) and the Minister for Health (findings on international pharmaceutical price differences). Government, Opposition, Democrat and independent Senators drew on the Commission's 2000 broadcasting report during debate on the Broadcasting Services Amendment (Media Ownership) Bill 2002. Members and Senators also drew on a number of recent supporting research reports, notably those on firm size and export performance (2003), GM crops (2002), business failure (2002), fixed term employees (2002) and skills and productivity (2002).

The Commission's Chairman and/or staff were invited to appear before parliamentary committees on five occasions in 2002-03 to discuss issues to do with trade negotiations, regulation impact statements, business R&D and quarantine. These appearances, additional to Estimates hearings, are listed in table D.1.

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 13 parliamentary committee reports listed in table B.1 referred to 22 different Commission inquiries or research reports.
- In its report on public liability and professional indemnity insurance (October 2002), the Senate Economic References Committee cited the 2002 Report on Government Services on the difficulty of obtaining high quality, nationally comparable data for court administration and recommended that the Government give high priority to work being done to develop performance frameworks.
- As the independent auditor of the public sector, the Auditor-General reports directly to the Federal Parliament. Commission inquiry and research reports drawn on in Audit Office reports in 2002-03 include: the Industry Commission's 1994 report *Defence Procurement* (box B.2); the Commission's inquiry reports on automotive assistance, the implementation of ecologically sustainable development and the regulation of airport pricing (ANAO 2003b, c, d); the commissioned study on foot and mouth disease impacts (ANAO 2003e); as well as the 2000 Staff Research Paper, *Business Failure and Change* (ANAO 2003f).
- People appearing at the hearings of parliamentary committees in 2002-03 referred to Commission outputs in 28 different topic areas, including data in the Report on Government Services, Industry Commission inquiries (on R&D, meat processing and OHS), telecommunications competition regulation, university resourcing and business failure, as well as the Commission's role in public policy formulation.
- Research material provided to parliamentarians during 2002-03 by the Parliamentary Library — such as Current Issues Briefs, Research Papers, Research Notes, Bills Digests and E-briefs — referred to 19 different Commission outputs (table B.2). These included inquiry reports (in particular, broadcasting), the Report on Government Services, and Commission and Staff Research Papers.
- *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

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

<i>Parliamentary Committee and report</i>	<i>Commission output used</i>
Senate Rural and Regional Affairs and Transport Legislation Committee, <i>The Australian meat industry consultative structure and quota allocation: Interim report — Allocation of the US beef quota</i> , 23 September 2002	Industry Commission inquiry report, <i>Meat Processing</i> , April 1994
Senate Economics References Committee, <i>A review of public liability and professional indemnity insurance</i> , 22 October 2002	<i>Report on Government Services 2002</i> (quality of court litigation data); mention of the commissioned research study on public liability claims management
Parliamentary Joint Committee on Corporations and Financial Services, <i>Report on the regulations and ASIC policy statements made under the Financial Services Reform Act 2001</i> , 23 October 2002	Productivity Commission inquiry report, <i>Review of the Superannuation Industry (Supervision) Act 1993 and Certain Other Superannuation Legislation</i> , December 2001
House of Representatives Standing Committee on Communications, Information Technology and the Arts, <i>Connecting Australia! Wireless broadband</i> , November 2002	Productivity Commission draft inquiry report, <i>Radiocommunications</i> , February 2002
Senate Environment, Communications, Information Technology and the Arts Legislation Committee, <i>Provisions of the Telecommunications Competition Bill 2002</i> , 22 November 2002	Productivity Commission inquiry report, <i>Telecommunications Competition Regulation</i> , September 2001
Senate Environment, Communications, Information Technology and the Arts References Committee, <i>The value of water: inquiry into Australia's management of urban water</i> , 3 December 2002	Productivity Commission international benchmarking report, <i>Arrangements for Setting Drinking Water Standards</i> , April 2000; Productivity Commission Staff Research Paper, <i>Creating Markets for Ecosystem Services</i> , June 2002; Productivity Commission workshop proceedings, <i>Microeconomic Reform and the Environment</i> , November 2000
Senate Select Committee on Superannuation, <i>Superannuation and standards of living in retirement Report on the adequacy of the tax arrangements for superannuation and related policy</i> , 12 December 2002	Mention of the Productivity Commission Inquiry Report, <i>Review of the Superannuation Industry (Supervision) Act 1993 and Certain Other Superannuation</i> , December 2001.

(continued next page)

Table B.1 (continued)

<i>Parliamentary Committee and report</i>	<i>Commission output used</i>
Parliamentary Joint Committee on Corporations and Financial Services, <i>Report on the review of the Managed Investments Act 1998</i> , 12 December 2002	Productivity Commission inquiry report, <i>Review of the Superannuation Industry (Supervision) Act 1993 and Certain Other Superannuation Legislation</i> , December 2001
Senate Employment, Workplace Relations and Education References Committee, <i>Small business employment</i> , 6 February 2003	Productivity Commission annual reporting, <i>Regulation and its Review 1999-2000 and 2001-02</i> ; Industry Commission Staff Research Paper, <i>Small Business Employment, August 1997</i> ; Productivity Commission Staff Research Paper, <i>Design Principles for Small Business Programs and Regulations</i> , August 1998; Productivity Commission Staff Research Paper, <i>Business Failure and Change: an Australian Perspective</i> , December 2000; testimony given by the Commission Chairman and Dr Rimmer; and written responses to issues raised by the Committee
Joint Committee of Public Accounts and Audit, <i>Review of Australia's quarantine function</i> , Report 394, 5 March 2003	Productivity Commission Staff Research Paper, <i>The Role of Risk and Cost-Benefit Analysis in Determining Quarantine Measures</i> , February 2002; commissioned Research Report, <i>Impact of a Foot and Mouth Disease Outbreak on Australia</i> , June 2002; testimony given by Mr Kerr (Commission Head of Office) and Mr Pitkethly
House of Representatives Standing Committee on Employment and Workplace Relations, <i>Back on the job: Report into aspects of Australian workers' compensation schemes</i> , 2 June 2003	Industry Commission inquiry reports, <i>Workers' Compensation in Australia</i> , February 1994 and <i>Work, Health and Safety</i> , September 1995
House of Representatives Standing Committee on Science and Innovation, <i>Riding the innovation wave: the case for increasing business investment in R&D</i> , 23 June 2003	Industry Commission inquiry report, <i>Research and Development</i> , May 1995; Productivity Commission annual reporting, <i>Trade & Assistance Review 1999-2000</i> ; inquiry report, <i>Review of Automotive Assistance</i> , August 2002; commissioned Research Report, <i>Evaluation of the Pharmaceutical Industry Investment Program</i> , January 2003; testimony by the Commission Chairman and Dr Lattimore
Senate Select Committee on Superannuation, <i>Planning for retirement</i> , 29 July 2003	Productivity Commission Staff Research Paper, <i>Skills and Australia's Productivity Surge</i> , October 2002

Table B.2 Parliamentary Library use of Commission outputs in 2002-03

<i>Parliamentary Library output</i>	<i>Commission output used</i>
<i>Global Trade Protection and Australian Anti-Dumping Activity</i> , Research Note No. 2, 20 August 2002	Inquiry report, <i>Pig and Pigmeat Industries: Safeguard Action Against Imports</i> , November 1998; annual reporting, <i>Trade & Assistance Review</i> , various years
<i>ACIS Administration Amendment Bill 2002</i> , Bills Digest No. 34 2002-03, 12 September 2002	Inquiry Position Paper, <i>Review of Automotive Assistance</i> , June 2002
<i>Decline in Bulk Billing: Explanations and Implications</i> , Current Issues Brief No. 3 2002-03, 24 September 2002	Mention of the government-commissioned study on GP compliance costs
<i>Egg Industry Service Provision Bill 2002</i> , Bills Digest No. 40 2002-03, 25 September 2002	Inquiry report, <i>Impact of Competition Policy Reforms on Rural and Regional Australia</i> , October 1999 (statutory marketing arrangements); IC inquiry report, <i>Statutory Marketing Arrangements for Primary Products</i> , March 1991
<i>Who's Looking after the Kids? An Overview of Child Abuse and Child Protection in Australia</i> , E-Brief, 16 October 2002	<i>Report on Government Services 2002</i> (child protection and supported placement services)
<i>Disability Support and Services in Australia</i> , E-Brief, 16 October 2002	<i>Report on Government Services 2002</i> (services for people with a disability)
<i>Broadcasting Legislation Amendment Bill (No. 1) 2002</i> , Bills Digest No. 58 2002-02, 31 October 2002	Inquiry report, <i>Broadcasting</i> , March 2000 (mandatory requirements for high definition TV and datacasting)
<i>Telecommunication Competition Bill 2002</i> , Bills Digest No. 63 2002-03, 12 November 2002	Inquiry report, <i>Telecommunications Competition Regulation</i> , September 2001
<i>Special Levies: Taxes by Another Name</i> , Research Note No. 12, 17 November 2002	Annual reporting, <i>Trade and Assistance Review 2001-02</i> (dairy industry assistance)
<i>Commonwealth Volunteers Protection Bill 2002</i> , Bills Digest No. 75 2002-03, 4 December 2002	Mention of the government-commissioned study on public liability claims management
<i>Broadcasting Legislation Amendment Bill (No. 3) 2002</i> , Bills Digest No. 88 2002-02, 20 January 2003	Inquiry report, <i>Broadcasting</i> , March 2000 (mandatory requirements for high definition TV and datacasting)
<i>Maritime Legislation Amendment Bill 2002</i> , Bills Digest No. 95 2002-03, 31 January 2003	Inquiry report, <i>International Liner Cargo Shipping</i> , September 1999
<i>Corporations (Fees) Amendment Bill 2002</i> , Bills Digest No. 96 2002-03, 3 February 2003	Inquiry report, <i>Cost Recovery by Government Agencies</i> , August 2001

(continued next page)

Table B.2 (continued)

<i>Parliamentary Library output</i>	<i>Productivity Commission output used</i>
<i>Agricultural and Veterinary Chemicals Legislation Amendment Bill 2002</i> , Bills Digest No. 107 2002-03, 7 February 2003	IC inquiry report, <i>Work, Health and Safety</i> , September 1995 (regulatory arrangements for the assessment, registration and labelling of industrial chemicals)
<i>Dairy Industry Services Reform Bill 2003</i> , Bills Digest No. 117 2002-03, 3 March 2003	Inquiry report, <i>Impact of Competition Policy Reforms on Rural and Regional Australia</i> , October 1999 (statutory marketing)
<i>Designs Bill 2002</i> , Bills Digest No. 129 2002-03, 26 March 2003	IC inquiry report, <i>Vehicle and Recreational Marine Craft Repair and Insurance Industries</i> , April 1996 (treatment of spare parts under the designs registration system)
<i>Health Legislation Amendment (Medicare and Private Health Insurance) Bill 2003</i> , Bills Digest No. 176 2002-03, 19 June 2003	Commission Research Paper, <i>Private Hospitals in Australia</i> , December 1999
<i>Health Legislation Amendment (Private Health Insurance Reform) Bill 2003</i> , Bills Digest No. 173 2002-03, 20 June 2003	IC inquiry report, <i>Private Health Insurance</i> , February 1997
<i>The Pharmaceutical Benefits Scheme — an Overview</i> , E-Brief, 2 January 2003	Commissioned Research Report, <i>International Pharmaceutical Price Differences</i> , July 2001
<i>'Caring for the Elderly' — an Overview of Aged Care Support and Services in Australia</i> , E-Brief, 30 April 2003	<i>Report on Government Services 2003</i> (Chapter 12 on aged care services and the statistical attachment on ageing); 1999 Conference Proceedings, <i>Policy Implications of the Ageing of Australia's Population</i>
<i>Hospitals in Australia</i> , E-Brief, 30 April 2003	Report on Government Services (various); Commission Research Paper, <i>Private Hospitals in Australia</i> , December 1999
<i>Australia's National Competition Policy: Its Evolution and Operation</i> , E-Brief, 3 June 2003	IC commissioned Research Report, <i>The Growth and Revenue Implications of Hilmer and Related Reforms</i> , March 1995; Inquiry report, <i>Review of the National Access Regime</i> , September 2001
<i>Media Ownership Regulation in Australia</i> , E-Brief, 16 June 2003	Inquiry report, <i>Broadcasting</i> , March 2000
<i>Digital Television and Datacasting</i> , E-Brief, 16 June 2003	Inquiry report, <i>Broadcasting</i> , March 2000 (mandatory requirements for high definition TV and datacasting)
Vital Issues Seminar, <i>Can Catchment Controls Help Protect the Great Barrier Reef?</i> No. 11 2002-03, 25 June 2003 (audio)	Commissioner Neil Byron a joint speaker commissioned Research Report, <i>Industries, Land Use and Water Quality in the Great Barrier Reef Catchment</i> , February 2003

website. Extensive reference to the Commission's report on *Broadcasting* is made in the E-brief, *Media Ownership Regulation in Australia*. The April 2003 E-brief on *Hospitals in Australia* directs users to the Report on Government Services and to the 1999 Commission Research Report *Private Hospitals in Australia*, which is described as including 'a useful discussion of the various types of private sector involvement in the provision of public hospital services'.

Other broad-based performance indicators

In addition to the performance indicators for 2002-03 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. These mostly involve suggestions for specific references, but also encompass other roles for the Commission or proposals to model new agencies on the Commission.

- At its meeting on 6 December 2002 the Council of Australian Governments (COAG) agreed to the Commission undertaking:
 - an assessment of the benefits of the Mutual Recognition Agreement and the Trans-Tasman Mutual Recognition Arrangement and scope for improvements in them (the reference was received on 8 January 2003); and
 - a research study on the future impact of ageing, with a particular focus on the productivity and labour supply implications of an ageing Australia, and the potential fiscal impacts on all levels of government resulting from an ageing population.
- The New Zealand Government supported the Commission conducting reviews of the Trans-Tasman Mutual Recognition Arrangement and rules of origin under the Australia–New Zealand Closer Economic Relations Trade Agreement. The findings of the Commission's inquiry report *Price Regulation of Airport Services* were referred to by participants in the NZ Commerce Commission inquiry on airport regulation and in the Commerce Commission's final report. Other Commission outputs used in reports recently prepared for the NZ Ministry of Economic Development include the 2000 inquiry report on Australia's general tariffs and the modelling supplement to it (Infometrics 2002); the 2002 inquiry report on radiocommunications (Market Dynamics 2003); the 2000 Staff Research Paper on business failure (CRA 2001); and the Commission's productivity research.
- Under the suite of Australian Health Care Agreements 2003–2008 between the Australian and State and Territory governments, the Commission again has a role as an independent arbiter in settling cross-border disputes. The Commission

had this role in the 1998–2003 Agreements. In April 2000 Commissioner Helen Owens arbitrated on a dispute between the ACT and NSW governments over payments for use of Canberra Hospital services by patients from southern NSW.

- Consequent upon its 2002 research report on the potential impact of a foot and mouth disease outbreak in Australia, the Commission has an ongoing role in the Treasury's Foot and Mouth Disease Management Plan, part of a wider national preparedness strategy. The Commission is to provide advice on modelling methodologies and assist in preparing reports on the economic dimensions of a confirmed outbreak.
- The Senate Employment, Workplace Relations and Education References Committee (2003) recommended that the Commission be asked to report to COAG on the most appropriate body to monitor and manage a continuing program of cross-jurisdictional regulatory review and coordinate the rolling programs of regulatory review to be undertaken by all tiers of government.
- The Senate Select Committee on Superannuation (2003) recommended that the Commission be asked to investigate:
 - the remuneration arrangements for financial planners, especially whether there should be a more direct relationship between the amount of work performed and the fee charged; and
 - the remuneration arrangements for superannuation investment fund managers.
- A government member of the House of Representatives suggested that the Commission be asked to internationally benchmark the compliance costs of taxation in Australia to see where improvements can be made (Cadman 2002).
- In its supplementary submission to a parliamentary committee inquiry into cost shifting by the States onto local government, the Australian Local Government Association (2003) argued that the lack of detailed and comprehensive data allows cost shifting to avoid public scrutiny and that a full assessment of cost shifting to local government should be undertaken by the Commission to provide credible data to guide policy development.
- In its submission to a Senate Committee inquiry on the merits of a 25c levy on plastic bags, the Australian Chamber of Commerce and Industry (2003) argued that there had been no rigorous analysis of the issue nor an informed assessment of policy options and that a reference ought to be given to the Commission 'to review the problem, examine options and analyse possible impacts on business, manufactures, community and the litter stream'.
- In November 2002 the Wentworth Group (2002), a group of Australia's leading environmental scientists convened by the World Wide Fund for Nature Australia, argued:

-
- for the establishment of a national Natural Resource Management Commission ‘with the business-like independent approach which characterises the Productivity Commission’; and
 - for a public inquiry by the Productivity Commission to identify the level of funding required to support the land management reforms advocated by the Group and to recommend options for funding that investment.
 - In its submission to the Senate Community Affairs Committee’s inquiry on poverty and financial hardship, Catholic Welfare Australia (2003) argued for a permanent and independent Commission for Poverty Reduction with similar investigatory and inquiry powers to the Productivity Commission. It had in mind:
 - the success of the Productivity Commission in terms of microeconomic reform — its statutory independence, its capacity to conduct inquiries and to measure effects of assistance have proved a very powerful influence in building consensus for change in this country. (Long 2003, p. CA 707)
 - In his paper to a trade policy forum, Professor Ross Garnaut (2003) argued that the Commission should be asked to report on the costs and benefits to Australia of a free trade agreement with the United States under various scenarios.
 - In welcoming the Prime Minister’s announcement of the Commission’s inquiry on first home ownership, the Housing Industry Association (2003) stated:
 - The Productivity Commission has forged a robust reputation for conducting an even-handed appraisal of national issues. Its independence should facilitate open cooperation from all three levels of government, which the HIA encourages.
 - Australian Gas Association (2002) and the Australian Pipeline Industry Association (2002) each argued that the Commission should undertake a review of the national gas access regime, the latter stating that:
 - This review must be conducted by an independent and credible body and APIA supports the Productivity Commission to take the lead role given its familiarity and knowledge of the underlying issues.
 - At its April meeting the NSW Inland Forum (2003), a joint initiative of the Dubbo, Tamworth and Wagga Wagga City Councils, decided to lobby for a Commission inquiry on the provision of medical services in rural and regional Australia. The Forum noted that:
 - The Federal Government uses the Productivity Commission to provide it with advice on whether distortions are occurring within the Australian economy and mechanisms to redress them. The Inland Forum believes that a Productivity Commission inquiry will have the most impact on addressing the imbalance [in the provision of medical services].

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- The CEO of the Grain Growers Association suggested to a parliamentary committee that the Commission be considered for undertaking an early review of all wheat marketing arrangements (Eyres 2003).
 - Other examples of suggestions for Commission work in the past year come from media reports that the governments of NSW, Victoria and Western Australia requested that the Treasurer send a reference to the Commission on Commonwealth–State funding arrangements (March 2003) and other calls for the Commission to review regulatory compliance costs (November 2002), the impact of industry concentration on regions and the Australian economy (March 2003), government programs for indigenous Australians (March 2003), the dairy industry (April 2003), the R&D tax concession (May 2003), Australia’s anti-dumping arrangements (June 2003) and concentration in the retail grocery market (June 2003).

In addition to the media coverage reported elsewhere in this appendix, the Commission and its reports are widely cited elsewhere. In 2002-03 the Commission found more than 160 citations of the Commission and its reports in various publications. More than 70 per cent of mentions related to the work of the Commission (the remainder were mentions of its predecessor organisations). Seventeen per cent of total mentions related to inquiries and commissioned studies current in 2002-03. Commission work which received the most citations were the inquiries on the Job Network and assistance to the automotive industry, and the commissioned studies into university resourcing and general practice compliance costs. Publications such as *Australian Doctor*, *healthcover*, the *Journal of Labour Economics*, *Business Review Weekly* and the *Economic Record* carried the most citations.

Further evidence of the Commission’s contribution is found in the use of its inquiry and research reports in university courses and texts. For example, the Commission is aware of the use of its productivity research in undergraduate courses this year at the University of Canberra, and as far afield as the University of Georgia (USA). The recent university text, *Public Economics: Principles and Practice*, cites findings from Commission work on productivity, industry assistance, the gains from reform and estimates of multilateral liberalisation of services trade; its 1996 stocktake of progress in microeconomic reform; research on rate of return issues; the Commission’s analysis of problem gambling; its evaluation of the Job Network; and lists for further reading, Commission inquiry reports on cost recovery by government agencies, airport pricing regulation and the Prices Surveillance Act (Abelson 2003). In total, this text lists 11 different Commission reports in its reference list. Another recent text mentioned the Commission’s productivity work (Taylor and Frost 2002).

Output 1: Government-commissioned projects

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

In response to these requests, the Commission 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 2002-03 are estimated to have been:

- 65.5 staff years; and
- \$10.5 million on an accrual basis.

All government-commissioned inquiries in 2002-03 were conducted by the Commission in accordance with statutory processes which set requirements for public hearings, submissions and the use of economic models.

Activities in 2002-03

The Commission had eight public inquiries and eight government-commissioned research studies underway at some time during the year. This included the commencement of five new inquiries and six research studies. The program of government-commissioned projects is summarised in table B.3.

The Commission's public inquiries in 2002-03 encompassed a diverse range of economic, social and/or environmental policy issues. Industry assistance was the prime focus of the inquiries on post-2005 tariffs reductions and transitional adjustment assistance for the automotive and TCF industries, Australia's most highly assisted manufacturing activities. Competition policy issues had to be addressed in the inquiries on local government exemptions to the Trade Practices Act and the regulation of harbour towage and related services and are central to the current inquiry on the gas access regime. In ongoing inquiries, the Commission is assessing the social and wider impacts of the Disability Discrimination Act, national frameworks for workers' compensation and occupational health and safety, and the impacts of the regulation of native vegetation clearance and biodiversity conservation on farmers, their regional communities, other economic activities, environmental outcomes and the community generally.

A notable feature of this year's work program was the surge in the number of research studies commissioned by the Government, many of which had to be completed to tight timetables because they fed directly into other policy processes (figure B.2). In addition to completing studies on university resourcing and LDC imports referred by the Government in June 2002, the Commission began and completed studies on:

- public liability claims management practices, a study requested by a ministerial meeting on public liability held in May 2002, comprising federal, state and territory ministers and the President of the Australian Local Government Association;
- the rationale, effectiveness and efficiency of the Pharmaceutical Industry Investment Program in advance of its expiry in 2004 and in time to inform preparations for the 2003-04 Budget;

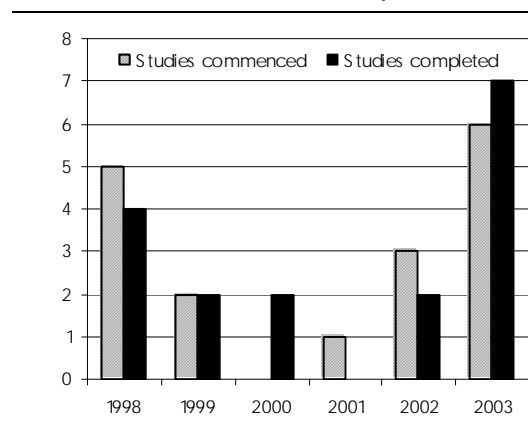
Table B.3 **Program of public inquiries and other government-commissioned projects^a**

	2001-02						2002-03						2003-04												
	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
Public inquiries:																									
Review of section 2D of the <i>Trade Practices Act 1974</i>																									
Harbour towage and related services																									
Review of automotive assistance																									
Post 2005 TCF assistance arrangements																									
Inquiry into the Disability Discrimination Act																									
National workers' compensation & OHS frameworks																									
Native vegetation & biodiversity regulations																									
Review of the gas access regime																									
Affordability of first home ownership																									
Commissioned research studies:																									
Removing tariffs on goods from LDCs																									
University resourcing																									
General practice compliance costs																									
Public liability claims management																									
Pharmaceutical Industry Investment Program																									
Great Barrier Reef water quality																									
Modelling input for WTO trade negotiations																									
Evaluation of mutual recognition schemes																									
Rules of origin																									

^a Shaded area indicates the approximate duration of the project in the period covered by the table.

- the administrative and compliance costs of Australian Government programs borne by general practitioners, about which doctors and their representative organisations have long expressed dissatisfaction;
- the importance of industries in the Great Barrier Reef catchment and policy options to address declining water quality entering the Great Barrier Reef lagoon that would assist the development of a reef water quality protection plan by the Australian and Queensland governments; and
- technical modelling to assist the Government's preparations for the WTO Doha Round of trade negotiations.

Figure B.1 Commissioned research studies
number, fiscal years



At the request of the Parliamentary Secretary to the Treasurer, the Commission also undertook a research study on the Mutual Recognition Agreement between the Australian Government, States and Territories and the Trans-Tasman Mutual Recognition Arrangement. This study, which was requested by COAG, was completed in October 2003.

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

The Commission endeavours to conduct projects in an economical manner, while ensuring rigorous analysis and maximising the opportunity for participation. Total estimated costs (covering salaries, direct administrative expenses and an allocation for corporate overheads) for the three inquiries and seven commissioned research studies completed in 2002-03 are shown in table B.5.

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 1998-99 to 2002-03 are in table B.6.

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

Table B.4 Public inquiry and other commissioned project activity, 1998-99 to 2002-03

<i>Indicators</i>	<i>1998-99</i>	<i>1999-00</i>	<i>2000-01</i>	<i>2001-02</i>	<i>2002-03</i>
Public inquiries					
Inquiry references received	8	4	4	6	5
Issues papers released	9	4	5	6	4
Public hearings (sitting days) ^a	57	40	38	24	31
Organisations/people visited	440	103	217	318	191
Submissions received	996	1 017	460	847 ^d	540
Draft reports ^b	6	4	5	8	1
Inquiry reports completed	5	6	2	9	3
Inquiries on hand (at 30 June)	6	4	6	3	5
Research studies^c					
References received	2	–	1	3	6
Research reports completed	2	2	–	2	7
Studies on hand (at 30 June)	2	–	1	2	1
Total references					
Total references received	10	4	5	9	11
Total references completed	7	8	2	11	10
Total references on hand (at 30 June)	8	4	7	5	6

^a Excludes forums and roundtable discussions. ^b Includes draft and interim reports and inquiry position papers. ^c Includes case studies on work arrangements. ^d Includes more than 200 multiple copies of two submissions from different participants in the inquiry on radiocommunications.

Table B.5 Cost of public inquiries and other commissioned projects completed in 2002-03^a

<i>Government-commissioned project</i>	<i>Total cost</i>
	\$'000
Review of section 2D of the Trade Practices Act	165
Harbour towage and related services	365
Review of automotive assistance	890
Removing tariffs on goods from LDCs	198
University resourcing	643
Public liability claims management	287
Pharmaceutical Industry Investment Program	495
Modelling input for WTO trade negotiations	400
Great Barrier Reef water quality	413
General practice compliance costs	800

^a Includes estimated overheads.

Table B.6 Direct administrative expenditure on public inquiries and other government-commissioned projects^a, 1998-99 to 2002-03

<i>Expenditure item</i>	1998-99	1999-00	2000-01	2001-02	2002-03
	\$	\$	\$	\$	\$
Travel	471 210	195 142	193 972	215 062	381 491
Printing	107 589	216 865	59 972	171 399	91 813
Consultants	228 509	49 262	2 882	106 621	348 974
Other ^b	240 072	222 355	265 923	164 354	245 230
Total	1 047 380	683 623	522 749	657 436	1 067 508

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

Consultative processes

The practice of consulting widely with industry, government departments and agencies, academics and the broader community during the course of inquiries and government-commissioned research projects continued in 2002-03. The Commission held 31 public hearings and visited 191 people and organisations during the year. Trends in the number of visits conducted and public hearing days held — which are heavily influenced by the nature of the policy issues referred to the Commission — are shown in table B.4. As appropriate, the Commission uses inquiry-like processes in the conduct of its other government-commissioned projects.

The Commission's practice of extending its consultative processes beyond visits, hearings, seeking submissions and providing draft reports, continued during the year. As noted in chapter 2, the Commission:

- held a modelling workshop prior to the release of its Position Paper to expose and allow comparative assessment of the preliminary findings from five modelling studies looking at the impacts of reducing assistance to Australia's TCF industries after 2005;
- held a total of 10 workshops or roundtable discussions with interested parties during the course of the commissioned research studies completed in the year, with two such exposure opportunities provided in each of the studies on GP compliance costs, industries and water quality in the Great Barrier Reef and its catchments, and the evaluation of the Pharmaceutical Industry Investment Program; and
- established an advisory committee of representatives from peak GP organisations and relevant Australian Government departments to provide advice and feedback on the GP compliance costs study.

Internet technology has greatly increased the accessibility of the Commission's reports and facilitated speedier and easier notification of developments in inquiries and studies. In particular, participants' submissions to all inquiries and studies and transcripts of hearings (other than 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. The index pages to submissions and hearing transcripts for inquiries and commissioned studies current in 2002-03 were accessed from the website 21 000 times by external parties in the year to 30 June 2003.

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 hearings (examples are in box 2.5). The workshops, noted above, also contributed to the Commission's quality assurance processes.

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

Most of the inquiries and studies completed in 2002-03 had to be completed within tight deadlines. For example, the study of LDC tariffs had a reporting period of two months. The Commission had reporting periods of six months or less for: post-2005 automotive assistance arrangements; harbour towage; pharmaceutical industry assistance; industries, land use and water quality in the Great Barrier Reef catchment; modelling input for WTO trade negotiations; and public liability claims management practices.

Two inquiries underway in 2001-02 but completed in August 2002 — automotive industry assistance and the review of section 2D of the Trade Practices Act — were finished ahead of schedule. The inquiry report on harbour towage services was completed on time.

The government-commissioned research studies on university resourcing and public liability claims management practices were both delivered ahead of schedule, while the other five projects reported on time. Three of the studies — university resourcing, the Great Barrier Reef and the pharmaceutical industry assistance — required interim or draft reports and the deadlines for these were also met.

The reporting period for the commissioned study on GP compliance costs was initially set at seven months. In October 2002 the Commission sought an extension to allow time to consult widely with interested parties, obtain necessary information and give sufficient time for participants to respond to the Commission's preliminary results and ideas for reducing compliance costs. Following consultation with the Minister for Health and Ageing, the Parliamentary Secretary to the Treasurer granted an extension to 31 March 2003 and this deadline was met.

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.

- The Commission's impact on policy making is revealed most directly through government decisions on its reports. In recent responses to Commission reports, the Government:
 - endorsed the Commission's preferred policy options for post-2005 tariff reductions and associated transitional adjustment assistance for Australia's automotive industry;
 - accepted all the Commission's recommendations on regulatory arrangements for harbour towage services, with minor modifications relating to the implementation of price monitoring;
 - basically accepted all the recommendations the Commission made in its 2002 report on citrus growing and processing;
 - announced a replacement program for the Pharmaceutical Industry Investment Program, substantially reoriented to R&D as recommended by the Commission; and
 - accepted most of the Commission's recommendations for the reform of radiocommunications regulation, but decided to postpone consideration of issuing spectrum licences with perpetual tenure pending further consideration and rejected six recommendations.

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- Recent research studies specifically commissioned by the Government have also been influential in policy development this year. For example:
 - The Commission’s report *Industries, Land Use and Water Quality in the Great Barrier Reef Catchment* was acknowledged as a valuable contribution to the development of the Reef Water Quality Protection Plan and would continue to inform policy development and implementation (Commonwealth and Queensland Governments 2003). The Chair of the Great Barrier Reef Protection Plan Project stated that the Commission’s report was:

a comprehensive analysis of the issues involved and will serve as an extremely useful ongoing reference to policy makers, stakeholders and the general public. It has certainly assisted the Steering Committee in our task of developing the Reef Water Quality Protection Plan.
 - The Government established a high level Red Tape Taskforce to respond comprehensively to the findings and recommendations of the Commission’s report on general practice compliance costs and the scope to reduce them. The Commission’s findings and recommendations were referred to extensively in a series of discussion papers released by the Taskforce.
 - The Minister for Education, Science and Training stated that the Commission’s draft Research Report on university resourcing provided ‘valuable research for further discussion of the ways in which we can improve Australia’s higher education system to meet the needs of the 21st century’ (Nelson 2002).
 - The Minister for Revenue and Assistant Treasurer used the findings in the Commission’s study on public liability claims management to support the argument that consumers would reap the benefits of the reforms to negligence law agreed by the Australian Government, States and Territories (Coonan 2003).
 - Government responses to and decisions on these recent commissioned reports confirm the consistent usefulness of the Commission’s work to the Government, Parliament and the broader community. While commentators make their own judgements, a review of the Commission’s inquiry outputs since its inception in 1998 shows that governments typically adopt a substantial majority of Commission recommendations and generally endorse its findings (table B.7, updated since last year’s annual report). Further, the nature and extent of references to Commission inquiry reports suggests that those reports have materially contributed to the quality of policy debate in Federal, State and Territory Parliaments, as well as more generally within the media and general community.

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

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

(continued next page)

Table B.7 (continued)

10	Australia's Gambling Industries (November 1999)	The report was welcomed by the Prime Minister as the first comprehensive investigation of the social and economic impacts of gambling in Australia; it is being used extensively in policy debates in the States and Territories, with a number of its proposals being adopted; and it is the prime reference source on problem gambling for community groups and the media. Four years on, it continues to be the most accessed inquiry report on the Commission's website.
11	Broadcasting (March 2000)	The Government has not formally responded to the report. Nevertheless, the portfolio minister cited the report when announcing that the Government was considering an overhaul of media ownership laws; the report is referred to extensively in parliamentary debate and briefing material on foreign ownership, the cross-media rules, the regulation of digital TV and datacasting and indigenous broadcasting; and the media continue to cite it regularly.
12	Review of Australia's General Tariff Arrangements (July 2001)	The Government rejected the Commission's recommendations to remove the 3 per cent duty on business inputs under the Tariff Concession System and the 5 per cent general tariff rate, but agreed to overhaul the by-law system.
13	Review of Legislation Regulating the Architectural Profession (August 2000)	Responsibility for regulating architects lies with the States and Territories. The Working Group developing a national response to the report rejected the Commission's preferred option to repeal Architects Acts and remove statutory certification. However, it supported a range of Commission proposals to remove anti-competitive elements in legislation regulating the architectural profession.
14	Review of the Prices Surveillance Act (August 2001)	While agreeing to repeal the Prices Surveillance Act, the Government decided to retain more extensive price controls and processes in the Trade Practices Act than recommended by the Commission.
15	Cost Recovery by Government Agencies (August 2001)	The Government's interim response indicated substantial agreement with the Commission's recommendations. Recommendations on the design of cost recovery arrangements and improvements to agency efficiency would be examined in detail with affected agencies and addressed in preparing the Government's final response.
16	Telecommunications Competition Regulation (September 2001)	The Government moved to speed up dispute resolution processes consistent with the Commission's draft report proposals. In its legislative response to the final report, the Government endorsed the thrust of the Commission's recommendations by retaining the telecommunications-specific parts of the competition regime, providing greater upfront certainty for investors and implementing a number of other recommendations. It did not maintain the recommended merit appeal processes.
17	Review of the National Access Regime (September 2001)	In an extensive interim response, the Government endorsed the majority of the Commission's recommendations, in particular, the provision of clearer directions to regulators and greater certainty for investors.

18	Review of Certain Superannuation Legislation (December 2001)	The Government agreed that legislative changes were needed to reduce compliance costs, would implement a number of Commission recommendations and further examine others, but did not accept proposed reforms to institutional arrangements for handling complaints. In a subsequent response to a report by the Superannuation Working Group, the Government effectively supported the Commission's recommendations to license superannuation trustees and for trustees to submit a risk management statement.
19	Price Regulation of Airport Services (January 2002)	The Government supported all of the major elements of the Commission's preferred approach for a light-handed regulatory regime, involving a 'probationary' period of price monitoring.
20	Citrus Growing and Processing (April 2002)	The Government stated that the Commission's report had enabled the concerns of the Australian citrus industry about its competitive situation and outlook to be carefully examined. <i>It subsequently endorsed all of the Commission's recommendations covering trade negotiations, market access arrangements, export control arrangements and review, and industry compliance costs.</i>
21	Independent Review of the Job Network (June 2002)	The Government stated the report was a significant and authoritative examination of the Job Network and agreed with a number of Commission recommendations. It had already changed the design of some Job Network features on the basis of the Commission's draft report. However, the Government did not support some key Commission recommendations at present, but would give consideration to them as employment services policy evolves.
22	<i>Radiocommunications (July 2002)</i>	<i>The Government accepted most of the Commission's recommendations but would further consider whether spectrum licences should be issued in perpetuity and some other matters. Six recommendations were rejected, the most significant of which dealt with changes to competition rules and ministerial discretion on limits to spectrum acquisition in auctions.</i>
24	<i>Economic Regulation of Harbour Towing and Related Services (August 2002)</i>	<i>The Government accepted all the Commission's recommendations, with minor modifications relating to the implementation of price monitoring.</i>
25	<i>Review of Automotive Assistance (September 2002)</i>	<i>The Government endorsed the Commission's findings on post-2005 tariff reductions and transitional adjustment assistance for the industry (though with an additional \$1.4 billion, over 10 years, than preferred by the Commission), agreed with many of the Commission's findings on other assistance and industry matters, and announced a further inquiry by the Commission in 2008.</i>

^a Additions or significant changes to the table published in the 2001-02 Annual Report are indicated in italics.

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- Reference during parliamentary proceedings to Commission inquiry reports and government-commissioned research studies completed in this and previous years is an indicator of their continuing usefulness to parliamentarians. For example:
 - Inquiries or commissioned research studies current in the year were referred to on 31 separate occasions by Members and Senators in the Federal Parliament in 2002-03. Reports on automotive industry assistance, university resourcing and GP compliance costs were those mentioned most frequently. Reports from previous years were referred to on 100 occasions (principally telecommunications competition regulation, broadcasting and Job Network).
 - State and Territory members of parliament referred to Commission inquiries and commissioned research studies on 82 occasions. The 1999 report on gambling (and/or the Chairman's speech of December 2002 updating subsequent developments) was cited 32 times, but inquiry reports on the regulation of architects and TCF assistance also featured prominently (10 mentions each).
 - A measure of the usefulness of the Commission's inquiry and other government-commissioned reports in contributing to public understanding of policy issues is the way they are used in the broader community. For example:
 - As noted earlier, the Commission's inquiry and commissioned research reports from this and previous years were cited in a range of economic and policy journals during 2002-03 and referred to in university texts (page 98).
 - These reports are also used as a reference in policy discussion — for instance, the ABC Radio National's *Background Briefing* (13 April 2003) drew on the Commission's research study on the Great Barrier Reef when examining fishing activity. In addition, the Commission's inquiry on the impact of native vegetation and biodiversity regulations received wide coverage through the ABC *Country Hour* radio program.
 - Other measures of usefulness are the invitations the Commission received in 2002-03 to present papers on inquiries and commissioned studies to business and community groups and to conferences (table D.1). During the year the Chairman, Commissioners and staff made presentations on the regulation of economic infrastructure (drawing on the inquiry reports on the national access regime, telecommunications competition regulation and airport pricing), the Job Network, gambling, spectrum licensing, the Great Barrier Reef study, pharmaceutical industry assistance and inquiries on native vegetation and the Disability Discrimination Act.
 - Other measures of the Commission's usefulness in contributing to public understanding are the use of its website and media coverage of its reports.

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- For inquiries current in 2002-03, the index pages for inquiries, reports, submissions and hearing transcripts on the Commission’s website were accessed by external parties approximately 86 200 times in the year to 30 June 2003, with the most visits to the web pages for automotive industry assistance (15 200 times), the evaluation of the Pharmaceutical Industry Investment Program (8500 times), the review of TCF assistance (7400 times) and the Great Barrier Reef study (7300 times). The 1999 report on gambling was the most accessed inquiry report during the year (25 000 times).
 - Inquiries and reports receive extensive media coverage — in 2002-03 there were 22 editorials in major newspapers on Commission inquiries and commissioned research studies. These included eight editorials mentioning the Commission’s automotive assistance report, five on gambling and three on university resourcing. Other Commission inquiries reported in editorials were international air services, the impact of competition policy reforms in rural and regional Australia, telecommunications competition regulation and the TCF inquiry.
 - Commission inquiries current in 2002-03 received a total of more than 1450 mentions in print and electronic media during the year, accounting for around one-third of all such mentions of the Commission. The inquiries or studies on TCF assistance, automotive assistance, university resourcing and native vegetation regulation received the most coverage.

Output 2: Performance reporting and other services to government bodies

At the request of the Government, 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 reporting on the efficiency and effectiveness of government services, and developing key indicators for reporting on indigenous disadvantage;
- continues performance monitoring and related research on government trading enterprises (GTEs), work the Commission previously undertook for the former 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.

The Commission has also been called upon to provide secretariat and research services to other government bodies, such as the Heads of Treasuries of the Australian Government, 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 2002-03 are estimated to have been:

- 27.4 staff years; and
- \$3.8 million on an accrual basis.

Activities in 2002-03

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

- *Report on Government Services 2003*, 2 volumes (and on CD-ROM with supporting tables), January 2003;
- *Report on Government Services 2003: Indigenous Compendium*, May 2003;
- *Efficiency Measures for Child Protection and Support Pathways*, Reforms in Government Service Provision, May 2003;
- *Draft Framework for Reporting on Indigenous Disadvantage: Report on Consultations*, May 2003; and
- *Financial Performance of Government Trading Enterprises 1997-98 to 2001-02*, Performance Monitoring Report, June 2003.

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 terms of reference specify that it collect and publish data that will enable ongoing comparisons of the efficiency and effectiveness of government services, and analyse reforms in government services. The annual Report on Government Services publishes these performance data and research reports focusing on reforms are published periodically. The aim is to work cooperatively to facilitate and encourage innovation in the delivery of services.

The Review has also been working on a new report on indicators of indigenous disadvantage. As part of its Reconciliation Agenda, COAG requested that the Review:

produce a regular report against key indicators of indigenous disadvantage. This report will help to measure the impact of changes to policy settings and service delivery and

provide a concrete way to measure the effect of the Council's commitment to reconciliation through a jointly agreed set of indicators. (COAG 2002)

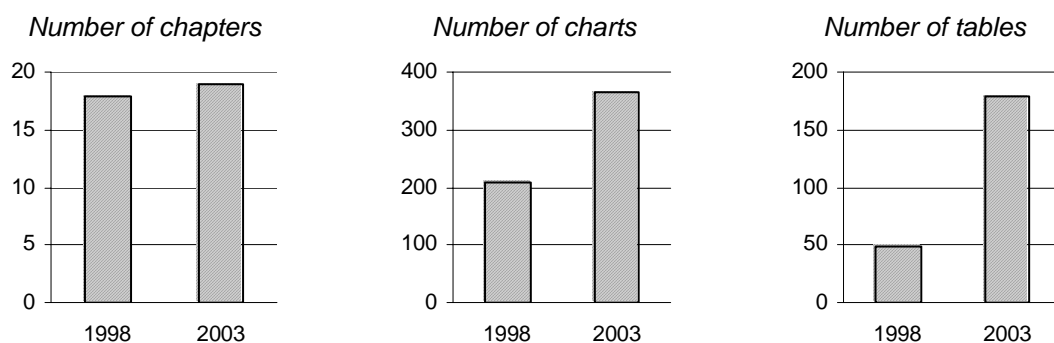
Report on Government Services

The eighth Report on Government Services was released in February 2003. The Review's underlying philosophy is one of continuous improvement, with the Steering Committee endeavouring to build on enhancements in the previous year. The scope of the reporting has expanded considerably in recent years (figure B.3). The 2003 Report:

- improved comparability, timeliness and quality of data for existing performance indicators, along with enhanced reporting on special needs groups (in particular indigenous Australians and people living in rural and remote areas) and in reporting full costs to government;
- included new performance indicators reported for the first time in the education, health, police, and emergency management chapters; and
- improved the quality of descriptive data and contextual information in the housing chapter — with inclusion for the first time of data on community housing for indigenous people — and the emergency management, and health chapters.

The Review will continue efforts to improve the reporting of data on service provision to indigenous Australians in the Report on Government Services in concert with production of the new report on indicators of indigenous disadvantage. Feedback during the consultations on the draft framework of indicators of indigenous disadvantage indicated that it would be useful to bring together all of the disparate data that are included in the Report. The Indigenous Compendium to the 2003 Report, which was released in May 2003, provides information that will complement the material in the new report.

Figure B.2 Increased scope of reporting on government services



The Review is also continuing to refine performance measures and to improve the comparability of the data published.

- The Steering Committee agreed on a new performance indicator framework that increases the focus on reporting outcomes and better reflects accrual accounting systems. The new framework shows the progression from outputs to outcomes and separates equity from effectiveness. The Review has been working to implement the framework in the 2004 Report on Government Services. Work to further develop outcome indicators, in particular, is ongoing.
- The final report by a consultant commissioned by the Review on efficiency measures for child protection and support pathways was published in May 2003. The study developed and tested a method to allow States and Territories to calculate more meaningful, comparable and robust efficiency measures for the protection and support services they deliver. Information allowing meaningful comparisons across jurisdictions of the cost of delivering protection and support services was limited previously. The method developed provides a means of linking service outcomes with resource management and accountability. Implementation will require further work, but has the potential to significantly improve the quality of national reporting of protection and support efficiency measures, as well as providing information to the States and Territories that will assist their ongoing efforts to improve the protection and support services they provide.
- Other projects aimed at informing reporting included research into deflators appropriate for use across all services included in the Report and further clarifying the treatment of payroll tax to improve consistency.

Report on indigenous disadvantage

In his letter to the Chairman of the Steering Committee formally requesting a regular report to COAG against key indicators of indigenous disadvantage, the Prime Minister noted that the task will be to:

identify indicators that are of relevance to all governments and indigenous stakeholders and that can demonstrate the impact of programme and policy interventions.

Consultation on the draft framework was considered vitally important. In the time available, the aim was to consult extensively, including with indigenous people and organisations.

A draft framework based on work previously undertaken by the Ministerial Council for Aboriginal and Torres Strait Islander Affairs was circulated on 10 October 2002 — *Draft framework for Reporting on Indigenous Disadvantage, Request for Comment*. All governments conducted consultations on the draft in their respective

jurisdictions and officials from the Ministerial Council for Aboriginal and Torres Strait Affairs and the Aboriginal and Torres Strait Islander Commission and the Chairman of the Steering Committee, also conducted consultations. The Chairman held discussions with a number of indigenous leaders and organisations and a range of officials and researchers across the country (box 2.4). The Chairman also wrote to key organisations and individuals seeking written comments on the framework.

A framework of indicators drawing on the views expressed during the consultations and further research was then created with the aim of informing Australian governments about whether policy, programs and interventions are achieving positive outcomes for indigenous people, whilst also selecting indicators that are meaningful to indigenous people and reflect their aspirations. The framework was endorsed by COAG in August 2003 and the first report was released in November 2003.

The estimated cost to the Commission of assisting governments in the production of the *Report on Government Services 2003*, the development of the framework of indicators of indigenous disadvantage and related Review activities in 2002-03 was around \$2.3 million (compared to \$1.8 million in 2001-02).

Performance monitoring of government trading enterprises (GTEs)

The Commission published its annual study of the financial performance of GTEs in June 2003. It provided a range of financial indicators for 84 enterprises between 1997-98 and 2001-02. For the first time, GTEs involved in the forestry sector were examined in the report.

This report is the latest in a series that succeeded a broader series of 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.

This year's report was the first in a three year series of studies that will cover the external governance arrangements of the GTEs monitored. Governance was identified in previous financial performance monitoring reports as a possible factor affecting the slow progress of some GTEs in achieving their commercial objectives.

International benchmarking

The Commission continued work on two studies of key Australian infrastructure during the year. One project benchmarked container handling rates and charges at

Australian and overseas ports, and another compared the legal, organisational and regulatory arrangements for managing water rights in Australia and overseas, against accepted best practice principles. These studies were released in July and August 2003, respectively, and will be reported in next year's annual report.

Quality indicators

The Commission has a range of 'quality assurance' processes in place for its performance reporting activities. These processes help to ensure that it is using the best information available and 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 the expertise of other bodies such as the Australian Bureau of Statistics, the Australian Institute of Health and Welfare, and committees established under Ministerial Councils.

A further indicator of quality is that research commissioned by the United Nations Development Fund for Women used the Report on Government Services definitions of outcomes and drew heavily on the 2002 Report maternity services performance indicator framework to illustrate examples of outcomes measures (Sharp 2003).

The extensive consultations undertaken in developing the framework for reporting on indicators of indigenous disadvantage are reported above. As a specific example of what the consultations involved, in November 2002 the Human Rights and Equal Opportunity Commission held a workshop — *Benchmarking reconciliation and human rights* — to consider current developments in setting benchmarks, identifying indicators and developing monitoring and evaluation frameworks for addressing indigenous disadvantage from a human rights perspective. In particular, the workshop considered the draft framework for reporting on indigenous disadvantage, as well as a range of human rights and development initiatives at the international level. The Chairman of the Productivity Commission made presentations at the workshop, where a range of views about directions for the framework were discussed.

The Commission's quality assurance processes for its reporting on the financial performance of government trading enterprises includes giving State and Territory

Treasury departments the opportunity to review drafts before publication. A survey of State and Territory Treasury officials, conducted by the Commission in September 2002, revealed that the reporting is generally considered to be well presented and of a high standard.

Quality indicators for the benchmarking work underway in 2003-03 will be reported next year.

Timeliness

The reports on government services, efficiency measures for child protection and support pathways, indigenous compendium and financial performance of GTEs were completed on schedule.

Indicators of usefulness

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

Review of Commonwealth/State Service Provision

COAG's expansion of the Review's responsibilities to report on indicators of indigenous disadvantage is recognition of the usefulness of previous work reporting the performance of government services and assessing service provision reforms. In addition, work on the indigenous disadvantage report, in particular, is stimulating improvements in data consistency and quality across jurisdictions. For example:

- a number of State and Territory agencies have indicated that they are considering implementing the indigenous disadvantage indicator framework in their own jurisdictions, or else are using the framework as a basis for thinking about their own planning or performance measurement; and
- the Deputy Chief Executive Officer of the Aboriginal and Torres Strait Islander Commission has stated that the work on indicators of indigenous disadvantage is 'a very important vehicle for getting authoritative data ... that stands up to good scrutiny and that is supported by all of the jurisdictions'. (Yates 2003, p. PA 7)

The purpose of the Report on Government Services is to provide information on the effectiveness and efficiency of government services and it was used extensively in this regard.

- Feedback from Steering Committee members — senior representatives from Australian governments — and from departmental secretaries and chief

executives indicates that the reports on government services continue to be important inputs to budgetary negotiations, benchmarking and policy reviews.

- A variety of performance information sourced to the 2003 (and earlier) government services reports has been used in parliamentary proceedings by government and opposition members in Federal and State parliaments.
 - In the Federal Parliament, data from the Reports were used in relation to preschools, disability services and crime rates. Data from the 2002 Report on preschool attendance rates were used during a discussion about the transition from child care to preschool in the proceedings of the Senate Community Affairs Reference Committee Inquiry into Poverty and Financial Hardship.
 - In other parliaments, data from the Reports were used in relation to general practitioners, elective surgery waiting times, hospital acquired infections, the health workforce, litigation, recidivism, escape rates, prison efficiency, disability services, aged care services, emergency management services, police, crime rates, child protection, the performance of courts in finalising cases and charging fees, apparent retention rates, child care and public housing. In the NSW Parliament, the importance of using interstate comparisons such as those provided in the Report on Government Services in gauging government performance — in addition to intrastate comparisons — was noted.
- A number of journal articles, conference papers and government publications across a wide range of disciplines used the Report on Government Services as a source. For example:
 - The Report was cited in the booklet, *Educating Boys*, produced by the Australian Government Department of Education, Science and Training in April 2003; in articles in such journals as *Urban Policy and Research*, *Agenda*, *The Australian and New Zealand Journal of Vocational Education Research*, *Canberra Bulletin of Public Administration*, *Journal of Judicial Administration* and *Children Australia*; and in conference papers.
 - In June 2003 the journal *healthcover* described the health section of the 2003 Report on Government Services as a ‘statistical extravaganza’.

The Review has contributed in a collaborative way to improvements in the quality of performance information reported by other Australian organisations and agencies.

- The Review has worked with the Ministerial Council on Education, Employment, Training and Youth Affairs (MCEETYA) to improve cost data for school education. As a result, both the MCEETYA and the Review will report efficiency data that are more comparable across States and Territories, and that

include notional estimates of the user cost of capital. These data will be included in the 2004 Report on Government Services and in a forthcoming MCEETYA report.

- The Review has worked with the Court Administration Working Group in the development of a new performance indicator framework and in the establishment and development (along with the ABS) of a new national data practitioner group. These two initiatives will increase both the profile and importance of performance reporting within court jurisdictions, as well as provide for more meaningful and comparative data, in an area which has scant comparative performance reporting.
- The Review's work on reforms in government service provision continues to provide a useful source for researchers. Two recent papers (Mortimer and Peacock 2002; Robbins and Simonsen 2002) used the Review's 1997 publication on data envelopment analysis, the latter indicating it 'a complete exposition and demonstration of this technique'. Robinson (2002) drew on the Steering Committee's 1997 study of case-mix funding of public hospitals in Victoria.
- The Head of the Secretariat was invited to present a paper on the Review's performance reporting to the Zelman Cowen Centre for Continuing Legal Education and the Judicial Administration and Justice Studies Institute in October 2002. The Head of the Secretariat was subsequently asked to make a similar presentation to an international conference held by the same organisation, and the Secretariat has been invited to participate in a panel discussion about the ABS and Review data collections at the Australasian Courts and Tribunal Administration Conference. The Secretariat also briefed a Chinese delegation that visited Melbourne in August 2002.
- Media coverage of the 2003 Report on Government Services was extensive. In the period since its release, there have been 85 press articles drawing on the Report and it has been mentioned 86 times and 4 times on radio and television, respectively. Data from the Report were used in three editorials in major newspapers during the year. A total of 1435 bound copies and 128 CD-ROMs of the report were distributed by the Commission and a further 196 copies (in book and CD form) were sold through government bookshops.
- External parties used the Commission's website to access the 2003 Report around 7400 times in the five months to 30 June 2002. The 2002 Report continued to be accessed from the website by external parties — around 8000 times throughout 2002-03. The index pages of Review publications, (including research reports produced under the auspices of the Review) were accessed in total about 28 000 times by external parties in 2002-03.

Performance monitoring of government trading enterprises and international benchmarking

Evidence of the usefulness of the Commission's reporting on government trading enterprises and international benchmarking is available from a number of sources.

- Responses to the Commission's 2002 survey of State and Territory Treasury officials on the usefulness of the report in assessing progress of microeconomic reforms and comparing GTE performance across jurisdictions were reported in last year's annual report (PC 2002d, pp. 103–4). That survey also yielded suggestions for improving the usefulness of the report, especially reconciliation of the differences between Government Finance Statistics and audited financial statements. The Commission is reviewing this issue with a view to improving the clarity and usefulness of the financial indicators presented in the report.
- A subsequent proposal by the Commission to Treasuries to continue this performance monitoring was supported, as was a new three year work program covering external governance arrangements.
- The reports on the financial performance of GTEs attracted media attention through the year and external parties accessed the reports around 3800 times in 2002-03.
- Evidence of the continuing usefulness of the 2002 report *Trends in Australian Infrastructure Prices 1990-91 to 2000-01* is found, for example, in use of rail data by the Department of Transport and Regional services in its submission to the Review of the Competition Provisions of the Trade Practices Act; use of port data by the Department of Foreign Affairs and Trade (2002); and use by the OECD (2002a) of data on the effects of price changes on household expenditure on water and sewage. The report was referred to in two editorials in major newspapers during 2002-03.
- The continuing usefulness of the Commission's benchmarking studies from previous years is evident from numerous references to the 2001 report *International Benchmarking of Remote, Regional and Urban Telecommunications Services* in the Report of the Regional Telecommunications Inquiry (2002), which was established by the Government to assess the overall adequacy of services in regional, rural and remote Australia. In an internal paper this year, the OECD noted the role of international benchmarking in providing comparative information on regulatory reform and cited the Commission's 1999 telecommunications benchmarking study as an example.

Output 3: 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 2002-03*.

The objective of the Commission's regulation review activities is to promote regulation making processes that, from an community-wide perspective, improve the effectiveness and efficiency of legislation and regulations. The ORR provides advice to more than 100 regulators, including 60 Australian Government departments and agencies and about 40 Ministerial Councils and national standard-setting bodies. The ORR aims to assess Regulation Impact Statements (RISs) and undertake associated activities to a high standard and provide objective and insightful advice that is timely and useful to government.

The resources used in producing this output in 2002-03 are estimated to have been:

- 17.6 staff years; and
- \$2.4 million on an accrual basis.

Activities in 2002-03

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

- In 2002-03, almost 1800 Bills and disallowable instruments were tabled in the Parliament. In advising on quality control mechanisms for reviewing and making regulation in 2002-03 (including examining and advising on RISs), the ORR analysed in detail some 861 new regulatory proposals from Australian Government departments and agencies (table B.8). Of these, the ORR advised that 132 triggered the RIS requirements. It subsequently received 106 draft RISs from Australian Government departments and agencies.
- Of the regulatory proposals reported to have been made or tabled in 2002-03, the ORR advised that 139 proposals required a RIS. It provided comments on the 120 RISs subsequently prepared (table B.8).

In addition, the ORR:

- continued to work with, and provide assistance to, the Office of Small Business (within the Department of Industry, Tourism and Resources) in relation to the development of regulatory plans and regulatory performance indicators;

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. 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 Australian Government departments and agencies;
- provide training and guidance to officials;
- report annually on compliance with the 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.

Whilst these are ranked in order of the Government's priorities, the ORR must concentrate its resources where they will have most effect. The ORR, together with the Department of the Treasury, advises the Parliamentary Secretary to the Treasurer who is the Minister responsible for regulatory best practice.

Table B.8 Australian Government regulatory activity and ORR workload, 2001-02 and 2002-03

	2001-02	2002-03
	no.	no.
Regulations introduced		
Bills	207	174
Disallowable instruments	1711	1615
Total number	1918	1789
RIS workload		
Total number of new RIS queries received by the ORR	709	861
- of which, the ORR advised a RIS was required	175	132
- of which, the ORR received draft RISs	124	106
Proposals finalised^a		
Proposals which required a RIS	145	139
RISs prepared	130	120

^a Proposals which were tabled or made in the reporting period — for some of these proposals the ORR was contacted in an earlier reporting period.

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- in the year to 31 March 2003, analysed 43 regulatory proposals considered by Ministerial Councils and national standard-setting bodies and provided advice on 24 RISs which were considered by these decision-making bodies; and
 - reported to the National Competition Council (NCC) on the setting of national standards and regulatory action by Ministerial Councils and national standard-setting bodies, for the year to March 2003.

During the past year, the ORR provided formal RIS training on regulatory best practice to an estimated 510 Australian Government officials from a wide range of departments and agencies (more than double the number who received such training in 2001-02). It also provided extensive advice and assistance with the preparation of RISs, as needed, on an issue-by-issue basis.

Regulation and its Review fulfils the Productivity Commission's and ORR's obligation to report annually on compliance with the Government's regulation review requirements. The report for 2001-02, which was released in November 2002, continued the initiative of reporting in greater detail on compliance by portfolio. It also canvassed regulatory issues more broadly, emphasising the importance of RIS requirements to good policy process and high quality regulatory outcomes.

In monitoring and contributing to regulatory reform developments more broadly throughout Australia and internationally during 2002-03, the ORR also:

- made a presentation on 'grey-letter law' to the AusBiotech 2002 Conference and Investment Forum in Melbourne in August 2002;
- organised and chaired the annual meeting of regulation review units, representing all States (except Tasmania), the ACT and New Zealand. This meeting, held on 10 September 2002, provided a forum for exchange of information among officials from different jurisdictions;
- represented Australia at an OECD meeting in Paris in October 2002 on regulatory reform in Member countries. The ORR provided a commentary of RIS systems employed in some OECD countries and contributed to a discussion on the OECD forward work program;
- provided input to the Senate Employment, Workplace Relations and Education References Committee Small Business Employment Inquiry, regarding RISs and related regulatory matters in October 2002;
- assisted New Zealand Government officials by providing briefings and training in Wellington in November 2002 and June 2003 on RIS processes and lessons from Australia. Overall, the ORR provided training about regulatory best practice processes and RISs to 155 New Zealand Government officials during 2002-03;

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- provided detailed input in December 2002 into a proposal for a new regulatory regime in the Northern Territory (which subsequently came into force in August 2003);
 - provided advice in December 2002 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;
 - assisted with presentations by the Commission's Chairman to the Small Business Forum (*Reducing the Business Costs of Regulation*) in March 2003 and the Minerals Council of Australia (*Minimum Effective Regulation and the Mining Industry*) in June 2003;
 - assisted the Department of Foreign Affairs and Trade in May 2003 in developing an Australian position regarding the transparency and efficiency of domestic regulation for its negotiations at the World Trade Organisation on the General Agreement on Trade in Services; and
 - presented papers at the Asia Pacific Economic Cooperation (APEC) meeting in Khon Kaen, Thailand in May 2003 on regulatory reform systems and processes and the role of the Productivity Commission in Australia.

The ORR's research program was progressed in 2002-03, with benchmarking of Australia's regulatory review requirements and other regulatory quality procedures largely completed. (A Staff Working Paper, *Mechanisms for Improving the Quality of Regulations: Australia in an International Context* was subsequently published in July 2003.) Work also commenced on the identification and development of a range of robust measures of outcomes that could be used to measure the impacts of the Government's regulation review and reform systems (including RISs) on the effectiveness and efficiency of regulation.

Finally, the ORR's website was restructured during 2002-03 to provide more information and make it more user-friendly, including additional links and a larger range of different types of example RISs.

Quality indicators

The scope of the ORR's work covers the whole of government. However, the confidentiality of RISs considered by Cabinet limits the extent to which specific matters can be reported publicly.

Evidence of the quality of the ORR's work is provided by feedback from other government and community bodies, including those that prepare RISs and those that use them.

The ORR surveyed the 510 Australian Government officials who received training in regulatory best practice in 2002-03 and 364 responses were received — a response rate of 71 per cent. The responses indicate that the training was generally well received, with 92 per cent rating the training as either ‘excellent’ or ‘good’. No respondents considered RIS training to be ‘unsatisfactory’.

In addition, the ORR surveyed 128 of the 155 New Zealand government officials trained during 2002-03. Responses indicated that 84 per cent rated the training as either ‘excellent’ or ‘good’.

The ORR also provided numerous additional *ad hoc* training sessions on the RIS process and regulatory best practice to smaller groups of officials as required. Although training evaluation forms were not distributed at these meetings, informal feedback indicates that the advice provided by the ORR was also generally well regarded.

The Australian Government’s RIS processes are considered to be at the forefront of international best practice. For this reason, in 2002-03, the ORR was invited to provide briefing on Australia’s RIS processes to:

- the Dutch Independent Post and Telecommunications Authority and the Dutch Competition Authority on aspects of the regulation of telecommunications and the RIS process, and more generally, the roles of competition and sector-specific competition regulation;
- the Canadian External Advisory Committee on Smart Regulation on recent trends and regulatory practices for a report they were preparing on several countries, including Australia;
- the Danish Committee on Better Regulation for its review of better business regulation in selected OECD countries;
- PRAXIS Centre for Policy Studies in Estonia on cooperation with research oriented organisations in regulatory impact assessment processes; and
- the Queensland Department of the Premier and Cabinet for its evaluation of regulatory best practice arrangements.

Timeliness

Timeliness is also a key indicator of the ORR’s performance. A number of factors can affect the ORR’s timeliness including: the length and quality of the RIS document received; the complexity of the issue/policy proposals canvassed; the familiarity of ORR staff with the issues covered, including whether the ORR has

had prior contact with the department/agency; ORR workloads and staff availability.

As a general rule, officials preparing a RIS are asked to allow the ORR two weeks to provide advice on the adequacy of RISs. However, where further redrafting is necessary, additional time may be needed to ensure an adequate standard is achieved. In practice, the ORR provided formal feedback (comments on the first draft of the RIS) to departments and agencies in an average of four working days for RISs received in 2002-03. Moreover, the ORR provided comments on over 96 per cent of all (first draft) RISs received within two weeks.

There were several instances during 2002-03 where departments and agencies requested advice on their RISs within a few days and sometimes a few hours. While the ORR was always able to meet these requests, such short timeframes make it difficult to give proper consideration to all the issues and raise broader questions about the approach to RIS obligations within some agencies.

An additional measure of the ORR's timeliness is the time taken by it to respond to initial queries from departments and agencies about whether a proposal under consideration triggers the Government's RIS requirements — the ORR received 861 such RIS queries in 2002-03. The ORR aims to reply to these queries with a determination as to whether the RIS requirements are triggered within two working days — although more complex issues can take longer. While comprehensive data on the average number of days taken by the ORR to respond to all RIS queries are not available for 2002-03, the ORR intends to record this information for reporting in 2003-04.

Under the COAG *Principles and Guidelines*, the ORR is required to provide advice on RISs for Ministerial Councils and national standard-setting bodies in a timely manner. When asked for advice in two weeks or less, the ORR provided advice within the specified timeframe on all occasions in 2002-03.

The ORR has also delivered its other outputs in a timely manner. For example, it prepared a report to the NCC 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 12 months to the end of March 2003, was completed and delivered on time. This ORR report assisted the NCC in completing its annual third tranche assessment of the compliance of jurisdictions with the requirements of national competition policy.

Indicators of usefulness

The usefulness of the ORR's regulation review activities in contributing to government policy-making and promoting community understanding of regulatory review and reform issues can be informed by a range of indicators:

- Overall compliance with the Government's RIS requirements remained high in 2002-03, although less so than the preceding year.
 - Of the 139 regulatory proposals made or tabled in 2002-03 that required the preparation of a RIS, 81 per cent complied with the RIS requirements at the decision-making stage. This compares to the 88 per cent RIS compliance rate in 2001-02.
 - Of the 119 regulatory proposals that required a RIS at the tabling stage, 95 per cent complied — up from the 94 per cent compliance rate achieved in the previous year.
 - For significant regulatory issues, the RIS compliance rate in 2002-03 was 46 per cent. This compares unfavourably with a 70 per cent compliance rate for 2001-02 .
- Informal feedback provided by government officials indicates that departments and agencies generally find the ORR contribution to be constructive, timely and positive. However, on occasion, some agencies have expressed concern about the ORR's assessments of the necessity for, or the adequacy of, RISs.
- The ORR contributed to a number of initiatives by government departments and agencies to better integrate the RIS process into their policy development systems during 2002-03.
 - Following discussions between the ORR and the Department of Agriculture, Forestry and Fishing (AFFA), both agencies agreed in early 2003 to a range of machinery changes to improve the effectiveness of the working relationship. The changes included AFFA appointing a senior officer as a central point of contact to improve coordination between the two agencies in the preparation of RISs. A similar arrangement was established between the ORR and the Department of Health and Ageing in June 2003.
 - In November 2002, the ORR signed a protocol with Food Safety Australia New Zealand to formalise the working relationship between the two organisations. The protocol provides clarity regarding regulatory proposals which require preparation of a RIS and gives practical guidance to officers in both organisations. There may be scope for further protocols to be developed between the ORR and national standard-setting bodies which operate under the auspices of COAG's RIS requirements.

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- The ORR provided input to officials at the Department of Immigration, Multicultural and Indigenous Affairs for the development of the Department's Legislative Change Process 'Guide' in May 2003.
 - The ORR assesses the content of the RISs it receives to ensure that regulatory best practice requirements are met. In many cases, this leads to a more comprehensive assessment of the available regulatory and non-regulatory options. RISs assist governments in preparing better quality regulations. For example, in some instances, the RIS process has resulted in proposed recommendations being revised before the decision-making stage.
 - For example, in mid-2002, the Australian Building Codes Board released for public comment a draft RIS dealing with the regulation of energy efficiency for houses. Feedback on the RIS from public consultation suggested that additional construction costs, transitional issues and likely energy savings associated with the preferred regulatory approach were overly optimistic. The preferred option was modified, resulting in reduced stringency for some elements of the proposal in order that implementation of the measures could be achieved within a minimum transition time. This is consistent with best practice requirements for regulation, which encourage thorough consultation with stakeholders and the examination of a range of alternatives.
 - Reporting on how the RIS process is leading to improved legislation and regulation is constrained by the confidentiality of Cabinet processes. Nevertheless, compliance information by portfolio shows that several departments and agencies which had been reported in previous years as performing below regulatory best practice have subsequently improved their internal processes during 2002-03, resulting in better regulatory practices and outcomes. However, in some instances, compliance has deteriorated over the past year.
 - RISs tabled in the Parliament with Memoranda and Explanatory Statements have provided greater transparency regarding the rationale behind the Government's regulatory decisions, resulting in the Parliament being better informed. In addition, parliamentarians have drawn on published RISs in debate. For example, in 2002-03, there were 37 separate discussions in Parliament about particular RISs and regulatory policy issues (14 times in the Senate, eight in the House of Representatives and 15 times in the work of parliamentary committees). A wide range of issues were discussed, including vehicle and aircraft safety standards, urban speed limits, electromagnetic radiation protection, fisheries management, educational standards and international trade agreements. For the most part, discussions focused on the analysis contained in the 'impact' and 'consultation' sections of RISs, as well as the likely small business impacts and the role of RISs in policy development.

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- State and Territory government officials contacted the ORR on a number of occasions during 2002-03 to confirm that proposals complied with COAG RIS requirements before proceeding with legislation in their jurisdiction.
 - Indicators of the usefulness of the ORR's regulation review activities in promoting public understanding of regulatory best practice issues are found in the use of its reports.
 - Printed copies of *Regulation and its Review 2001-02* were widely distributed, including a copy being sent to every Member of the House of Representatives and the Senate. This report was also accessed around 1700 times on the Commission's website in 2002-03.
 - A further 550 copies of the second edition of *A Guide to Regulation* were distributed for use by policy and regulatory officers in government departments, agencies, statutory authorities and boards, and other organisations and individuals interested in regulatory reform. In addition, this Guide was accessed more than 3300 times on the ORR's website during 2002-03. The ORR's home page was accessed around 9400 times in 2002-03, an increase of 6 per cent on the number recorded in 2001-02.
 - Further relevant indicators include invitations during the year for the Commission's Chairman to address the Minerals Council of Australia, the Australian Chamber of Commerce and Industry, the Small Business Coalition and the Council of Small Business Organisations of Australia and presentations, domestic and international, made by ORR staff during the year. The Chairman also appeared before the Senate Employment, Workplace Relations and Education Committee inquiry on small business employment to discuss RISs and related regulatory matters. The ORR's interaction with a range of international organisations, other national governments and other jurisdictions within Australia generates a range of benefits. For example, the growing harmonisation of regulation-making processes and enhanced communication between officials providing advice about regulations can result in greater consistency in the design and application of regulations used in each jurisdiction. In turn, this can reduce unnecessary regulatory barriers to trade and commerce, both internationally and within Australia.
 - Independent assessment of the usefulness of the regulation review activities undertaken by the ORR is also found in:
 - The decision by the New Zealand Government to continue to apply RIS systems based on those employed by the Australian Government.
 - An OECD study released in November 2002, *Regulatory Policies in OECD Countries — From Interventionism to Regulatory Governance*, endorsed a number of key aspects of the Australian Government's regulatory review

system as being consistent with international best practice. These included Australia's legislation review program and the Government's RIS structure — which first requires resolution of the threshold question of whether any regulatory action can be expected to be beneficial (including the question of whether government action is justified) followed by an analysis of costs and benefits of a range of options.

- Another OECD study released in 2002 on regulatory reform in Canada made similar endorsements of key elements of Australia's RIS requirements for Australian Government regulation, national standard-setting bodies and regulatory action by Ministerial Councils (box B.4).

Box B.4 An international perspective on the Commission's RIS compliance activities

In reporting on regulatory reform options in Canada, the OECD noted that a central challenge for most member countries is to improve the ex-post evaluation of compliance by departments and other regulation-making bodies with their government's regulatory policies. The OECD suggested that Canada should consider implementing the model used by the Australian Government where the central regulation review body records its assessment of each RIS — known in Canada, as a Regulatory Impact Analysis Statement — as adequate or inadequate against a set of performance criteria.

Departments can then be given summary information on how well they are complying with the requirements of the policy, while annual publication of the overall results, as in the Australian case, would mean that this information could also be used to compare the performance of departments. Systematic weaknesses and non-compliance could then be identified and addressed (OECD 2002b, p. 71).

Output 4: 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 Australian 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 Parliamentary Secretary to the Treasurer 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 2002-03 are estimated to have been:

- 1.3 staff years; and
- \$0.3 million on an accrual basis.

Activities in 2002-03

Complaints activity

The CCNCO received one formal complaint during 2002-03 (table B.9). The complaint concerned the provision of consultancy services by the Industry Capability Network Ltd. (ICNL). ICNL is a network of State and Australian government organisations that exists to create opportunities for Australian industry from foreign investment. The CCNCO determined that the activity that was the subject of the complaint was State based and referred the complainant to the competitive neutrality mechanisms within the relevant state jurisdictions. As a result, the complaint did not proceed to formal investigation. However, the complainant indicated that the CCNCO raising the issues with elements of the Network had led to considerable progress on a number of issues. The CCNCO continues to monitor the progress of the matter.

Research

No formal research activities were conducted in 2002-03.

Table B.9 Formal competitive neutrality complaints, 1998-99 to 2002-03

<i>Activity</i>	<i>1998-99</i>	<i>1999-00</i>	<i>2000-01</i>	<i>2001-02</i>	<i>2002-03</i>
Written complaints received	6	7	5	2	1
Action:					
New complaints formally investigated	2 ^a	4	5 ^b	1	–
Complaints investigated but suspended	–	1	–	–	–
Complaint investigations reactivated	–	–	1	–	–
Complaints investigated and resolved through negotiation	–	–	1	1	–
Complaints not investigated	4	2	–	–	1
Reports completed	1	4	–	5 ^b	–
Complaints on hand (30 June)	–	–	5 ^b	–	–

^a Two complaints related to the same matter: counter-terrorist first-response services provided by the Australian Protective Service. ^b Two complaints related to the same matter — the operation of airports on Australian Government owned land (Sydney Basin airports and Essendon Airport Limited) — and were dealt with in one report.

Advice on the application and implementation of competitive neutrality

Important roles for the CCNCO are to provide formal and informal advice on competitive neutrality matters and to assist agencies in implementing competitive neutrality requirements. During 2002-03 the Office:

- provided advice around five times a week, on average, to agencies or in response to private sector queries over the telephone or in meetings;
- contributed to the redrafting of the Australian Government's publication *Commonwealth Competitive Neutrality: Guidelines for Managers*; and
- participated in the meeting of competitive neutrality policy and complaint agencies of the Australian, State and Territory governments held in August 2002.

Quality indicators

Competitive neutrality complaint investigations and reporting engage the complainant, the government business in question, the competitive neutrality policy arms of the Australian Government and, as required, the government department within whose policy purview the business resides. The generally favourable feedback from all these parties on the integrity of the process and the usefulness of its outcomes — given that the 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.

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

Timeliness

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

The complaint regarding ICNL was received on 30 May 2003 and resolved, subject to ongoing monitoring, by 15 August 2003.

Indicators of usefulness

CCNCO reports and research are drawn on by State and Territory government agencies responsible for competitive neutrality policy and complaint investigations, thereby facilitating the exchange of information and sharing 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 informal comments suggesting that its outputs are contributing to better public understanding. For example, favourable comments continue to be received from government and private sector agencies on the usefulness of the CCNCO research publications on *Cost Allocation and Pricing* and *Rate of Return Issues* in assisting their implementation of competitive neutrality policy. These research publications remain core references for managers within the forthcoming Guidelines for Managers to be issued by the Treasury and the Department of Finance and Administration. The Australian Government directed the OECD to the analysis in both research papers in April 2003. The OECD (2003a) cited the *Rate of Return Issues* in a different context and a recent university text described it as a good introduction to complex issues (Abelson 2003, p. 222).

Although released in 1998, these CCNCO research papers continue to be in demand — for example, each being accessed 400 and 500 times, respectively, from the Commission's website in 2002-03. In total, CCNCO publications on the website were accessed 4300 times during 2002-03 (down from around 5400 times last year).

Output 5: 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. Soon after the Commission formally commenced operations, the Treasurer outlined its supporting research function in the following terms:

The Commission has a self-initiated research program which will complement its other activities. Research themes would be responsive to the views of Governments and business and welfare groups. A major focus for this research will be to analyse the factors underlying productivity growth and social policy issues. (Costello 1998)

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 policy issues.

The resources used in producing this output in 2002-03 are estimated to have been:

- 52.2 staff years; and
- \$7.4 million on an accrual basis.

Activities in 2002-03

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

- research to meet the Commission's annual reporting obligations, comprising:
 - its annual report for 2001-02, tabled in Parliament in December 2002, which discussed lessons from recent government initiatives to extend markets into such diverse new areas as helping the unemployed, managing the airwaves and conserving biodiversity;
 - two companion publications on regulatory developments in 2001-02 and trade and assistance issues, released in November and December 2002, respectively;
- two submissions to other government review bodies, those examining the competition provisions of the Trade Practices Act and the pricing arrangements in residential aged care;
- a volume of proceedings from a workshop on managed competition in health care, which was convened by the Commission in August 2002;

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- the Chairman's address to the 12th Annual conference of the National Association for Gambling Studies, *The Productivity Commission's Gambling Inquiry: 3 Years On*, which was published following requests for it to be made more accessible;
 - seven research reports — comprising one Commission Research Paper, four Staff Research Papers, and two Staff Working Papers;
 - other projects associated with inquiry and research support, technical research memoranda, assistance to other government departments, conference papers and journal articles, and in particular, five conference papers on productivity issues and updated productivity estimates published on the Commission's website.

As outlined by the Commission in its *Research Program 2002-03*, proposals for research were considered against three broad themes (see chapter 2) and a set of guidelines emphasising:

- the absolute priority given to work commissioned by the Government and standing research responsibilities;
- research that supports the Commission's inquiry program, especially the development of expertise, information and analytical frameworks supporting a number of applications in the Commission's work;
- making a contribution to the stock of policy-relevant knowledge or making it more accessible and useful to policy-makers and the broader community; and
- research that is relevant to public policy issues, preferably with broad application and significance.

The Commission sees value in the public good aspect of its research and promotes dissemination of its work through publications, internet access and presentations.

The research publications produced in the supporting research program in 2002-03 are listed in box B.5. The diversity of research projects underway at the end of the year is illustrated in box B.6.

Details of Commission research papers, staff papers and the 86 public presentations given by the Chairman, Commissioners and staff in the year are provided in appendix D.

Quality indicators

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

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, during preparation of the Commission Research Paper, *Pastoral Leases and Non-Pastoral Land Use*, staff met with land management agencies in Queensland, South Australia and New Zealand; AgForce Queensland; the Australian Bush Heritage Fund; and Birds Australia. Contact was also made with land management agencies in the Northern Territory, Western Australia and New South Wales; the National Competition Council; the National Farmers' Association; and the Australian Conservation Foundation.

Research is monitored internally as it progresses and staff seminars expose research to peer review as it develops. Some research-in-progress is also tested through external checks, such as seminars and conferences. For example, modelling of the

Box B.5 Supporting research and annual reporting publications, 2002-03

Annual report suite of publications

Annual report 2001-02	Regulation and its review 2001-02
Trade & assistance review 2001-02	

Conference proceedings

Managed competition in health care

Submissions to other review bodies

Submission to the Review of the <i>Trade Practices Act 1974</i>	Submission to the Review of Pricing Arrangements in Residential Aged Care
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Commission research paper and published speech

Pastoral leases and non-pastoral land use	The Productivity Commission's gambling inquiry: 3 years on
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Staff research papers

Skill and Australia's productivity surge	Role of auctions in allocating public resources
Modelling possible impacts of GM crops on Australian trade	Firm size and export performance: some empirical evidence

Staff working papers

Supplier-induced demand for medical services	Trade and investment effects of preferential trading arrangements — old and new evidence
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Consultancy report

Potential effects of primary producer taxation provisions on the environment

impacts of GM crops on Australian trade was ‘road tested’ at a workshop at the University of Adelaide and at the 5th GTAP Annual Conference on Global Economic Analysis. An early version of the investment analysis in the Staff Working Paper on preferential trading arrangements was exposed at the 31st Australian Conference of Economists in 2002.

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. Referees provided a range of constructive criticisms and were generally complimentary about the overall standard of the Commission research projects they reviewed. Responding to referees’ comments enhanced the quality of final research outputs.

Another form of quality assurance and measure of relevance is the Commission’s practice of bringing leading policy analysts, researchers and practitioners to roundtables, workshops and conferences which the Commission either conducts or co-sponsors under its supporting research program. The workshop convened by the Commission in August 2002 to examine the Scotton model of ‘managed competition’ in health care is discussed in chapter 2.

Box B.6 Supporting research projects underway at 30 June 2003

Social capital: reviewing the concept and its policy implications #	Trends in Australian Manufacturing #
Submission in response to the NCC’s draft recommendation on declaration of Sydney Airport #	Australia’s productivity growth to 1999-2000: industry estimates
Productivity in Australian banking	ICT and firm performance
The regional effects of electricity industry reform	Technological and organisational complementarities in firm-level innovation
Assistance to sports and the Arts	Assistance to tourism
External governance of GTEs workshop	Restrictions on trade in education services
Assessing environmental regulatory arrangements for aquaculture	Incorporating externalities into the pricing of irrigation water
Labour hire employment: extent and characteristics	Modelling regional impacts of water reform
Health policy and socio-economic status in Australia: improving decision support tools (SPIRT Project) *	Distributional impacts of price changes in Australian economic infrastructure services in the 1990s
Economic modelling for Australia and the USA (ARC Linkage Grant) *	The evolution of Australian enterprises 1990 to 2007 (ARC Linkage Grant) *

Published between July and October 2003. * Collaborative projects. Information on individual research projects is available from the Commission’s website, www.pc.gov.au.

Further evidence of the quality and standing of the Commission's supporting research program this year were:

- the election in December 2002 of Dean Parham, Assistant Commissioner of the General Research Branch, to the Bureau of the Statistical Working Party to the OECD's Committee on Industry and the Business Environment. The Statistical Working Party provides a focus for much of the OECD's productivity research;
- the invitation, also in December 2002, to Dean Parham to join the International Advisory Committee for the *International Productivity Monitor* which serves as a vehicle for international discussion of productivity topics. His invited article, 'Productivity and Policy Reform in Australia', appeared in the Fall 2002 edition;
- a request to submit an article, 'Australia: Productivity Gains from ICT Use', for a special edition of the French Canadian journal *L'actualite economique*, on the new economy. The article is based on the paper delivered to the International Association for Official Statistics conference, *Official Statistics and the New Economy*, held in London in August 2002 (Parham 2002a), reported in last year's annual report;
- the invitation from the OECD Trade Directorate to Dr Patrick Jomini, Assistant Commissioner of the Economic and Labour Market Research Branch, to brief the June 2003 Expert Meeting on developing governmental analytical capacities in the trade policy area on methodologies used by the Commission in its analysis of trade policy issues; and
- feedback on the quality of supporting research reports from the May 2003 research program consultations is reported in chapter 2. Almost all respondents rated the Commission's published research highly for rigorous and comprehensive analysis, clarity and readability.

Timeliness

Of the publications listed in box B.5, about half were completed to the schedule set by the Commission. These included the annual report suite of publications, submissions to other review bodies, the workshop on managed competition in health care, the pastoral lease research paper and the update on gambling. The other supporting research reports completed this year did not meet their originally projected completion times.

Servicing government-commissioned projects takes priority and the Commission allocates its resources accordingly. This means that lower priority research can take longer than anticipated, even though it is delivered within the original budget. Generally, research projects which are intermittently resourced are not strongly time

sensitive. Redefinition of project scope and delays in obtaining data and referee comments were other 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. The more experimental or exploratory the project, the more difficult it is to schedule.

Indicators of usefulness

The Commission consults widely to ensure the relevance of its program of supporting research. Following recent practice, the Commission invited a range of Australian Government departments and agencies, peak national employer bodies, unions, and community and environmental groups to meet in May 2003 to discuss current and future research. These discussions elicited strong support from these bodies for the Commission's research outputs and more than 180 new research projects were suggested. The organisations represented, examples of suggested research topics and common themes are listed in the *Supporting Research Program 2003-04* (PC 2003c). Meetings with academics and consultations with Commissioners and staff also contribute to the identification of broad research areas that are consistent with public policy priorities.

As foreshadowed last year and reported in chapter 2, the Commission used its 2003 consultations on future research directions to obtain more systematic feedback on the usefulness of projects arising from its supporting research program. Almost all respondents rated the Commission's published research highly for informing public debate and discussion, contributing to policy development and being an important source of reference material.

Further 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 policy issues is available from a range of indicators covering the use made of Commission research, and invitations to discuss and disseminate its research findings in business and community forums.

- Supporting research outputs used by the Government this year include: the citation of productivity research undertaken in the Commission (including Parham 2002c) in its discussion of 'Sustaining Growth in Australia's Living Standards' in Budget Statement 4 (Costello and Minchin 2003); use of findings from the 2001 Staff Research Paper, *Information Technology and Australia's Productivity Surge*, by the Minister for Communications, Information Technology and the Arts in a speech to CEDA (Alston 2003); and reference to information and analysis in a variety of supporting research outputs provided by the Australian Government to the OECD and WTO (box 2.6, chapter 2).

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- Use in 2002-03 of five recent supporting research and annual reporting publications by Members and Senators, 10 such publications in parliamentary committee reports and various other research reports in papers prepared by the Parliamentary Library is further evidence of the usefulness of this stream of Commission work in the work of the Parliament (see pages 89–95).
 - The contribution made by Commission submissions to other government review bodies is difficult to determine. Nevertheless, there were outcomes this year which are suggestive.
 - Recommendations made by the Trade Practices Act Review (2003) — specifically, that section 46 not be amended to include an effects test, cease and desist powers not be introduced and the inadequacy of the penalty regime for breaches of Part IV of the Act be addressed — were consistent with the Commission’s submission. The report of the Review cited the Commission’s submission on cease and desist powers and other supporting research outputs on productivity and microeconomic reform, as well as the Commission’s inquiry reports on telecommunications competition regulation, automotive assistance and cost recovery by government agencies.
 - There was informal feedback during the year that the Commission’s submission to the Environmental Management Systems Working Group was helpful to the work of the Natural Resource Management Ministerial Council which, in October 2002, endorsed a National Framework for Environmental Management Systems in Agriculture. Reflecting the Commission’s submission, the final document was more guarded about the role environmental management systems can play: ‘a powerful tool but no silver bullet’.
 - The OECD cited some 26 separate supporting research outputs of the Commission in the past year, many of them in more than one context. Details of the industry assistance, productivity, modelling, natural resource management and other research used are in box B.7
 - The contribution of the Commission’s stream of research on productivity performance is making to community awareness of microeconomic policy issues is demonstrated by its use in reports by DFAT’s Economic Analytical Unit (2002; 2003); citations in Argy (2003); use in productivity analysis prepared for the Queensland Government (Williams et al. 2003); coverage by the Menzies Research Centre (2003) in a summary of public policy research; and an Australian Industry Group (2003) report on the drivers of Australia’s economic performance, and the importance of microeconomic reform to multifactor productivity gains and of maintaining the reform momentum. This productivity work was also cited in articles in the *Economic Record*, *Australian Economic Papers*, *Australian Economic Review*, *OECD Economic Studies* and the *Review of Economic Dynamics*.

Box B.7 **Supporting research outputs used by the OECD**

Examples of use by the OECD in published and internal documents in the past year of outputs from the Commission's supporting research and statutory annual reporting include:

Annual reporting

Trade & Assistance Review* (various years)

Commission Research Papers

Microeconomic Reforms and Australian Productivity: Exploring the Links* (November 1999); Harnessing Private Sector Conservation of Biodiversity (December 2001)

Staff Research Papers:

APEC Early Voluntary Sectoral Liberalisation (July 1998); Design Principles for Small Business Programs and Regulations (August 1998); Australia's Restrictions on Trade in Financial Services* (November 1998); Multilateral Liberalisation of Services Trade (March 2000); Restrictions on Trade in Distribution Services* (August 2000); Restrictions on Trade in Professional Services* (August 2000); Productivity in Australia's Wholesale and Retail Trade* (October 2000); Cost Sharing for Biodiversity Conservation: A Conceptual Framework (May 2001); Creating Markets for Biodiversity: A Case Study of Earth Sanctuaries Ltd (September 2001); Information Technology and Australia's Productivity Surge* (October 2001); Global Gains from Liberalising Trade in Telecommunications and Financial Services (October 2001); Price Effects of Regulation: International Air Passenger Transport, Telecommunications and Electricity Supply* (October 2001); Creating Markets for Ecosystem Services (June 2002)

Other supporting research outputs

A Duty of Care for the Protection of Biodiversity on Land (Consultancy Report to the Commission May 2001); Australia's 1990s Productivity Surge and its Determinants (NBER Conference Paper June 2002); Australia: Getting the Most from ICTs (Communications Research Forum Conference Paper, October 2002); Microeconomic reforms and the Revival in Australia's Growth in Productivity and Living Standards (paper to the 31st Conference of Economists October 2002); Uptake and Impacts of the ICTs in The Australian Economy: Evidence from Aggregate, Sectoral and Firm Levels (OECD Conference paper, December 2002); The Trade and Investment Effects of Preferential Trading Arrangements — Old and New Evidence (Staff Working Paper, May 2003)

Industry Commission Staff Research Papers:

Informal Equity Investment (April 1997); Productivity Growth and Australian Manufacturing Industry (July 1997); Services Trade and Foreign Direct Investment* (November 1997)

* Multiple mentions in different contexts.

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- The usefulness of the Commission's stream of research on natural resource management and environmental policy is evident from a number of indicators. For example, substantive use of the Commission Research Paper *Pastoral Leases and Non-Pastoral Land Uses* was made by two Western Australian Pastoral Industry Working Groups (2003,) on land tenure and sustainable pastoralism established by the Minister for Planning and Infrastructure, in preparing reports on future pastoral leasing arrangements for public consultation. The pastoral leasing paper was also referred to by the Queensland Minister for Natural Resources in his foreword to the State's strategy paper on proposed reforms to rural leasehold land management (DNRM 2003). The Commission Research Paper *Constraints on Private Conservation of Biodiversity* was cited in briefing for Environment Australia (Whitten et al. 2002). The Staff Research Paper *Creating Markets for Ecosystem Services* was seen as a government response to the recommendation in the Environment Industry Action Agenda that government and industry use market mechanisms in achieving environmental objectives (Barton Group 2002). The Staff Research Papers *Cost Sharing for Biodiversity Conservation* and *Modelling Possible Impacts of GM Crops on Australian Trade* were drawn on in two NSW Parliamentary Library Research Publications (Smith 2003a, b).
 - Other indicators of the usefulness of Commission research reports during the year include: the extensive coverage to the proceedings of the Commission's workshop on managed competition in health care given in the February–March 2003 edition of *healthcover*, a journal with wide circulation in Australia's health industry; reference to the Commission's work on structural adjustment policy in the CEDA Bulletin, April 2003; and information from supporting research reports used by others in responding to critics of Australia's economic reform program (for example, Norton 2003).

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 ready access to reports on the Commission's website. Most of the 2002-03 publications received media coverage upon their release, with the staff papers on modelling GM crops, pastoral leases and the 2001-02 Trade & Assistance Review attracting particular attention. In total, more than 12 600 printed copies of research publications listed in box B.5 were made available for distribution by the Commission. Supporting research reports, including speeches by the Commission's Chairman, were the subject of five editorials in major Australian newspapers. Findings from the study on ICTs and productivity were featured in the *Wall Street Journal*, 12 September 2002.

To 30 June 2003, external parties had accessed the index pages of the reports listed in box B.5 more than 19 000 times on the Commission's website. Supporting

research outputs were accessed a total of more than 145 000 times. The most frequently accessed research reports in 2002-03 were its 1999 conference volume *Policy Implications of the Ageing of Australia's Population* (5000 times), with a number of other research reports being accessed between 2000 and 3000 times during the year: *Microeconomic Reforms and Australia's Productivity: Exploring the Links*; *Private Hospitals in Australia*; *Skill and Australia's Productivity Surge*; *Modelling Possible Impacts of GM Crops on Australian Trade*; *Creating Markets for Ecosystem Services*; and the proceedings of the 2002 Health Policy Roundtable. The Chairman's speeches were accessed more than 16 000 times. An increasing number of research reports arising from the Commission's supporting research program are also available for downloading from the Social Science Research Network.

C Government 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 findings and recommendations, provide some broad indicators of the quality and impact of the Commission's 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 2002-03 and previous years. It also reports on commissioned projects received since 30 June 2003.

This appendix is structured as follows:

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

Table C.1 summarises activity since the Commission's 2001-02 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>
Inquiries					
25-8-98	Implementation of ESD by Commonwealth Departments and Agencies	AR 97-98	Report No. 5 signed 25-5-99	AR 99-00	page 172
16-7-01	Radiocommunications	AR 00-01	Report No. 22 signed 1-7-02	page 155	page 156
27-9-01	Citrus Growing and Processing	AR 00-01	Report No. 20 signed 30-4-02	AR 01-02	page 171
2-10-01	Review of Section 2D of the <i>Trade Practices Act 1974</i> : Local Government Exemptions	AR 00-01	Report No. 23 signed 14-8-02	page 157	na
20-2-02	Economic Regulation of Harbour Towage and Related Services	AR 01-02	Report No. 24 signed 20-8-02	page 165	page 166
21-3-02	Review of Automotive Assistance	AR 01-02	Report No. 25 signed 30-8-02	page 158	page 159
19-11-02	Review of TCF Assistance	page 148	Report No. 26 signed 30-7-03	not yet released	na
5-2-03	Review of the <i>Disability Discrimination Act 1992</i>	page 149	in progress	na	na
13-3-03	National Workers' Compensation and Occupational Health & Safety Frameworks	page 151	in progress	na	na
14-4-03	Impacts of Native Vegetation and Biodiversity Regulations	page 151	in progress	na	na
13-6-03	Review of the Gas Access Regime	page 152	in progress	na	na
4-8-03	Affordability of First Home Ownership	page 153	in progress	na	na

Other commissioned projects

5-6-02	University Resourcing: Australia in an International Context	AR 01-02	Report released 11-2-03	page 161	page 162
5-7-02	General Practice Administrative and Compliance Costs	AR 01-02	Report released 11-4-03	page 167	page 168
26-7-02	Public Liability Claims Management	AR 01-02	Report released 23-1-03	page 159	page 160
2-8-02	Evaluation of the Pharmaceutical Industry Investment Program	AR 01-02	Report released 14-2-03	page 162	page 163
13-8-02	Industries, Land Use and Water Quality in the Great Barrier Reef Catchment	AR 01-02	Report released 26-2-03	page 163	page 164
8-1-03	Evaluation of the Mutual Recognition Schemes	page 169	Report released 17-10-03	page 170	na
28-8-03	Rules of Origin under the Australia–New Zealand Closer Economic Relations Trade Agreement	page 154	in progress	na	na

na not applicable

Note: References are to previous annual reports (AR), inquiry and other commissioned studies of the Productivity Commission.

Terms of reference for new projects

This section outlines the terms of reference for commissioned projects received since the Commission's annual report for 2001-02 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 TCF assistance

On 19 November 2002 the Treasurer referred the post-2005 assistance arrangements for the textile, clothing and footwear industries to the Commission for inquiry and the provision of an information report and report by 31 July 2003. Drawing on the background provided with the terms of reference and bearing in mind the Government's desire to encourage the sector to adjust into activities where it will be internationally competitive with lower levels of Government assistance and improve the overall performance of the Australian economy, the Commission was asked to:

- Evaluate the effectiveness, efficiency and appropriateness of current assistance programs in meeting the Government's goal of achieving structural change and a more internationally competitive TCF sector by 2005, including a consideration of outcomes at the sub-sector level.
- Identify and analyse major impediments to the long term viability of the TCF sector. These would include factors such as cost structures, and market and firm characteristics such as import competition, corporate structure, existence of critical mass, management and workforce skills, the purchasing strategies of major retailers, the ability of the sector to attract investment, and international trading arrangements including market access issues.
- Identify major opportunities for the sector and its strengths and weaknesses for securing these opportunities.
- Identify policy options, including tariff options, consistent with the Government's international obligations, such as those under WTO and APEC, which would encourage the sector to adjust to a more viable and sustainable competitive position.
- Analyse the short and long term implications of each policy option for the structure, performance and competitiveness of the sector, investment, employment, consumers, resource allocation, flow on effects for other industries, general growth prospects and appropriate role for government. Particular attention should be given to the impact of policy options on those regions where TCF accounts for a high level of regional industry concentration.

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- Examine relevant workplace issues including the more effective use of flexible modes of employment, labour mobility in and out of the sector, especially in regional Australia, and the scope for innovative workplace reform including policy options to improve the competitiveness of the sector.
 - Report on the likely impact on the TCF industries of international trade developments, including, but not limited to, the Doha Round of trade negotiations and proposed free trade agreements.

Review of the *Disability Discrimination Act 1992*

On 5 February 2003 the Parliamentary Secretary to the Treasurer referred the *Disability Discrimination Act 1992* and the Disability Discrimination Regulations 1996 for inquiry and report within 12 months. The Commission is to report on the appropriate arrangements for regulation, taking into account the following:

- the social impacts in terms of costs and benefits that the legislation has had upon the community as a whole and people with disabilities, in particular its effectiveness in eliminating, as far as possible, discrimination on the ground of disability, ensuring equality between people with disabilities and others in the community, and promoting recognition and acceptance of the rights of people with disabilities;
- any parts of the legislation which restrict competition should be retained only if the benefits to the community as a whole outweigh the costs and if the objectives of the legislation can be achieved only through restricting competition;
- without limiting the matters that may be taken into account, in assessing the matters in the above, regard should be had, where relevant, to:
 - social welfare and equity considerations, including those relating to people with disabilities, including community service obligations;
 - government legislation and policies relating to matters such as occupational health and safety, industrial relations, access and equity;
 - economic and regional development, including employment and investment growth;
 - the interests of consumers generally or of a class of consumers (including people with disabilities);
 - the competitiveness of Australian business, including small business;
 - the efficient allocation of resources; and
 - government legislation and policies relating to ecologically sustainable development.

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- the need to promote consistency between regulatory regimes and efficient regulatory administration, through improved coordination to eliminate unnecessary duplication; 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 Australian Government, including those set out in the Competition Principles Agreement and the Government's guidelines on regulation impact statements. The report should:

- identify the nature and magnitude of the social (including social welfare, access and equity matters), environmental or other economic problems that the legislation seeks to address;
- ascertain whether the objectives of the legislation are being met, including through analysis and, as far as reasonably practical, quantification of the benefits, costs and overall effects of the legislation upon people with disabilities, in particular its effectiveness in eliminating, as far as possible, discrimination on the ground of disability, ensuring equality between people with disabilities and others in the community, and promoting recognition and acceptance of the rights of people with disabilities;
- 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 alternatives identified, including on, or in relation to, people with disabilities;
- identify the different groups likely to be affected by the legislation and alternatives;
- list the individuals and groups consulted during the review and outline their views, or reasons why consultation was inappropriate;
- determine a preferred option for regulation, if any, in light of the factors set out above; and
- examine mechanisms for increasing the overall efficiency of the legislation, including minimising the compliance costs and paper burden on small business, and, where it differs, the preferred option.

National workers' compensation and occupational health & safety frameworks

On 13 March 2003 the Parliamentary Secretary to the Treasurer referred workers' compensation and OHS frameworks to the Commission for inquiry and report within 12 months. The Commission is to report on and assess possible models for establishing national frameworks for workers' compensation and OHS arrangements. The Government has signalled that, ideally, these models would encompass a cooperative approach between the Australian Government and the States while still leaving primary responsibility with the States.

The Commission has also been asked to identify and report on:

- a consistent definitions of employer, employee, workplace, and work-related injury/illness and fatalities;
- a consistent benefit structure;
- the implications of retaining, limiting or removing access to common law;
- workplace based injury management, early intervention, rehabilitation, return to work and care for the long-term and permanently incapacitated;
- mechanisms to manage and resolve disputes;
- premium setting principles;
- a regulatory framework for national self-insurance;
- options to reduce regulatory burden and compliance costs;
- appropriate boundaries of responsibility for costs, the level of employee coverage and the current level of cost sharing;
- the costs of work-related injury, disease and fatality to complementary/ supplementary arrangements such as income support and Medicare; and
- the infrastructure necessary to support the national framework models identified.

Impacts of native vegetation and biodiversity regulations

On 14 April 2003 the Parliamentary Secretary to the Treasurer referred the impacts of native vegetation and biodiversity regulations to the Commission for inquiry and report within 12 months.

The Commission has been asked to report on the implications of the regulatory regimes in a number of States and Territories, along with the Australian Government's *Environment Protection and Biodiversity Conservation Act 1999* including:

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- the impacts on farming practices, productivity, sustainability, property values and returns, landholders' investment patterns and the attitude of finance providers, and on other economic activities such as infrastructure development and mineral exploration, and flow on effects to regional communities, arising from the regulation of native vegetation clearance and/or biodiversity conservation, including:
 - both positive and negative impacts;
 - the level of understanding of the relevant legislative and regulatory regimes among stakeholders;
 - the likely duration of such impacts and the factors influencing their duration; and
 - the extent to which existing government measures are mitigating any negative impacts;
 - the efficiency and effectiveness of the above regimes in reducing the costs of resource degradation and the appropriateness of the current distribution of costs for preventing environmental degradation across industry, all levels of government, and the community;
 - whether there is any overlap or inconsistency between Australian Government and State/Territory regimes, including their administration;
 - the evidence for possible perverse environmental outcomes, including those that may result from perceptions of a financial impact, arising from the implementation of the above regimes;
 - the adequacy of assessments of economic and social impacts of decisions made under the above regulatory regimes;
 - the degree of transparency and extent of community consultation when developing and implementing the above regimes; and
 - recommendations (of a regulatory or non-regulatory nature) that governments could consider to minimise the adverse impacts of the above regimes, while achieving the desired environmental outcomes, including measures to clarify the responsibilities and rights of resource users.

Review of the gas access regime

On 13 June 2003 the Treasurer referred the national gas access regime to the Commission for inquiry and report within 12 months. The Commission is to examine the extent to which current gas access arrangements:

- balance the interests of relevant parties;

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- provide a framework that enables efficient investment in new pipeline and network infrastructure; and
 - can assist in facilitating a competitive market for natural gas.

In addition, the Commission has been requested to:

- analyse and, as far as reasonably practical, assess the benefits, costs and effects of the gas access regime, including its effects on investment in the sector and in upstream and downstream markets;
- identify any necessary improvements to the gas access regime, its objectives, application, and in particular the Gas Code, to ensure uniform third party access arrangements exist on a consistent, national basis;
- consider the appropriate consistency between the gas access regime, the national access regime and other access regimes; and
- identify and investigate the appropriateness of including in the Gas Code minimum requirements by which pipeline and/or network owners and operators can provide a fully competitive, open and transparent third party access service on a non-discriminatory and economically efficient basis to users.

The report should also take account of:

- governments' response to the Productivity Commission's review of the national access regime;
- governments' response to the COAG Independent Review of Energy Market Directions; and
- relevant court cases, including the Australian Competition Tribunal decision and findings on the Eastern Gas Pipeline, May 2001, and the Supreme Court of Western Australia judgement on the Dampier to Bunbury natural gas pipeline, August 2002.

Affordability of first home ownership

On 4 August 2003 the Treasurer referred the affordability and availability of housing for first home buyers to the Commission for inquiry and report by 31 March 2004.

The Commission is to:

- identify and analyse all components of the cost and price of housing, including new and existing housing for those endeavouring to become first home owners;

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- identify mechanisms to improve the efficiency of the supply of housing and associated infrastructure; and
 - identify any impediments to first home ownership, and assess the feasibility and implications of reducing or removing such impediments.

The Commission was also requested to give attention to the following matters as they affect the cost and availability of residential land and housing in both metropolitan and rural areas:

- the identification, release and development of land and the provision of basic related infrastructure;
- the efficiency and transparency of different planning and approval processes for residential land;
- the efficiency and transparency of taxes, levies and charges imposed at all stages of the housing supply chain;
- the efficiency, structure and role of the land development industry and its relationship with the dwelling construction industry and how this may be affected by government regulations;
- the effect of standards, specifications, approval and title requirements on costs and choice in new dwelling construction; and
- the operation of the total housing market, with specific reference to the availability of a range of public and private housing types, the demand for housing, and the efficiency of use of the existing residential housing stock.

The inquiry was also asked to identify and examine mechanisms available to improve the ability of households, particularly low income households, to benefit from owner-occupied housing. This will include an assessment of rent and direct ownership subsidies, loan guarantees and shared equity initiatives.

Rules of origin under the Australia–New Zealand Closer Economic Relations Trade Agreement

On 28 August 2003 the Parliamentary Secretary to the Treasurer asked the Commission to undertake a research study to examine the issue of Australia's rules of origin arrangements under the Australia New Zealand Closer Economic Relations Trade Agreement (CER) and report within nine months.

In undertaking the study the Commission is to:

- identify any economic and administrative problems with the operation and design of the rules of origin;

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- propose any changes, including design or model changes, to ensure the rules of origin continue to promote the goals of the CER;
 - assess the costs and benefits, including the regulatory burden, of any proposed changes; and
 - consider relevant international developments.

Commission reports released by the Government

This section summarises the main findings and recommendations of inquiry and research reports which have been released by the Government in the period to 27 November 2003. It includes terms of reference for those projects commenced and completed in that period and, where available, government responses.

Radiocommunications

Inquiry Report No. 22 signed 1 July 2002, released 5 December 2002.

The inquiry found that:

- Radiofrequency spectrum is vital for modern communications. Traditionally, government regulation has been necessary to manage signal interference that would result from open access to spectrum.
- Advances in technology have led to more intensive use of spectrum and have provided new flexibility for its management.
- Australia was one of the first countries to recognise the potential for market-based reforms, using property rights, to increase efficiency in spectrum use. The *Radiocommunications Act 1992* went beyond the traditional, equipment-specific licensing approach to introduce class licences and technology-neutral spectrum licences to meet the needs of new technologies.
- Spectrum licences form the foundation of this market-based approach. For a variety of reasons, progress in implementing spectrum licensing has been slower than expected. With minor amendments, however, the Radiocommunications Act has the capacity to further establish competitive markets in spectrum.

The Commission recommended relaxing the regulations applying to all three licence types:

- Apparatus licences should be granted a presumption of renewal, but remain subject to resumption on two-years' notice.

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- Spectrum licences should be issued in perpetuity, leaving a developing secondary market to establish resale prices and effective tenure.
 - Class licences should be extended to accommodate new technologies on a ‘no protection, no interference’ basis.

Also, the following steps were needed to improve efficiency and transparency:

- More spectrum licences should be issued through improved conversion and re-allocation processes (including auctioning of encumbered spectrum).
- Competition limits imposed at spectrum licence auctions should be discontinued and bidding made consistent with section 50 of the *Trade Practices Act 1974*.
- Public interest tests for re-issuing existing spectrum licences should be used only in exceptional circumstances. All new spectrum licences should be issued using market-based mechanisms.
- Regulatory measures would still be needed to meet the spectrum needs of defence, safety-of-life and essential services, but, as far as possible, these services should also be subject to price disciplines, with budget support to meet spectrum costs.

Government response

On 5 December 2002 the Government announced that it would accept most of the Commission’s recommendations and postponed decisions on some others pending further consideration (Costello and Alston 2002).

In accepting the recommendations, the Government noted that they would enhance the efficiency of Australia’s radiocommunications legislative framework under which radiofrequency spectrum is allocated for services such as mobile telephony, satellite Internet, microwave broadcasting links and other wireless applications.

The Government said that it would seek further information on some other recommendations, in particular, the recommendation that spectrum licences issued from July 2004 should have perpetual tenure.

The Government rejected six recommendations, the most significant of which dealt with changes to competition rules. The Government decided to retain existing legislative provisions enabling a Ministerial direction to be issued to limit the amount of spectrum any bidder can acquire in a spectrum auction.

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

Inquiry Report No. 23 signed 14 August 2002, released 12 December 2002.

Section 2D of the Trade Practices Act (TPA) exempts the internal transactions and licensing decisions of local government from Part IV of the Act which regulates restrictive trade practices. The Commission found that:

- There is a universal view that the internal transactions of a local government could not infringe Part IV and that the exemption for them is redundant.
- There are opposing views as to whether, in practice, Part IV would apply to the statutory and regulatory functions (including licensing decisions) of local government. The practical effect of section 2D depends on which of the two views is correct.
- Irrespective of which view is correct, there are potential costs to the community were a local government both to regulate and compete in the same market. However, there is little evidence of any such anti-competitive behaviour. It would, in any case, be subject to State and Territory competitive neutrality provisions and administrative review mechanisms.

The Commission recommended that a provision directly limiting the application of Part IV to the business activities of local governments should be inserted into the TPA which would:

- remove any uncertainty as to the application of Part IV to local government. This would reduce the risk of a local government body's legitimate regulatory decisions being challenged under Part IV and the associated costs of defending such decisions;
- be consistent with the original intention of the national competition policy reforms to extend Part IV to all business activities irrespective of their ownership; and
- define the application of Part IV to local government in a manner similar to that of the other tiers of government.

Under this approach, the Commission recommended that section 2D should be repealed, as both exemptions would be redundant.

Review of automotive assistance

Inquiry report No. 25 signed 30 August 2002, released 13 December 2002.

The Commission found that:

- The automotive industry in recent years has transformed itself to become a major exporter and innovator. It has also greatly improved its productivity and the quality of its products. But it could do more to become truly internationally competitive.
- This transformation has been influenced by reductions in tariffs, which have exposed the industry to increased international competition and also reduced costs for consumers and increased their vehicle choices.
- The Automotive Competitiveness and Investment Scheme (ACIS) support and a lower \$A have both been important in helping the industry adjust to lower tariffs.

In relation to the automotive industry's strengths and weaknesses:

- The industry has developed some key strengths, including its ability to respond quickly, innovatively and cost effectively to small volume market opportunities.
- A serious weakness is the adversarial workplace culture that continues to be evident in some parts of the industry. This has restricted the industry's capacity to implement just-in-time and other best practice processes essential to its long term viability. While regulatory changes may help, better communication and greater cooperation between firms, their employees and unions is the key to improved workplace and industrial relations outcomes.

As to the future assistance arrangements for the sector, the Commission found that:

- Although assistance to the automotive industry will decline again in 2005, it will still be well above that for most other Australian industries. Further assistance reductions would benefit consumers and keep pressure on the industry to continue to improve its performance, as well as being consistent with Australia's APEC commitments.

The Commission put forward several options for post-2005 tariffs and a further period of transitional support and expressed a preference for the following regime:

- In regard to tariffs, there would be advantages in providing for a pause at 10 per cent from 2005, before reducing to 5 per cent in January 2010 and keeping this rate until 2015. This should be supported by retaining ACIS as a transitional mechanism, largely in its current form, until the end of 2010.

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- The Commission also found that the potential benefits of changes to government purchasing preferences for locally made vehicles or to the penalty tariff on used cars, would not warrant the additional uncertainty that would be created for the industry.

Government response

The Government endorsed the Commission's findings on the future assistance arrangements for the automotive industry and the need for policy certainty in this area (Macfarlane 2002).

The Government, in line with the Commission's preferred tariff option, announced that tariffs would be reduced from 15 to 10 per cent in 2005 and to 5 per cent in 2010. It also endorsed the Commission's finding that assistance through ACIS be continued. The Government announced that the scheme would be extended to 2015 rather than 2010, as preferred by the Commission, but with an additional \$1.4 billion to be provided over the 10 year period (Macfarlane 2003b).

The Government also:

- announced that it would retain the tariff on second hand vehicles;
- agreed with the Commission's finding that there is scope to improve productivity in the automotive industry through greater cooperation and implementation of more productive workplace relations;
- supported the Commission's findings that there be an external review of training advisory arrangements in helping to ensure that the education and training needs of the industry are met efficiently;
- did not accept the Commission finding that the threshold for the luxury car tax be increased to reflect previous price movements in such vehicles; and
- decided that the Productivity Commission would undertake a further inquiry in 2008 to determine whether changes are warranted to the legislated tariff reductions in view of conditions in the international trade environment.

Public liability claims management

Commissioned research report released, 23 January 2003.

The Commission found that the nature of public liability insurance has precluded the type of benchmarking it has previously undertaken with economic infrastructure. The heterogeneous nature of the risks covered, as well as differences in institutional arrangements and regulatory regimes, limit the scope for policy-

relevant, like-with-like comparisons between Australian insurers and with overseas insurers. However, the report delivered a number of key findings including:

- The broad steps involved in managing claims are fairly common across the industry. Differences arise because, for example, the portfolios of public liability risks underwritten by insurers differ, and require different claims handling processes. It is widely recognised that there is no single best practice for public liability claims management.
- Insurers generally have sufficient information to manage their own claims effectively. But better use of claims data could be made by some insurers for a range of other purposes, such as premium setting and risk management.
- There is some state variation in claims management costs due to differences in statute law, legal representation costs and court procedures and costs.
- The involvement of lawyers in public liability claims has increased. Litigation, in the sense of the commencement of court-related processes, has also been increasing, although most cases are settled prior to trial.
- Setting premiums for public liability insurance is very difficult because of its 'long-tailed' nature (claims costs occur over many years) and the wide range of risks it covers. Since the mid-1990s, public liability insurance has operated at a loss.
- The market environment in which public liability claims are managed remains competitive and should provide sufficient incentives for insurers to make their claims management practices efficient and cost effective.
- There is nothing inherent in Australian insurers' claims management practices, or the environment in which they are undertaken, which would prevent the benefits from government initiatives to improve the availability and affordability of public liability insurance from being passed onto consumers.

Government response

The Government noted that the report, which was called for by the Ministerial meeting on public liability insurance in May 2002, concluded that competition in the public liability insurance sector is sufficient to ensure efficient and cost-effective competition. The Government also noted the Commission's finding that there was nothing inherent in claims management practices that would prevent consumers reaping the benefits of reforms to improve the availability and affordability of public liability insurance (Coonan 2003).

University resourcing: Australia in an international context

Commissioned research report, released 11 February 2003.

The Commission was asked to undertake international comparisons of the resourcing universities and the management of those resources.

The report contained comparable information on the resourcing of 11 Australian universities and 26 universities from nine other countries.

There is a great diversity in the financial resourcing of Australian and overseas universities. More specifically, the study found that:

- Unlike a number of overseas institutions, Australian universities generally received the largest share of their revenue from government. Also, a greater share of their revenue was from students (accounting for HECS). Full-fee-paying international students contributed up to 50 per cent of total student revenue in the Australian sample.
- For over a third of the overseas universities studied, revenue from other (private) sources — such as, donations, investments and commercial activities — accounted for a greater proportion of revenue than revenue from either government or students.
- Major differences in the approach to funding among the countries studied include Australia's system of future income contingent student loans (HECS) to meet tuition fees, the use of independent funding allocation agencies in some other countries and the performance-based allocation of research grants in the United Kingdom.
- In 1999 (the latest year reported by the OECD), expenditure on tertiary education as a proportion of GDP was higher in Australia than in the United Kingdom and some other European countries, but was lower than in Canada, the United States and Sweden.

The study also found that:

- Graduation rates for Australian medium-duration first degree courses in 1999 were in the middle of the range among the OECD countries examined. Graduation rates for advanced degrees, such as PhDs, were similar to those in the United States and the United Kingdom, and higher than those in many other countries.
- The ratio of students to teaching staff was higher in Australia in 1999 than in Canada and the United States, the only other countries for which there were comparable data. Student–teacher ratios increased somewhat in Australia over

the late 1990s, while the ratios in North America remained largely unchanged over the same period.

- Salaries for Australian academics in 2001 — measured on a purchasing power parity basis — were comparable to those in a number of other countries, although lower than in Singapore and the United States. It was not possible to make comprehensive comparisons of overall remuneration.

Government response

Following the release of the draft report in September 2002, the Minister for Education, Science and Training described the draft report as providing valuable research for further discussion of the ways in which Australia's higher education system can be improved. The Minister also noted that the draft report was a valuable contribution to the Government's review on higher education (Nelson 2002). The Government's new policy initiatives for higher education, *Our Universities: Backing Australia's Future*, were announced in May 2003 as part of the 2003-04 Budget.

Evaluation of the Pharmaceutical Industry Investment Program

Commissioned research report, released 14 February 2003.

The key findings of the report were:

- The Australian pharmaceutical industry is a major and innovative contributor to the economy, with a high R&D intensity, a skilled workforce and high wages. However, pharmaceutical firms perceive the low prices they receive under the Pharmaceutical Benefits Scheme as a deterrent to activity in Australia.
- The Pharmaceutical Industry Investment Program (PIIP) is intended to induce domestic activity lost as a result of such price suppression.
- The PIIP has been effective in stimulating R&D and, to a lesser extent, value added in production. It has also had broader benefits for the capabilities of the industry, for example, by shifting R&D to more complex areas.
- Despite this effectiveness, the program is not likely to make Australia better off overall.
 - Its major rationale — to help counter the effects of low PBS prices on pharmaceutical activity — is, by itself, insufficiently strong to justify a tax-funded program, with the costs that this entails.

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- Notwithstanding some benefits, particularly from spillovers associated with R&D activity, it is likely that the program generates net costs for Australians. This mainly reflects the fact that most subsidies are directed at stimulating value added (where the benefits are lower than for R&D), distorting costs of raising taxes and the difficulties in targeting the program that lead to significant transfers abroad.
 - It has some inflexibilities in its design that reduce its benefits.
 - There are, nevertheless, some policy impediments to the industry — particularly the inability of many pharmaceutical firms to effectively access the R&D Tax Concession, as well as the persistence of some PBS-related effects — which provide grounds for policy action. A replacement program — significantly modified from the current PIIP — is warranted. Given the prospects of high additionality and significant spillover benefits, a modified program, re-oriented to only R&D, is likely to generate net benefits for Australia as a whole.
 - Other design changes would also produce dividends, such as providing more scope for high calibre applications after program commencement.
 - There are grounds for changing patent law to permit Australian producers of generic drugs to export to countries where patents have expired during the period of the Australian patent extension.

Government response

The Government announced a replacement program for the PIIP, the Pharmaceuticals Partnerships Program (P3), to commence in July 2004. The program will provide \$150 million over five years in grants to the pharmaceuticals sector to encourage high value pharmaceutical R&D (Macfarlane 2003a).

Industries, land use and water quality in the Great Barrier Reef catchment

Commissioned research report, released 26 February 2003.

The Australian Government asked the Commission to undertake a research study into the economic and social importance of different industries in the Great Barrier Reef (GBR) catchment, and the costs and benefits of actions to address declining water quality.

Water quality in rivers entering the GBR lagoon has declined because of *diffuse* pollutants, especially sediments, nutrients and chemicals from cropping and grazing

lands in relatively small areas of the adjacent catchments. This diffuse pollution threatens inshore reefs and associated ecosystems.

Because of the World Heritage values at risk, a strategy to identify, prioritise and manage risks is warranted, notwithstanding remaining scientific uncertainty about the condition of reefs and the effectiveness of remedial actions.

Existing water quality policies largely ignore diffuse pollution and involve prescriptive end-of-pipe controls. Prescription is not the answer. Because of the complexity, heterogeneity and dispersion of the diffuse sources, and the inability to monitor them, governments cannot prescribe land management practices that are both viable and cost-effective.

Solutions will have to be built up from local knowledge and insights, within a general framework set by the Australian and Queensland governments.

Some primary producers (from each industry) have already demonstrated that it is possible and viable to reduce land and water degradation on their own lands. The challenge is for these practices to be more widely adopted or adapted.

No single solution will control diffuse pollution entering the GBR lagoon. Various combinations of measures — tailored to particular land uses, locations, and pollutants — will be necessary, giving land users flexibility to choose abatement actions best suited to their property.

Local groups have an important role in designing and delivering programs and monitoring outcomes, but serious questions remain about the structure, transparency and accountability of proposed regional groups.

Regional groups should not create an additional layer of complexity, but instead be part of a simplified approach that is integrated with the actions of other parties, notably the Australian and Queensland governments.

Improving downstream water quality in rivers and estuaries flowing into the GBR lagoon will generate benefits apart from reducing the threat to the Reef. But zero discharge is unnecessary and, if possible at all, would be at prohibitive cost.

Government response

The Commission's report was taken into consideration in preparing the draft Reef Water Quality Protection Plan to protect water quality on the Great Barrier Reef (Kemp and Beattie 2003).

In particular, the plan noted the work of the Commission in identifying policies and programs that inadvertently created perverse outcomes that encourage and reward land management practices that reduce water quality entering the Great Barrier Reef (Commonwealth and Queensland Governments 2003).

Economic regulation of harbour towage and related services

Inquiry Report No. 24 signed 20 August 2002, released 27 March 2003.

The Commission found that:

- The harbour towage industry and the port environment more generally have undergone substantial reform over the past decade. Tug crew numbers have been reduced and service quality increased. But concerns over towage pricing remain.
- Enduring competition *within* most, if not all, Australian ports is unlikely due to low levels of demand, ‘lumpy’ investments and economies of scale. In the longer term, only one operator is likely to survive in any particular port.
- However, the market power of the operator in each port is constrained by the threat of entry and, on occasion, actual entry. Barriers to entry, though not insignificant, do not appear large. But they are sufficient for the incumbent operators to earn some margin above efficient costs.
- Contracting and licensing can be used by towage users and port authorities to exert even more pressure. This has occurred at many regional ports. Competitive tenders for the right to operate at multi-user ports for a fixed period likewise could be used to promote more competitive towage outcomes.

The Commission made the following recommendations:

- Subject to maintaining appropriate levels of safety, prescriptive regulations that stipulate tug use and/or tug size or type, should be modified to promote provision of required levels of service at minimum cost. Relevant jurisdictions should also promote harmonisation or, where appropriate, introduction of a system of mutual recognition of minimum crew qualifications and standards, to minimise impediments to the movement of crews and tugs across Australian ports in different jurisdictions.
- Where port authorities currently do not have explicit discretion to license towage operators (on an exclusive or non-exclusive basis), the relevant jurisdiction should grant them that discretion.
- The granting of such discretion should be accompanied by safeguards to ensure that a port authority, if and when exercising its discretion to license towage providers:

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- does not use the tender process to appropriate savings in the provision of harbour towage for itself (over and above the additional administrative costs incurred by the port authority);
 - demonstrates the net benefits of proposed licensing arrangements;
 - formally consults with towage users in a transparent manner prior to changing existing arrangements and about the conditions attached to any licences; and
 - implements ‘arm’s length’, transparent competitive-tendering processes.
- Declaration of harbour towage services at the ports of Melbourne, Sydney (Port Botany and Port Jackson), Newcastle, Brisbane, Fremantle and Adelaide under s. 21 of the *Prices Surveillance Act 1983* should not be renewed when the current declarations expire on 19 September 2002.
 - Harbour towage charges at ports where declarations currently apply should, as a transitional measure, be subject to limited monitoring by the Australian Competition and Consumer Commission for a three year period. Price data should be published annually.

Government response

The Government accepted all the Commission’s recommendations with minor modifications relating to the implementation of price monitoring (Anderson and Campbell 2003). The Government noted that the recommendations would provide scope for towage services to be provided on a more cost effective basis through further review and reform. It announced that the Minister for Transport and Regional Services would work through the Australian Transport Council to have the issues identified in the report relating to towage guidelines and the training and qualifications of tug crews addressed. It also agreed that allowing competitive tender for the right to provide towage services at ports could promote more competitive outcomes, provided certain safeguards were in place to ensure the integrity of the tender process.

The Government also accepted the Commission’s view that any further monitoring should be very ‘light handed’ and for this reason considered it more appropriate for the work to be undertaken by the Bureau of Transport and Regional Economics. It also noted from the report that the provision of salvage services need not be adversely affected by the efficient pricing and provision of towage services.

General practice administrative and compliance costs

Commissioned research report, released 11 April 2003.

The Commission was asked to undertake a research study examining the administrative and compliance costs associated with Australian Government programs that impact on general practice. The Commission found:

- Many Australian Government policies and programs impact specifically on GPs and the way general practices are managed and operated.
- In 2001-02 the estimated incremental administrative and compliance costs resulting from Australian Government policies and programs amounted to about \$228 million (about 5 per cent of GPs' estimated total income from public and private sources) for the Commission's base case set of assumptions.
 - This is equivalent to about \$13 100 per GP per year (for GPs who work at least one day per week).
- Estimates are indicative only and sensitive to assumptions about GPs' annual earnings and the extra time spent on administrative activities attributable to government programs.
 - For example, if activities such as qualifying for vocational registration would be undertaken anyway, the estimated administrative costs attributable to Australian Government requirements could be as low as \$85 million.
- Some GPs report rising stress and frustration associated with completing forms and complying with administratively complex programs, the increasing accumulation of forms and programs, and conflicting priorities.
 - However, it is difficult to quantify these intangible costs, and these are not included in the Commission's estimates.
- For many programs, GPs receive government payments that exceed the *measurable* administrative and compliance costs.
- Three programs aimed at encouraging high quality care — Practice Incentives Program, vocational registration and Enhanced Primary Care — account for over three-quarters of measurable costs estimated in the base case scenarios.
- Form filling by GPs accounts for a small share of the measurable administrative and compliance costs, but is a significant source of stress-related and other intangible costs.

A number of recommendations were put forward for reducing both tangible and intangible administrative and compliance costs. They include:

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- When conducting program evaluations (for programs within the scope of this study), departments and agencies should include GP administrative costs associated with participation in the program (regardless of whether GPs are explicitly remunerated or their participation is voluntary), unless they can show that these costs are insignificant. Estimates of these costs should be developed after discussions with GP organisations.
 - The Department of Health and Ageing should conduct program evaluations (accounting for the administrative costs to GPs) of the Practice Incentives Program, vocational registration, and Enhanced Primary Care program.
 - To the extent that the Government chooses to remunerate GPs for providing medical information, the relevant department or agency should fund the payments out of its own budget.
 - Consistent principles for remunerating GPs should be adopted between (and within) departments and agencies. This does not require identical payment schedules.
 - A departmental coordination group should be established to monitor changes in cumulative GP administrative costs over time. The Department of Health and Ageing should report these costs publicly.
 - A set of guidelines should be developed (possibly by the Department of Health and Ageing) to facilitate, when appropriate, the standardisation of information collection and form design across departments and agencies.
 - Departments and agencies should examine options to accelerate the use of information technology in reporting by GPs, including integrating forms into computer software used by GPs, and allowing more forms to be submitted electronically when there is a net benefit.
 - When a department or agency is asking GPs to supply information, it should focus its requirements on medical diagnoses based on clinical evidence.

Government response

Following the release of the report, the Government established a Red Tape Taskforce to report by November 2003 on ways to implement the Commission's recommendations on reducing the administrative workload of GPs (Howard 2003b). The Government also announced \$30 million would be provided to increase the use of electronic patient records to reduce the administrative load of GPs (Patterson 2003).

Evaluation of the mutual recognition schemes

Commissioned research report, released 17 October 2003.

On 8 January 2003 the Parliamentary Secretary to the Treasurer asked the Commission to undertake a review of the Mutual Recognition Agreement (MRA) and the Trans-Tasman Mutual Recognition Arrangement (TTMRA) and to report within nine months. The review was to:

- assess the efficiency and effectiveness of the MRA and TTMRA in:
 - fostering and enhancing trade and workforce mobility between Australian States and Territories and New Zealand;
 - enhancing the international competitiveness of Australia and New Zealand businesses and Trans Tasman business sectors; and
 - enhancing the capacity of Australia and New Zealand to influence international norms and standards.
- consider whether any changes to the MRA and TTMRA and the related legislation, or the implementation thereof, are required to improve their operation;
- examine whether broadening the scope and objectives of the MRA and TTMRA would enhance their efficiency and effectiveness, and if so, how this might be done; and
- examine options for ensuring that MRA and TTMRA issues are considered early in domestic policy processes and that implications for the schemes' regulation coordination are taken into account.

In undertaking the review:

- any options for change should be practically achievable and based on clear evidence that the expected benefits would outweigh the costs (including any implementation costs); and
- the MRA and TTMRA should remain closely aligned to ensure the consistent application and continuing workability of mutual recognition principles under these arrangements.

In relation to the MRA, the review should consider whether the existing provisions for exemptions and exclusions should be retained.

In relation to the TTMRA, the review, consistent with the intention to minimise exemptions and exclusions from the Arrangement, shall:

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- assess any amendments or additions to the laws in the Schedules and comment on their consistency with the principles underpinning the Arrangement; and
 - examine the scope for deletions from or amendments to the Schedules, including permanent and special exemptions.

Commission findings

The Commission's report was presented to the Australian and New Zealand governments on 8 October 2003.

The MRA and TTMRA embody two basic principles that goods that can be sold lawfully in one jurisdiction may be sold in another (even though the goods may not comply with the regulatory standards in the other jurisdiction) and if a person is registered to carry on an occupation in one jurisdiction, he or she can be registered to carry out the equivalent occupation in any other jurisdiction without the need for further assessment of qualifications and experience.

The Commission found that while data are limited, there are indications that the MRA and TTMRA have been effective overall in achieving their objectives of assisting the integration of the Australian and New Zealand economies and promoting competitiveness.

Other findings were that:

- many of the permanent exemptions and exclusions to the schemes should remain, as mutual recognition would otherwise erode justified regulatory differences, although some modifications to coverage, scope, administrative practices and review mechanisms were warranted, including:
 - clarifying or correcting some permanent exemptions (for example, changing the endangered species exemption to reflect the current legislation in Australia) to increase policy consistency and effectiveness;
 - limiting the exception for the registration of sellers to apply only to regulatory differences based on health, safety and environmental grounds;
 - removing occupational qualification requirements from business licences that are inconsistent with mutual recognition objectives;
 - facilitating the use of the exemption and referral processes available under the schemes to introduce or change standards;
 - making it easier to appeal decisions and review provisions of the schemes;
 - integrating product safety bans with the temporary exemption mechanism;
- and

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- increasing the attention given to mutual recognition obligations by policy makers effecting new or revised regulation.
 - give consideration to establishing a review group of officials to assess expanding mutual recognition to cover regulations governing the use of goods and possibly to undertake other MRA/TTMRA related work;
 - significant further progress in the TTMRA special exemptions will require greater cooperation across agencies and jurisdictions to address inconsistent and cumbersome regulatory practices;
 - the effectiveness of the schemes would be enhanced by undertaking an awareness program on the obligations and benefits of mutual recognition, aimed at regulators, policy advisers and relevant industries and professions; and
 - to ensure mutual recognition is fully considered in policy and regulation-making processes, it should be a requirement for mutual recognition to be addressed in regulation impact statements or other practical ways, where regulation impact statements are not required.

Government responses to Commission reports from previous years

Citrus growing and processing

Inquiry report No. 20 signed 30 April 2002, released 18 June 2002.

The Government broadly accepted the Commission's report (Truss 2002). It agreed that export controls should only be used in those markets where such powers generate benefits which exceed the costs and which cannot be achieved with such controls. It also agreed that that the current multilateral trade negotiations in the WTO should be used to reduce overseas trade barriers faced by citrus producers and that government and the industry should review the effectiveness of setting priorities for market access discussions.

The Government endorsed that the roles of Biosecurity Australia and the Horticultural Industry Market Access Committee should be clarified and that future reviews of export control arrangements should be conducted in an independent and transparent manner.

Implementation of ecologically sustainable development by Commonwealth departments and agencies.

Inquiry report No. 5 signed 25 May 1999, released 15 February 2000.

A whole of Australian Government response to the report was agreed in August 2001 and publicly released in August 2003.

While most of the agreed actions in the response remain current and represent on-going commitments, the Government provided a postscript in relation to significant developments that have taken place since 2001.

The postscript updates three areas of the Government's response to the Commission's recommendations:

- mechanisms to progress ESD implementation;
- additional mechanisms introduced by the Government to progress ESD; and
- performance management, information and monitoring.

The following mechanisms have been used to progress the implementation of ESD since 2001:

- the Office of Regulation Review has included the assessment of ESD impacts in the adequacy criteria of Regulatory Impact Statements; and
- the Prime Minister's Science, Engineering and Innovation Council has given further emphasis to ESD and has considered the issue through independent working group investigations on the following:
 - Australian Industry's Sustainable Competitiveness;
 - Sustainable Aquaculture;
 - Sustaining our Natural Systems and Biodiversity; and
 - Beyond Kyoto: Innovation and Adaptation.

Additional ESD support activities since 2001 include:

- encouraging Australian Government departments and agencies to join the Greenhouse Challenge;
- encouraging Australian Government departments and agencies to implement environmental management systems based on ISO 14001, or an equivalent standard, by December 2002, and encouraging portfolios to accredit at least one of their larger sites to ISO 14001 or equivalent standard before December 2003;

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- establishing an ESD information and support service within Environment Australia for two years; and
 - requiring Australian Government agencies to include a report on their environmental and ESD performance as part of their annual reports.

In regard to performance management, information and monitoring, the Government supported the Commission's recommendation that a state of the environment report be produced on a regular basis (for example, every five years). Since 2001, the first State of the Environment Report produced under the *Environment Protection and Biodiversity Conservation Act 1999* was completed and tabled in Parliament in March 2002, with the next report to be completed by 2006.

The 2001 response and the postscript are available from the Commission's website at <http://www.pc.gov.au/inquiry/esd/index.html>.

D 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 in 2002-03.

Commission research papers

Pastoral leases and non-pastoral land use

July 2002

This paper consolidated and extended previous Commission research on pastoral lease and administration and management of Australia's rangelands. Pastoral lease arrangements have existed since the mid-1800s and have remained largely unchanged. There is, however, significant potential for environmentally friendly non-pastoral land uses such as tourism, farming of livestock other than cattle or sheep, and conservation of native wildlife. Less prescriptive and more 'neutral' leasing arrangements may lead to better long term management of the rangelands. Key findings in the paper were:

- Pastoral leases exist on around 44 per cent of Australia's mainland area and are administered and controlled through a land tenure system designed to facilitate and support pastoralism.
- Pastoral lease arrangements are characterised by extensive and prescriptive legislation and regulation. The arrangements typically constrain the emergence of non-pastoral land uses such as tourism, farming of non-conventional livestock and conservation of native wildlife.
- Uncertainty surrounding property rights held by State and Territory governments and the application of lease conditions, such as stocking rates, may inhibit the emergence of non-pastoral land uses.

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- Native title is a key element of the broader institutional framework — changes to existing land use will need to be consistent with native title.
 - In some jurisdictions, pastoral lease rentals do not cover the costs of administering the pastoral lease arrangements or provide a commercial return to governments.
 - There has been limited use of national competition policy to review State and Territory land management legislation.
 - There is a case for a more comprehensive review of the net public benefits from retaining the pastoral lease arrangements.

Published speech

The Productivity Commission's gambling inquiry: 3 years on

Gary Banks, December 2002

This paper is an edited version of an address by Commission Chairman, Gary Banks, to the 12th Annual Conference of the National Association for Gambling Studies held in November 2002. Given the coincident timing of the conference with the third anniversary of the Commission's report on Australia's gambling industries, the address reflected on key developments since then. The key points were:

- Considerable progress has been made in addressing problem gambling since the Productivity Commission's inquiry.
 - Recognition within the industry that there is a problem, and acceptance by both governments and industry that existing measures were inadequate to deal with it, are perhaps the most significant changes.
 - Regulatory and self-regulatory initiatives that have been introduced are extensive, with some useful innovations.
- It remains unclear whether problem gambling and its associated impacts have moderated.
 - Since 1997-98, expenditure on gambling has risen by 15 per cent to reach \$14 billion, or \$1000 per adult. This is slower growth than previously, which may partly reflect some policy actions. But the slowdown can be more plausibly attributed to maturing markets for gaming machines.
 - The gaming machine share of gambling expenditure has risen further to 57 per cent in 2000-01 from 52 per cent in 1997-98 (and 34 per cent in 1991-92). This is significant, because the costs of problem gambling were found to loom larger for gaming machines than other gambling modes.

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- Despite the slowdown in expenditure, State and Territory budget forecasts indicate a continuing rise in government dependency on gambling taxes.
 - Significant deficiencies remain in the regulatory environment for gambling. Areas deserving priority attention by governments include:
 - more research on what actually works among possible consumer protection measures;
 - the need to establish arrangements to ensure truly independent and transparent research;
 - a need for effective monitoring and enforcement of industry compliance with consumer protection regulations; and
 - further reforms to policy making and regulatory governance arrangements, especially to ensure the substantive independence of the regulator.

Submissions to other review bodies

Productivity Commission Submission to the Review of the *Trade Practices Act 1974*

July 2002

The Commission's submission to the Review of the Competition Provisions of the Trade Practices Act (chaired by Sir Daryl Dawson) focused on provisions relating to the misuse of market power (section 46) and, to a lesser extent, mergers (section 50). These were areas where the lessons from the Commission's most recent assessments of market power were most relevant to the Review.

The key points of the submission were:

- Regulatory provisions against anti-competitive conduct need to tread a fine line between limiting genuinely anti-competitive conduct and sustaining pro-competitive rivalry among firms.
- The introduction of an effects test into section 46 of the Trade Practices Act would lower the threshold for regulatory intervention where misuse of market power is suspected.
- While such a test has some advantages, problems in its interpretation and implementation mean that it is likely in practice to have adverse impacts on efficiency and on the process of competition itself.
- The prospect of regulatory error would be higher under an effects test, because it would be more likely to catch behaviours that have unintended impacts on

competition and that do not detract from economic efficiency. The potential direct and indirect costs are significant.

- Any need for a more expansive section 46 would appear to have diminished.
 - The economy is increasingly open, so that the scope for substantial market power, which must underlie anti-competitive conduct, has declined.
 - Under national competition policy, specific regulatory regimes have now been developed for those areas of the economy where the risks of market power and its abuse are greatest.
- Administratively applied cease and desist orders would lack accountability and also would risk regulatory errors in their application. These risks are not justified given the current ability to seek court injunctions.
- There is evidence that the existing penalty regime for breaches of Part IV of the Act may not be enough to deter anti-competitive conduct by firms and individuals.
- The adoption of a penalty regime that provided better deterrence, subject to appropriate safeguards and careful design, would further reduce the case for strengthening section 46 in other ways.
- There are grounds for considering anew whether the market share and concentration thresholds for regulatory scrutiny of mergers should be raised.

Productivity Commission Submission to the Review of Pricing Arrangements in Residential Aged Care

June 2003

Drawing on experience and insights from its inquiry on nursing home subsidies, a major conference on ageing co-hosted with the Melbourne Institute in 1999 and previous staff research on expenditure trends and projections for long-term care, the Commission focused its submission on three areas of the Review:

- current funding and delivery arrangements for aged care services;
- the implications of ageing, trends in disability rates and other key influences on the future demand for and cost of these services; and
- the merits of a number of reform options, including broader changes needed in the long term.

Key points from the submission were:

- Most aged Australians requiring care services obtain them from informal carers, often with support from publicly-funded community care programs.

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- Only around 6 per cent of Australians aged 65 and over live and receive care in residential aged care facilities. However, 26 per cent of those aged 85 and over receive residential care, accounting for over 50 per cent of residential places. Residential care accounts for nearly 70 per cent of public spending on all aged care services.
 - An examination of Australia’s aged care system reveals several problems:
 - unduly limited access, particularly to high level residential care, dementia-specific care, community care services, and in particular parts of rural and remote Australia;
 - inequities in charges/fees between low and high level residential care and between residential and other forms of aged care services;
 - inconsistencies and inappropriate incentives in funding and delivery;
 - regulatory provisions which constrain service choices; and
 - concerns about financial sustainability.
 - Increases in demand due to an ageing population are likely to be manageable over the next two decades. Anticipated increases in costs, compounded by ageing, are likely to present more significant funding challenges, under current policy settings, in the third and fourth decades of this century.
 - In the short term, four areas in which the existing aged care system could be modified to improve equity, efficiency and sustainability are: pricing arrangements covering accommodation payments; mechanisms for adjusting the basic subsidy for residential care and special needs funding for smaller remote residential facilities; coordination and planning across programs, including the possibility of regional pooling; and choice in relation to extra service places.
 - Broader systemic changes will be needed to secure the system’s effective performance. Some of these changes would also enhance the system’s longer term sustainability. These changes include:
 - unbundling residential care costs (that is accommodation, living and personal care costs) and providing targeted public subsidies for the personal care component;
 - adopting an entitlement, rather than provider-based, funding model in association with a move to unbundle residential care costs; and
 - removing the current regulatory impediment to private health insurance funds offering voluntary private residential care insurance.

Conference/workshop proceedings

Managed competition in health care

Workshop proceedings, December 2002

In August 2002 the Commission convened a workshop on managed competition in health care, drawing together 15 leading analysts and practitioners to examine a model for reform in Australia proposed by Dr Richard Scotton. The Scotton model is designed to harness market incentives to improve the funding and delivery of health services. The proceedings were published to enable wider dissemination and discussion of the ideas that emerged from the workshop and to guide future research in this area.

Key points from the workshop proceedings were:

- ‘Managed competition’ seeks to use market incentives to increase economic efficiency, but within a framework which maintains equity and universal access for health care services.
- In essence, it involves the government funding — through a system of risk-adjusted payments — competing ‘budget holders’ to purchase health care services, on behalf of their enrollees, from competing providers.
- Dr Richard Scotton’s managed competition model for Australia is one of a number of similar proposals for addressing perceived weaknesses in health care systems across a number of countries.
- The introduction of managed competition would involve substantial changes to Australia’s health financing and service delivery arrangements. As such, it would represent a ‘big-bang’ reform.
- Among workshop participants, there was limited support for the implementation of the full Scotton model. The model is complex and presents a number of challenging implementation issues. These relate, for example, to the restructuring of the existing multiple program structure and the development of effective contractual arrangements between budget holders and service providers.
- Many judged that it would be preferable to give priority to related incremental reforms offering the prospect of clearer net gains to the community in the short to medium term.
- A number of proposals consistent with the Scotton model were identified as worthy of further investigation, including:

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- evaluating the merits of giving doctors, through the Divisions of General Practice, greater responsibility for purchasing medical services and pharmaceuticals for their patients; and
 - assessing the merits of giving regionally based, public non-competing budget holders the responsibility for purchasing a full range of health services for their residents.

Staff research papers

Note: The views expressed in staff research papers are those of the authors and do not necessarily reflect the views of the Productivity Commission.

Skill and Australia's productivity surge

Paula Barnes and Sharon Kennard, October 2002

This paper examined the changing demand for skills and the effect of increased skill on productivity growth. The principal finding of the study was that, whilst skills are important for long-term productivity growth, growth in skill contributed only slightly to the surge in Australia's productivity growth between 1993-94 and 1997-98.

Key points from the paper were:

- The demand for skilled workers in Australia increased faster than the demand for unskilled workers over the 1980s and 1990s.
 - Measured in terms of broad educational attainment levels, the supply of skilled workers relative to unskilled workers increased in line with changes in relative demand at the aggregate economy level.
 - Therefore there have been no major relative wage or relative unemployment pressures.
- Factors other than increased skill have mainly contributed to Australia's productivity surge from the mid-1990s.
 - The strongest growth in skill (measured in terms of educational attainment plus work experience) came in the late 1980s and early 1990s.
 - Growth in skill contributed 0.2 of a percentage point to the 0.7 per cent a year growth in multifactor productivity between 1988-89 and 1993-94.
 - But growth in skill contributed only around 0.05 of a percentage point to the 1.7 per cent a year growth in multifactor productivity from 1993-94 to 1997-98.

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- International comparisons also fail to support a link between growth in skills and Australia's 1990s productivity surge. Compared to other countries, Australia's growth in skills was low but growth in productivity was high. Again, factors other than growth in skills appear to provide the main explanation for the magnitude of productivity growth (including international differences) in the 1990s.
 - Nevertheless, education and skills clearly remain important for long-run growth and for meeting the changing pattern of demand. And, even in the context of the productivity surge, Australia's relatively high level of education may have contributed to the relatively rapid rate of uptake of information and communications technologies in the 1990s, which in turn made some contribution to the productivity acceleration.

Modelling possible impacts of GM crops on Australian trade

Susan Stone, Anna Matysek and Andrew Dolling, October 2002

This modelling study was motivated by calls within Parliament and the wider community for a better understanding of the implications of genetically modified (GM) agricultural produce. The paper examined the possible impacts of GM technology on Australia's output, exports and imports of non-wheat grains and oilseeds using various assumptions about productivity gains, consumer attitudes and regulatory costs in Australia and overseas. The principal modelling results were:

- Under all scenarios, GM technology in non-wheat grains and oilseeds was estimated to have little effect on Australia's overall trade position. This result stemmed from both the small share these chosen sectors have in Australia's overall trade, and the small share of GM technology prevailing in these sectors in Australia.
- Under the scenario involving GM-induced productivity gains, markets for GM crops expand for both Australia and its trading partners, while non-GM markets contract.
- When GM-specific regulation costs and consumer resistance were added to the modelling framework, the GM crop markets did not gain as much and non-GM markets did not decline as far. Output and exports in Australia's downstream commodity markets, such as meat, dairy and processed foods, declined as a result of these estimations, while imports increased. Downstream markets fared best in regions that produce significant amounts of GM crops and that experience no GM-specific regulatory costs.
- According to the modelling, if Australia continued to produce low levels of GM crops whereas most of its trading partners expanded their adoption of GM crops,

Australia could lose some opportunities to expand (or even maintain) its market shares over time (whether regulatory costs are imposed or not), both in its primary crop markets and downstream commodity markets.

The role of auctions in allocating public resources

Chris Chan, Patrick Laplagne and David Appels, February 2003

The paper was intended as a non-technical primer on auction theory, filling the knowledge gap between expert researchers and officials who might consider using auctions to allocate public resources. It complemented other Commission studies on market creation — such as its inquiry on radiocommunications and staff research on markets for ecosystem services — that looked at issues in establishing tradeable property rights.

The principal findings of the paper were:

- Governments in Australia and elsewhere are increasingly recognising the potential of auctions as a policy tool for allocating public resources.
- Well-designed auctions can promote efficient allocation of resources without requiring governments to have prior knowledge of resource values or costs. Compared with administrative allocations, auctions are more transparent and less dependent on officials' subjective judgement, and can yield greater revenues or cost savings for governments.
- Success of government auctions depends on having a thorough understanding of bidding behaviour and paying close attention to auction design. Simple auction forms can cope with a simple environment but may not apply generally.
- Auction theory provides a framework for developing practical design guidelines. Individuals competing for public resources often have the incentive and ability to misrepresent resource values or costs. Auction design is about devising bidding rules to address such incentive problems and their implications for revenue and allocative efficiency.
- Public funds for conservation activities can be allocated through an auction in which landholders compete on compensation, land areas conserved and site-specific conservation benefits. In this application, auction design involves the following issues:
 - how to realise synergies from conserving adjacent lands that belong to different landholders;
 - how to minimise disbursements; and
 - how to use information on conservation benefits in selecting bids.

-
- In auctioning rights to use radio-spectrum, bidders should be allowed to combine spectrum lots in the most efficient way. Synergies exist in the use of spectrum in Australia. This finding strengthens the case for package bidding in spectrum auctions.

Firm size and export performance: some empirical evidence

Owen Gabbitas and Paul Gretton, April 2003

This study was undertaken against a background of community debates in areas such as merger regulation and immigration policy, where some hold the view that to succeed internationally, Australian firms would typically first need to secure a large domestic sales base. This paper used firm-level data from the Australian Business Longitudinal Survey (1994-95 to 1997-98) to form some tentative observations about the links between firm size, domestic sales and export performance for a sample of Australian manufacturing firms. The principal findings of the paper were:

- On average, firm size and the magnitude of domestic sales were not found to be major influences on exporting by manufacturers once account was taken of other factors, although many significant exporters also happen to be larger firms.
- While confined to a sample of manufacturing firms, this study did not support the proposition that to succeed internationally a firm will typically need to first secure a large domestic-sales base.
- The main influences on export performance of Australian manufacturing firms are likely to lie with a range of ‘firm-specific’ factors. These potentially include the kind of activity, product design and quality, marketing expertise and the motivation of management.
- Further research would be needed to clarify the linkages between ‘size’, other firm characteristics and exporting.

Staff working papers

Note: The views expressed in staff working papers are those of the authors and do not necessarily reflect the views of the Productivity Commission. Staff Working Papers are not for quotation without the permission of the authors.

Supplier-induced demand for medical services

Ian Bickerdyke, Robert Dolamore, Ian Monday and Robb Preston, November 2002

The primary objective of this paper was to contribute to a better understanding of the competing viewpoints on supplier-induced demand (SID) for medical services through a balanced assessment of the existing theory and evidence, using an economic framework focusing on Australian general practitioners. The concept of SID, which has been the subject of considerable debate for many years, refers to the notion that doctors can manipulate their patients' demand for medical services to create additional demand for these services. It can arise from actions by doctors linked to self-interest or attempts to promote the well-being of their patients.

The key points from the paper were:

- While SID is commonly viewed negatively, with the associated judgement that it should be discouraged, some forms may yield positive outcomes.
- If demand inducement is pervasive, there could be a variety of economy-wide impacts. In particular, it could increase health expenditure without a commensurate improvement in health outcomes.
- A variety of market and institutional/regulatory influences can provide doctors with incentives or disincentives to engage in SID.
 - Substantial information asymmetries, the potential for an imperfect agency relationship and clinical uncertainty provide doctors with the capacity to engage in SID. However, these characteristics do not guarantee the presence of SID.
 - Systems for financing, organising and paying for medical services also influence doctor and patient behaviour. SID is more likely to prevail where consumers are free to choose their doctor, there is no contractual or employment relationship between doctors and third-party insurers, and doctors are remunerated on a fee-for-service basis.
- Empirical evidence on SID from Australia and overseas is inconclusive and incomplete. In practice, SID is difficult to identify because doctor behaviour and service patterns consistent with SID may also be consistent with appropriate medical treatment. Even so, on balance, the evidence suggests that SID is likely to be small relative to other influences on the provision of medical services.
- The many gaps in knowledge about SID suggest that a cautious approach is warranted in assessing proposals for government intervention to influence it.

The trade and investment effects of preferential trading arrangements — old and new evidence

Richard Adams, Philippa Dee, Jyothi Gali and Greg McGuire, May 2003

This technical study examined, both theoretically and empirically, the effects of the trade and non-trade provisions of preferential trading arrangements (PTAs) on the trade and foreign direct investments flows of member and non-member countries. It applied novel econometric techniques to explore the effects of some existing arrangements.

The key findings were:

- Empirical analysis suggests that of the 18 PTAs examined in detail, 12 have diverted more trade from non-members than they have created among members. Moreover, some of the apparently quite liberal PTAs have failed to create significant additional trade among members.
- The analysis also shows that foreign direct investment can respond significantly to the non-trade provisions of PTAs, resulting in net investment creation rather than investment diversion. However, the trade that may be generated from the new foreign direct investment may still be diverted in the ‘wrong’ direction in response to the trade provisions of PTAs.
- Thus the study provides support for the proposition that PTAs need not generate welfare gains for the members of the agreement.

Consultancy reports

Note: The views expressed in consultancy reports are those of the authors and do not necessarily reflect the views of the Productivity Commission.

Potential effects of selected taxation provisions on the environment

Robert Douglas, October 2002

To assist in clarifying the complex interactions between taxation arrangements and environmental management, the Commission asked Robert Douglas, a taxation specialist, to examine the potential environmental impacts (positive and/or negative) of selected tax arrangements. The report followed earlier Commission research on taxation arrangements and potential constraints on private conservation of biodiversity.

Key points from the consultancy report were:

-
- The design of the income tax and Goods and Services Tax regimes may influence private decisions to use land for conventional productive purposes compared to undertaking environmental management activities.
 - Some taxation arrangements may have potential impacts on the environment:
 - expenditure on certain environmental management activities is only deductible from income taxation if undertaken by a business, and this may discourage private environmental activities that are not conducted for profit;
 - the definition of ‘primary production’ generally excludes activities such as conservation of biodiversity. This may discourage primary producers from undertaking these activities if they think they are not eligible for primary producer-related tax deductions;
 - the definition of ‘Landcare’ is targeted at land degradation and generally excludes other activities, such as conservation of biodiversity. This may discourage primary producers and other natural resource-based businesses from undertaking such conservation activities as they are not eligible for ‘Landcare’ tax deductions; and
 - income taxation provisions for valuing the natural increase of livestock may encourage heavier stocking of land.
 - It is timely to explore these effects:
 - a broader-based assessment of current taxation arrangements would also need to consider net effects on taxation revenue, and the net environmental benefits from different policy responses; and
 - taxation-based measures can assist environmental management, but are difficult to target to those environmental management projects with public benefits.

While the report contributed to understanding how these taxes work, it made no recommendations about how they might be changed.

Table D.1 Speeches and presentations by the Chairman, Commissioners and staff, 2002-03

<i>Organisation/event</i>	<i>Topic</i>	<i>Date</i>
Gary Banks, Chairman:		
Independent Pricing and Regulatory Tribunal conference: Incentive Regulation at the Cross-Roads, Sydney	The 'baby and the bath water': avoiding efficiency mishaps in regulating monopoly infrastructure	July 2002
Federation of Automotive Products Manufacturers Convention, Surfers Paradise (with Philip Weickhardt)	The Commission's draft report on automotive assistance	July 2002
Centre of Independent Studies Consilium 2002, Coolum	Trade policy issues for Australia	Aug 2002
AFR/AusCID National Infrastructure Summit, Melbourne	Regulating Australia's infrastructure: looking forward	Aug 2002
Trade Sub-Committee of Joint Standing Committee on Foreign Affairs, Defence and Trade, public hearing on Scrutiny of the WTO, Canberra (with Philippa Dee)	Getting the most out of the WTO and the Doha Round	Aug 2002
28th Pacific Trade and Development Conference: Competition policy in the new millennium, Manila	State of competition policy and law in East Asia and the Pacific – Discussant	Sept 2002
Society of Modest Members, Canberra	Microeconomic reform: is it worth it?	Sept 2002
Senate Employment, Workplace Relations and Education References Committee hearing: inquiry on small business employment, Canberra (with Stephen Rimmer)	Regulation impact statement processes	Oct 2002
CEDA forum, Brisbane	Interstate bidding wars: calling a truce	Nov 2002
12 th Annual Conference of the National Association for Gambling Studies, Melbourne	The Productivity Commission's gambling inquiry: 3 years on	Nov 2002
Human Rights and Equal Opportunity Commission workshop, Sydney (with Robyn Sheen)	The Steering Committee's report on Indigenous Disadvantage	Nov 2002

House of Representatives Standing Committee on Science and Innovation hearing: inquiry into the commitment by business to R&D spending in Australia, Canberra (with Ralph Lattimore)	Business R&D policy issues	Dec 2002
Centre for Corporate Public Affairs, Politics and Public Policy Review, Canberra	Microeconomic reform: the Productivity Commission's agenda	Mar 2003
Small Business Coalition Annual Dinner, Canberra	Reducing the business costs of regulation	Mar 2003
Institute of Public Administration Australia Executive Conversations, Melbourne	Challenges in policy reform	May 2003
Allen Consulting Group Annual Retreat, Melbourne	The direction of economic policy analysis and the Commission's role and future work	May 2003
Minerals Council of Australia's Annual Industry Seminar, Canberra	'Minimum effective regulation' and the mining industry	June 2003
IIBE&L/CEDA Conference on New Horizons in Trade, Adelaide	Gaining from trade liberalisation: some reflections on Australia's experience	June 2003
COSBOA National Small Business Summit, Canberra	Small business regulation — can it be reformed?	June 2003
Commissioners:		
4th Australia-Korea Forum, Hobart (Tony Hinton)	Structural reform, trade liberalisation and economic growth	Jul 2002
Australian Institute of Food Science conference: Beyond commodities – the food revolution, Sydney (Neil Byron)	Creating markets for environmental services	Jul 2002
2002 Fenner Conference on the Environment, Canberra (Neil Byron)	Sustainable agriculture and natural resource management: what role for governments in an era of globalisation and environmental consciousness?	Jul 2002
National Employment Services Association Conference: the Job Network Review, Brisbane (Mike Woods)	The Commission's Job Network inquiry	Aug 2002

(Continued next page)

Table D.1 (continued)

<i>Organisation/event</i>	<i>Topic</i>	<i>Date</i>
Nature Foundation SA National Forum 2002: Nature Conservation on Private Lands, Adelaide (Neil Byron)	Removing disincentives for nature conservation on private lands	Aug 2002
PricewaterhouseCoopers Business Breakfast, Melbourne (Judith Sloan)	Industrial relations reform: what has been achieved?	Aug 2002
Centre for Public Policy Trade Policy Forum, Melbourne (David Robertson)	Is bilateral best?	Sept 2002
Health Reform Discussion Group forum on the Australian health care system: directions for reform, Melbourne (Helen Owens)	Health care financing – Discussant	Sept 2002
Tasmanian Treasury and Finance Senior Management Conference, Launceston (David Robertson)	Globalisation and government services	Sept 2002
Communications Research Forum, Canberra (Neil Byron)	Managing interference, spectrum licensing and new technologies	Oct 2002
Jobs Australia 2002 National Conference, Adelaide (Mike Woods)	The Commission's final report on the Job Network	Oct 2002
Divisions of General Practice Network Forum 2002, Brisbane (Helen Owens)	Building excellence in health care in a changing environment	Nov 2002
Australian Services Roundtable, Melbourne (Tony Hinton)	International negotiations on investment liberalisation	Dec 2002
DFAT Trade Policy Course, Canberra (David Robertson)	Trade policy begins at home	Dec 2002
Health Financing Workshop, Sydney (Helen Owens)	Impact of new wave pharmaceuticals and technologies on Australia's health care system	Dec 2002
National Europe Centre Trade Policy Workshop, Canberra (David Robertson)	Industrial tariffs: exploring negotiating options	Dec 2002
Australian Mines and Metals Association National Conference, Melbourne (Judith Sloan)	Employment relations in Australia	Feb 2003

Association of Independent Schools of Victoria, Melbourne (Helen Owens)	The Disability Discrimination Act: issues in education	Feb 2003
National Disability Advisory Committee Meeting, Canberra (Helen Owens)	Introduction to the Commission's Disability Discrimination Act inquiry	Mar 2003
Australian Broadcasting Authority Conference 2003, Canberra (Neil Byron)	Is broadcasting special? Charging for spectrum	May 2003
Catholic Hospital Association National Conference, Hobart (Helen Owens)	Implications of an ageing population on health services	June 2003
Victorian Farmers Federation Regional Forum, Bairnsdale (Neil Byron)	The Commission's inquiry on native vegetation regulation	June 2003
Department of the Parliamentary Library Vital Issues Seminar, Canberra (Neil Byron)	Can catchment controls help protect the Great Barrier Reef?	June 2003
Staff:		
Disability Studies and Research Institute forum on Education Standards under the Disability Discrimination Act, Sydney (Jennifer Bryant)	Commonwealth regulation impact statements	July 2002
ACCC Regulation and Competition Conference, Sydney (Dean Parham)	The productivity dividends from reform	July 2002
Australian Environment Business Network forum on NSW's Protection of the Environment Operations Act, Sydney (Greg Murtough)	Creating markets for ecosystem services	Aug 2002
Community Advisory Committee of the Murray–Darling Basin Ministerial Council Environmental Flows Workshop, Canberra (Chris Sayers)	International benchmarking study of property rights arrangements	Aug 2002

(Continued next page)

Table D.1 (continued)

<i>Organisation/event</i>	<i>Topic</i>	<i>Date</i>
AusBiotech 2002 Conference and Investment Forum, Melbourne (Stephen Rimmer)	Grey letter law — codes of ethical practice in biotechnology and quasi-regulation	Aug 2002
Trade Sub-Committee of Joint Standing Committee on Foreign Affairs, Defence and Trade, public hearing on Scrutiny of the WTO, Canberra (Philippa Dee)	Services negotiations	Aug 2003
International Association of Official Statisticians Conference on the New Economy, London (Dean Parham)	Productivity gains from policy reforms, ICTs and structural transformation	Aug 2002
Insolvency and Employee Entitlements Workshop, Sydney (Ralph Lattimore)	Insolvency and employee entitlements: a policy framework	Aug 2002
The Australian Rangeland Society 12 th Biennial Conference, Kalgoorlie (Phil Hughes)	Non-pastoral land uses in the Australian rangelands	Sept 2002
Joint Committee of Public Accounts and Audit, Review of Australia's Quarantine Function hearing, Melbourne (Robert Kerr & Garth Pitkethly)	Commission research on the role of risk and cost-benefit analysis in determining quarantine measures and its modelling on the impacts of an outbreak of foot and mouth disease in Australia	Sept 2002
Great Barrier Reef Marine Park Authority, Townsville (Greg Murtough)	The Commission's Great Barrier Reef study	Sept 2002
Fitzroy Basin Association, Rockhampton (Greg Murtough)	The Commission's Great Barrier Reef study	Sept 2002
Victorian Department of Treasury and Finance Forum on The Triple Bottom Line – New Policy Approaches?, Melbourne (Richard Clarke)	Handling economic reform	Sept 2002
Centre for Strategic Studies Forum on Pharmaceutical Industry Policy, Melbourne (Ralph Lattimore)	PIIP and the PBS: links between pharmaceutical industry policy and drug buying policies	Sept 2002
Environment Institute of Australia & New Zealand seminar on private investment in biodiversity, Melbourne (Phil Hughes)	The role of the private sector with conservation of biodiversity	Sept 2002

Small Enterprise Association of Australia and New Zealand 2002 Conference, Adelaide (Ralph Lattimore)	Designing good policy for small business in a global economic environment	Sept 2002
31 st Australian Conference of Economists 2002, Adelaide (Jyothi Gali)	Regional trading arrangements — assessing the third wave	Oct 2002
31 st Australian Conference of Economists 2002, Adelaide (Patrick Laplagne)	Synergies in spectrum auctions — the Australian case	Oct 2002
31 st Australian Conference of Economists 2002, Adelaide (Jonathan Pincus)	Joint paper with Prof Geoffrey Brennan on fiscal equalisation	Oct 2002
31 st Australian Conference of Economists 2002, Adelaide (Dean Parham)	Microeconomic reforms and the revival in Australia's growth in productivity and living standards	Oct 2002
31 st Australian Conference of Economists 2002, Adelaide (Duc Nguyen-Hong)	Trade in infrastructure services and economic efficiency: Australia's experience	Oct 2002
31 st Australian Conference of Economists 2002, Adelaide (George Verikios)	Changes in infrastructure services and their effect on household income: 1990-2000	Oct 2002
Communications Research Forum, Canberra (Dean Parham)	Australia: getting the most from ICTs	Oct 2002
ANU/Productivity Commission Workshop on Domestic Regulation of Services, Canberra (Lisa Gropp)	Economic regulation of airport services	Oct 2002
ANU/Productivity Commission Workshop on Domestic Regulation of Services, Canberra (Ralph Lattimore)	Access regimes: design and implementation in telecommunications	Oct 2002
ANU/Productivity Commission Workshop on Domestic Regulation of Services, Canberra (Owen Gabbitas)	Domestic regulation of services: electricity generation	Oct 2002
Zelman Cowen Centre for Continuing Legal Education and the Judicial Administration and Justice Studies Institute Seminar Series, Melbourne (Robyn Sheen)	Judge, commercial manager, social worker	Oct 2002

(Continued next page)

Table D.1 (continued)

<i>Organisation/event</i>	<i>Topic</i>	<i>Date</i>
Regulatory Management and Reform Working Party of the Public Management Committee, OECD, Paris (Steven Argy)	Review of regulatory reform policies in Finland	Oct 2002
47 th Annual Conference of the Australian Agricultural and Resource Economics Society, Fremantle (Michael Schuele)	Land use in the Australian rangelands	Feb 2003
ABS workshop for officials from the National Economic and Social Development Board of Thailand, Canberra (Paul Gretton)	Use of input-output tables at the Productivity Commission	Feb 2003
Victorian Commercial Teachers' Association Professional Development Program, Melbourne (John Salerian)	Microeconomic reforms and the revival in Australia's growth in productivity and living standards	Mar 2003
Ag-Biotech Forum 2003, Melbourne (Susan Stone)	Modelling possible impacts of GM crops on Australian trade	May 2003
NZ Ministry of Economic Development ICTs and Innovation Seminar, Wellington (Dean Parham)	The role of ICTs in productivity growth: lessons from Australia's experience	May 2003
NZ Treasury Productivity Seminar, Wellington (Dean Parham)	Australia's productivity surge: a sign of policy success?	May 2003
National Graduate School of Management Seminar on Innovation and Transformation in the Australian Economy, Canberra (Dean Parham)	Is structural change in the Australian economy driving innovation?	May 2003
National Graduate School of Management Seminar on Innovation and Transformation in the Australian Economy, Canberra (Paul Gretton)	Firm size and export performance: some empirical evidence	May 2003
APEC Structural Reform seminar, Khon Kaen, Thailand (Stephen Rimmer)	Regulatory reform systems and processes in Australia	May 2003
APEC Senior Officials Committee on Trade and Investment, Khon Kaen, Thailand (Stephen Rimmer)	The role of Australia's Productivity Commission	May 2003
Graduate Program in Public Policy & Centre for Economic Policy	Innovation, productivity and living standards: why is Australia	June 2003

Research Public Policy Seminar Series, Canberra (Dean Parham)	doing so well?	
OECD Trade Directorate Seminar, Paris (Patrick Jomini)	A short story of services trade liberalisation	June 2003
OECD Trade Directorate meeting on Developing Governmental Analytical Capacities in the Trade Policy Area, Moscow (Patrick Jomini)	Trade policy analysis in the Australia Productivity Commission	June 2003
Queensland Gambling Help Services Annual Network Forum, Brisbane (Monika Binder)	Developments since the Productivity Commission's gambling inquiry	June 2003
National Graduate School of Management Seminar on Information and Communication Technologies and Firm Performance, Canberra (Paul Gretton & Jyothi Gali)	Uptake and impacts of ICTs in the Australian economy: evidence from aggregate, sectoral and firm level analysis	June 2003
OECD Expert Meeting on Regulatory Cooperation Between Levels of Government, Paris (Sue Holmes)	Managing regulation across levels of government	June 2003

**Table D.2 Visits from international organisations and foreign delegations
2002-03**

<i>Organisation/delegation</i>	<i>Purpose of visit to the Commission</i>	<i>Date and location</i>
Swedish delegation	Discuss ICT statistics in productivity analysis and the Commission's role and activities	July 2002 Canberra
NZ Commerce Commission	Discuss telecommunications regulatory issues	July 2002 Canberra
US Department of Agriculture analysts	Discuss the Commission's role and its recent inquiry report on the citrus industry	Aug 2002 Melbourne
Department of Economics, Seijo University, Japan	Discuss government service provision reporting and inter-governmental financial regulations	Aug 2002 Canberra
NZ Ministry of Economic Development	Discuss intellectual property and competition policy issues	Sept 2002 Canberra
Delegation from China	Briefing on the Commission's role and activities	Aug/Sept 2002 Melbourne
OECD Economic Development Review Committee	Discuss microeconomic reform issues	Sept 2002 Canberra
National Productivity and Competitiveness Council of Mauritius	Briefing on the Commission's role and activities	Oct 2002 Canberra
State Development Planning Commission of China	Briefing on the Commission's role and activities	Oct 2002
British Government policy advisers	Briefing on Commission's role and activities	Oct 2002 Canberra
State Commission Office for Public Sector Reform of China	Briefing on Commission's role and activities and the Review of Government Services	Oct 2002 Melbourne
OECD health policy analysts	Discuss the OECD's private health insurance industry project	Nov 2002 Canberra
DFAT sponsored visit by journalists from South Africa, Kenya, Egypt & India	Discuss TCF assistance and WTO issues	Nov 2002 Canberra
State Council of the People's Republic of China Development Research Centre	Discuss the Commission's role and activities, competition reform in economic infrastructure and Australia's automotive industry	Nov 2002 Melbourne
Egyptian Trade Officials	Discuss the Commission's role and activities and the economic benefits of trade liberalisation and competition policy reforms	Dec 2002 Melbourne

<i>Organisation/delegation</i>	<i>Purpose of visit to the Commission</i>	<i>Date and location</i>
Dutch Independent Post & Telecommunications Authority (OPTA)	Discuss the Commission's role and activities and the roles of general competition and sector-specific competition regulation	Feb 2003 Canberra
Delegation from Thailand	Discuss tariff issues and the role of the Commission	Feb 2003 Canberra
Prof Vittorio Corbo, Pontifica Universidad Catolica de Chile	Discuss economic policy issues in Australia and Chile	Mar 2003 Melbourne
Research Office on Audit and Oversight of Administration, National Diet of Japan	Briefing on the Commission's role and activities	Mar 2003 Canberra
Delegation from India	Discuss infrastructure issues	April 2003 Melbourne
NZ Ministry of Economic Development	Discuss trans-Tasman regulatory and mutual recognition issues	May 2003 Canberra
2003 IMF Mission	Discuss recent Commission inquiry and research work	June 2003 Melbourne
Chief Democratic Trade Counsel for the Committee on Ways and Means, US House of Representatives	Discuss trade policy issues and the Commission's role	June 2003 Melbourne

E Publications

This appendix provides a list of Commission reports, papers and submissions to other review bodies completed in 2002-03. It also lists staff research papers, staff working papers and consultancy reports, the views of which do not necessarily reflect those of the Commission. The Commission has a comprehensive website providing public access to nearly all its publications and those of its predecessors. The availability of printed copies is detailed on the Commission's website.

Government-commissioned projects

Inquiries and commissioned studies — draft reports, position papers and draft research reports

Draft reports and position papers can be obtained from the Commission during the course of an inquiry and from the Commission's website.

- University Resourcing: Australia in an International Context, Draft Research Report (September 2002)
- Industries in the Great Barrier Reef Catchment and Measures to Address Declining Water Quality, Draft Research Report (November 2002)
- Evaluation of the Pharmaceutical Industry Investment Program, Draft Research Report (December 2002)
- Review of TCF Assistance, Position Paper (April 2003)
- Evaluation of the Mutual Recognition Schemes, Draft Research Report (June 2003)

Inquiries — final reports

Copies of final inquiry reports can be obtained from Pirion/J.S. McMillan upon release by the Government and from the Commission's website thereafter.

-
- *Review of Section 2D of the Trade Practices Act: Local Government Exemptions*, Report no. 23 (14 August 2002)
 - *Economic Regulation of Harbour Towage and Related Services*, Inquiry Report no. 24 (20 August 2002)
 - *Review of Automotive Assistance*, Inquiry Report no. 25 (30 August 2002)

Other commissioned projects

Copies of final research reports can be obtained from Pirion/J.S. McMillan upon release by the Government and from the Commission's website thereafter.

- *Removing Tariffs on Goods Originating from Least Developed Countries*, Research Report (October 2002)
- *Public Liability Claims Management*, Research Report (December 2002)
- *University Resourcing: Australia in an International Context*, Research Report (December 2002)
- *Evaluation of the Pharmaceutical Industry Investment Program*, Research Report (January 2003)
- *Industries, Land Use and Water Quality in the Great Barrier Reef Catchment*, Research Report (February 2003)
- *General Practice Administrative and Compliance Costs*, Research Report (March 2003)

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 in hard copy from Pirion/J.S. McMillan and from the Commission's website. Publications marked with an asterisk (*) and many previous Secretariat reports are also available on compact disk.

- *Report on Government Services 2003*, Volume 1: Education, Justice, Emergency Management* (January 2003)
- *Report on Government Services 2003*, Volume 2: Health, Community Services, Housing* (January 2003)

-
- *Efficiency Measures for Child Protection and Support Pathways, Reforms in Government Service Provision* (May 2003)
 - *Report on Government Services 2003, Indigenous Compendium* (May 2003)
 - *Draft Framework for Reporting on Indigenous Disadvantage: Report on Consultations* (May 2003)

Supporting research and annual reporting

Copies of most reports are available from Pirion/J.S. McMillan and from the Commission's website. Requests for copies of submissions made by the Commission to other review bodies should be directed to the Commission. Staff Working Papers are available only from the Commission's website.

Annual reports

- *Annual Report 2001-02* (October 2002)
- *Regulation and its Review 2001-02* (November 2002)
- *Trade & Assistance Review 2001-02* (December 2002)

Commission research papers

- *Pastoral Leases and Non-Pastoral Land Use* (July 2002)

Published speeches

- *The Productivity Commission's Gambling Inquiry: 3 Years On*, Gary Banks (December 2002)

Submissions to other review bodies

- *Productivity Commission Submission to the Review of the Trade Practices Act 1974* (July 2002)
- *Productivity Commission Submission to the Review of Pricing Arrangements in Residential Aged Care* (June 2003)

Conference/workshop proceedings

- *Managed Competition in Health Care*, Conference proceedings (December 2002)

Staff research papers

- *Skill and Australia's Productivity Surge*, Paula Barnes and Sharon Kennard (October 2002)
- *Modelling Possible Impacts of GM Crops on Australian Trade*, Susan Stone, Anna Matysek and Andrew Dolling (October 2002)
- *The Role of Auctions in Allocating Public Resources*, Chris Chan, Patrick Laplagne and David Appels (February 2003)
- *Firm Size and Export Performance: Some Empirical Evidence*, Owen Gabbitas and Paul Gretton (April 2003)

Staff working papers

- *Supplier-Induced Demand for Medical Services*, Ian Bickerdyke, Robert Dolamore, Ian Monday and Robb Preston (November 2002)
- *The Trade and Investment Effects of Preferential Trading Arrangements — Old and New Evidence*, Richard Adams, Philippa Dee, Jyothi Gali and Greg McGuire (May 2003)

Consultancy reports

- *Potential Effects of Primary Producer Taxation Provisions on the Environment*, Robert Douglas (October 2002)

Other publications

Copies of these publications are available from the Commission and its website.

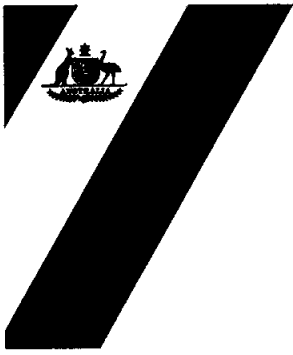
- *Productivity Commission Research Program 2002-2003* (August 2002)
- *pc update*, a quarterly newsletter on Productivity Commission activities, covers key events on the work program, major activities, publications released, website and other news (Issue 18, September/October 2002; Issue 19, December 2002; Issue 20, March/April 2003; Issue 21, June/July 2003)



F Financial statements

This appendix presents the audited financial statements for the Productivity Commission for 2002-03. The statements have been prepared on an accrual accounting basis.

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INDEPENDENT AUDIT REPORT

To the Treasurer

Scope

I have audited the financial statements of Productivity Commission for the year ended 30 June 2003. The financial statements comprise:

- Statement by the Chairman and Chief Finance Officer;
- Statements of Financial Performance, Financial Position and Cash Flows;
- Schedules of Contingencies and Commitments; and
- Notes to and forming part of the Financial Statements.

The Productivity Commission's Chairman is responsible for the preparation and presentation of the financial statements and the information they contain. I have conducted an independent audit of the financial statements in order to express an opinion on them to you.

The audit has been conducted in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards, to provide reasonable assurance as to whether the financial statements are free of material misstatement. Audit procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial statements and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion as to whether, in all material respects, the financial statements are presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements in Australia and statutory requirements so as to present a view which is consistent with my understanding of the Commission's financial position, its financial performance and its cash flows.

The audit opinion expressed in this report has been formed on the above basis.

Audit Opinion

In my opinion the financial statements:

- (i) have been prepared in accordance with Finance Minister's Orders made under the *Financial Management and Accountability Act 1997*; and
- (ii) give a true and fair view, in accordance with applicable Accounting Standards and other mandatory professional reporting requirements in Australia and the Finance Minister's Orders, of the financial position of Productivity Commission as at 30 June 2003, and its financial performance and cash flows for the year then ended.

Australian National Audit Office



Allan M. Thompson
Executive Director

Delegate of the Auditor-General
Canberra
4 September 2003

Statement by the Chairman and Chief Finance Officer

Certification

In our opinion, the attached financial statements for the year ended 30 June 2003 give a true and fair view of the matters required by the Finance Minister's Orders made under the *Financial Management and Accountability Act 1997*.

Gary Banks
Chairman

28 August 2003

Harry Tys
Chief Finance Officer

28 August 2003

Productivity Commission

STATEMENT OF FINANCIAL PERFORMANCE

for the year ended 30 June 2003

	Note	2002-03 \$'000	2001-02 \$'000
Revenues from ordinary activities			
Revenues from government	4A	23,014	22,605
Interest	4B	131	197
Sales of goods and services	4B	199	237
Revenue from sale of assets	4C	9	24
Resources received free of charge	4A	<u>34</u>	<u>34</u>
Total revenues from ordinary activities		<u>23,387</u>	<u>23,097</u>
Expenses from ordinary activities			
Employees	5A	18,200	17,441
Suppliers	5B	5,203	5,199
Depreciation and amortisation	5C	965	937
Write-down of assets	5D	–	9
Value of assets sold	4C	<u>28</u>	<u>59</u>
Total expenses from ordinary activities		<u>24,396</u>	<u>23,645</u>
Net operating surplus (deficit) from ordinary activities		<u>(1,009)</u>	<u>(548)</u>
Net surplus (deficit)		<u>(1,009)</u>	<u>(548)</u>
Total changes in equity other than resulting from transactions with owners as owners	9	<u>(1,009)</u>	<u>(548)</u>

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

Productivity Commission
STATEMENT OF FINANCIAL POSITION

as at 30 June 2003

	Note	2002-03 \$'000	2001-02 \$'000
ASSETS			
Financial assets			
Cash		534	64
Investments – Term Deposit		–	4,100
Receivables	6	<u>3,476</u>	<u>107</u>
Total financial assets		<u>4,010</u>	<u>4,271</u>
Non-financial assets			
Infrastructure, plant and equipment	7	1,340	1,978
Intangibles	7	36	120
Prepayments		<u>277</u>	<u>357</u>
Total non-financial assets		<u>1,653</u>	<u>2,455</u>
Total Assets		<u>5,663</u>	<u>6,726</u>
LIABILITIES			
Provisions			
Employees	8A	<u>6,574</u>	<u>6,368</u>
Total provisions		<u>6,574</u>	<u>6,368</u>
Payables			
Suppliers	8B	302	415
Other		<u>10</u>	<u>133</u>
Total payables		<u>312</u>	<u>548</u>
Total Liabilities		<u>6,886</u>	<u>6,916</u>
EQUITY			
Parent entity interest			
Contributed equity	9	1,686	1,686
Reserves	9	96	96
(Accumulated deficits)	9	<u>(3,005)</u>	<u>(1,972)</u>
Total parent entity interest		<u>(1,223)</u>	<u>(190)</u>
Total Equity		<u>(1,223)</u>	<u>(190)</u>
Current liabilities		3,747	3,796
Non-current liabilities		3,139	3,120
Current assets		4,287	4,628
Non-current assets		1,376	2,098

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

Productivity Commission
STATEMENT OF CASH FLOWS
for the year ended 30 June 2003

	Note	2002-03 \$'000	2001-02 \$'000
OPERATING ACTIVITIES			
Cash received			
Appropriations		23,014	22,605
Interest		135	196
Sale of goods and services		199	237
GST refunds		<u>443</u>	<u>452</u>
Total cash received		<u>23,791</u>	<u>23,490</u>
Cash used			
Employees		18,093	17,227
Suppliers		5,172	5,001
Cash transferred to the OPA		3,400	–
Other		<u>470</u>	<u>486</u>
Total cash used		<u>27,135</u>	<u>22,714</u>
Net cash from (used by) operating activities	10	<u>(3,344)</u>	<u>776</u>
INVESTING ACTIVITIES			
Cash received			
Proceeds from investments		4,100	–
Proceeds from property, plant and equipment		<u>9</u>	<u>24</u>
Total cash received		<u>4,109</u>	<u>24</u>
Cash Used			
Investments		–	300
Purchase of property, plant and equipment		<u>271</u>	<u>467</u>
Total cash used		<u>271</u>	<u>767</u>
Net cash from (used by) investing activities		<u>3,838</u>	<u>(743)</u>
FINANCING ACTIVITIES			
Cash used			
Capital use charge paid		–	49
Other		<u>24</u>	<u>–</u>
Total cash used		<u>(24)</u>	<u>(49)</u>
Net cash from (used by) financing activities		<u>(24)</u>	<u>(49)</u>
Net increase (decrease) in cash held		470	(16)
Cash at the beginning of the reporting period		<u>64</u>	<u>80</u>
Cash at the end of the reporting period	10	<u>534</u>	<u>64</u>

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

Productivity Commission
SCHEDULE OF COMMITMENTS

as at 30 June 2003

	Note	2002-03 \$'000	2001-02 \$'000
COMMITMENTS			
Operating leases		4,814	5,255
Other commitments		<u>328</u>	<u>642</u>
Total commitments		<u>5,142</u>	<u>5,897</u>
BY MATURITY			
All commitments			
One year or less		2,499	2,069
From one to five years		2,643	3,828
Over five years		<u>—</u>	<u>—</u>
Total commitments		<u>5,142</u>	<u>5,897</u>
Operating Lease Commitments			
One year or less		2,293	1,685
From one to five years		2,521	3,570
Over five years		<u>—</u>	<u>—</u>
Total operating lease commitments		<u>4,814</u>	<u>5,255</u>

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

Productivity Commission
SCHEDULE OF CONTINGENCIES

as at 30 June 2003

	Note	2002-03 \$'000	2001-02 \$'000
CONTINGENT LOSSES		—	—
CONTINGENT GAINS		—	—
Net contingencies		—	—

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

Productivity Commission

Notes to and forming part of the Financial Statements for the Year Ended 30 June 2003

Note	Description
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

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* and are a general purpose financial report.

The statements have been prepared in accordance with:

- Finance Minister's Orders for the preparation of Financial Statements in relation to financial years ending on or after 30 June 2003;
- Australian Accounting Standards and Accounting Interpretations issued by the Australian Accounting Standards Board;
- other authoritative pronouncements of the Board; and
- Consensus Views of the Urgent Issues Group.

The statements have also been prepared having regard to the Finance Briefs 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.

The Commission is part of the legal entity that is the Commonwealth Government, which is ultimately responsible for all the debts of the agency. The existence of total liabilities in excess of total assets of the Commission as reported in the Statement of Financial Position has no bearing on whether the Commission's debts will be met.

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

The accounting policies used in the preparation of these financial statements are consistent with those used in 2001-02 except in respect of:

- the accounting for output appropriations (refer to Note 2.4(a));
- recognition of equity injections (refer to Note 2.5);
- measurement of certain employee benefits at nominal amounts (refer to Note 2.6);
- the initial revaluation of property plant and equipment on a fair value basis (refer to Note 2.11); and
- the imposition of an impairment test for non-current assets carried at cost (refer to Note 2.11).

Where necessary the presentation of the financial statements has been changed to facilitate comparison 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 2002-2003. 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 Revenue

The revenues described in this Note are revenues relating to the outputs of the Commission.

(a) Revenues from Government - Appropriations

The Commission's outputs appropriations for the year are recognised as revenue, except for certain amounts which relate to activities that are reciprocal in nature, in which case revenue is recognised only when it has been earned. The Commission had no reciprocal arrangements in place in 2002-03.

(b) *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. Revenue from disposal of non-current assets is recognised when control of the asset has passed to the buyer.

2.5 Transactions with the Government as Owner

Equity injections

From 1 July 2002, the Finance Minister's Orders (FMOs) require that the amounts of appropriations designated as 'equity injections' are recognised directly in Contributed Equity as at 1 July or later, dependent on the date of effect of the appropriation.

This is a change of accounting policy from 2001-02 to the extent that any part of an equity injection that was dependent on specific future events occurring was not recognised until the appropriation was drawn down.

The change in policy has no financial effect in 2002-03 as the Commission did not receive any equity injections in the year.

Capital Use Charge

A capital use charge of 11% (2001-02: 11%) is imposed by the Government on the departmental net assets of the Commission at year end. The net assets figure is adjusted to take account of asset gifts and revaluation increments during the financial year. The charge is accounted for as a dividend to Government. As the Commission had a negative net equity balance at 30 June 2003, no capital use charge applied.

In accordance with the recommendations of the Budget Estimates and Framework Review conducted by the Department of Finance and Administration, the Government has decided that the charge will not operate after 30 June 2003.

2.6 Employee Benefits

Liabilities for services rendered by employees are recognised at the reporting date to the extent that they have not been settled.

Liabilities for wages and salaries (including non-monetary benefits), annual leave and sick leave, are measured at their nominal amounts. Other employee benefits expected to be settled within 12 months of the reporting date are also measured at their nominal amounts.

The nominal amount is calculated with regard to the rates expected to be paid on settlement of the liability. This is a change in accounting policy from last year resulting from an initial application of a new Accounting Standard AASB 1028 from 1 July 2002. As the Commission's certified agreement raises pay rates prior to 30 June each year, there is no financial effect of this change.

Liabilities for all other employee benefits are measured as the present value of the estimated future cash outflows to be made in respect of services provided by employees up to the reporting date.

Leave

The liability for employee benefits includes provision for annual leave and long service leave. No provision has been made for sick leave as all sick leave is non-vesting and the average sick leave in future years by employees of the Commission is estimated to be less than the annual entitlement for sick leave.

The leave liabilities are calculated on the basis of employees' remuneration, including the Commission's employer superannuation contribution rates to the extent that the leave is likely to be taken during service rather than paid out on termination. The estimate of the present value of the liability takes into account attrition rates and pay increases through inflation.

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 2003.

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 \$2,239,939 (2001-02: \$2,115,442) in relation to these schemes have been expenses in these financial statements.

No liability other than that disclosed in Note 8A 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 means 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 any associated liabilities.

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

Leasehold improvements, plant and equipment are carried at valuation or cost. Revaluations undertaken up to 30 June 2002 were done on a deprival basis; although no revaluations since that date have been performed, they will in future be on a fair value basis. There is no current impact of this change in accounting policy, which is required by Australian Accounting Standard AASB 1041 *Revaluation of Non-Current Assets*.

It is anticipated that all assets of this nature will be subject to revaluation as part of the process of renegotiating property leases in the near future.

Recoverable amount test

From 1 July 2002, the Commission is no longer required to apply the recoverable amount test in Australian Accounting Standard AAS 10 *Recoverable Amount of Non-Current Assets* as the primary purpose of its infrastructure, plant and equipment assets is not the generation of net cash inflows. Although no revaluations have been conducted during the year, the Commission has assessed the carrying amounts of assets to be satisfied that they remain appropriate and there is no indication of impairment. No such assets have been written down to recoverable amount per AAS 10. Accordingly, the change in policy in respect of recoverable amount has had no financial effect.

Intangibles

The Commission's intangibles comprise acquired software for internal use, which is carried at cost. As indicated above, the recoverable amount test is no longer required to be applied. However, the asset has been assessed for indications of impairment. The carrying amount of impaired assets must be written down to the higher of its net market selling price or depreciated replacement cost. Software has been assessed and found not to have been impaired.

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 rates (useful lives) and methods are reviewed at each reporting date and necessary adjustments are recognised in the current, or current and future reporting periods, as appropriate. Residual values are re-estimated for a change in prices only when assets are revalued.

Depreciation and amortisation rates applying to each class of depreciable asset are based on the following useful lives:

	2002-2003	2001-2002
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 7 Table B.

2.12 Taxation

The Commission is exempt from all forms of taxation except fringe benefits tax and the goods and services tax.

2.13 Insurance

The Commission has insured for risks through the Government's insurable risk managed fund, Comcover. Workers compensation is insured through Comcare Australia.

2.14 Comparative Figures

Comparative figures have been adjusted to conform to changes in presentation in these financial statements where required.

2.15 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

	2002-03 (\$'000)	2001-02 (\$'000)
Appropriations for outputs	23,014	22,605
Resources received free of charge – Auditor-General	<u>34</u>	<u>34</u>
Total	<u>23,048</u>	<u>22,639</u>

The Auditor-General provides financial statement audit services free of charge to the Commission. The fair value of the services was \$34,000 (2001-02: \$34,000). 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.

Note 4B – Sales of goods and services / Other revenue

	2002-03 (\$'000)	2001-02 (\$'000)
Sales of goods and services		
- Government	11	16
- Non - Government	188	221
Interest on investments	<u>131</u>	<u>197</u>
Total	<u>330</u>	<u>434</u>

Note 4C – Net gains (losses) from sales of assets

	2002-03	2001-02
	(\$'000)	(\$'000)
Non-financial assets		
Infrastructure, plant and equipment		
Proceeds from sales	9	24
Net book value at sale	<u>28</u>	<u>59</u>
Net loss on disposal	<u>(19)</u>	<u>(35)</u>

Note 5 Operating Expenses

Note 5A – Employee expenses

	2002-03	2001-02
	(\$'000)	(\$'000)
Remuneration (for services provided)	17,705	17,069
Separation and redundancy	<u>495</u>	<u>372</u>
Total	<u>18,200</u>	<u>17,441</u>

Note 5B – Suppliers expenses

	2002-03	2001-02
	(\$'000)	(\$'000)
Supply of goods and services	3,598	3,643
Operating lease rentals	<u>1,605</u>	<u>1,556</u>
Total	<u>5,203</u>	<u>5,199</u>

Note 5C – Depreciation and amortisation

	2002-03	2001-02
	(\$'000)	(\$'000)
Depreciation and amortisation of infrastructure, plant & equipment	870	838
Amortisation of intangibles	<u>95</u>	<u>99</u>
Total	<u>965</u>	<u>937</u>

Note 5D – Write-off of assets

	2002-03 (\$'000)	2001-02 (\$'000)
Non-financial assets		
Plant & equipment – write-off on disposal	—	9
Total	—	9

Note 6 Financial Assets

Receivables

	2002-03 (\$'000)	2001-02 (\$'000)
Cash transferred to the Official Public Account	3,400	—
Goods and services	3	40
GST receivable	73	67
Less: Provision for doubtful debts	—	—
Total	<u>3,476</u>	<u>107</u>
Receivables (gross) which are overdue are aged as follows:		
Not overdue	3,476	107
Overdue by:		
Less than 30 days	—	—
30 to 60 days	—	—
60 to 90 days	—	—
	<u>3,476</u>	<u>107</u>

In accordance with the outcome of the Budget Estimates and Framework Review conducted by the Department of Finance and Administration, the Commission was required to return cash, above the agreed working funds level, to the Official Public Account. The Commission retains its right to later access this cash and it is treated as a receivable in the Commission's accounts.

Note 7 Non-financial Assets

Infrastructure, Plant and Equipment, and Intangibles

Table A Summary of fixed assets

	2002-03	2001-02
	(\$'000)	(\$'000)
Leasehold improvements		
Leasehold at cost	687	678
Accumulated amortisation	<u>410</u>	<u>251</u>
	<u>277</u>	<u>427</u>
Leasehold improvements – at 1999-2002 valuation	3,199	3,198
Accumulated amortisation	<u>2,910</u>	<u>2,627</u>
	<u>289</u>	<u>571</u>
Total Leasehold improvements	<u>566</u>	<u>998</u>
Plant and equipment		
Plant and equipment at cost	1,795	1,670
Accumulated depreciation	<u>1,064</u>	<u>784</u>
	<u>731</u>	<u>886</u>
Plant and equipment – at 1998-2001 valuation	782	799
Accumulated depreciation	<u>739</u>	<u>705</u>
	<u>43</u>	<u>94</u>
Total Plant and equipment	<u>774</u>	<u>980</u>
Total Infrastructure, plant and equipment	<u>1,340</u>	<u>1,978</u>
Intangibles		
Computer software at cost	538	528
Accumulated amortisation	<u>502</u>	<u>408</u>
Total Intangibles	<u>36</u>	<u>120</u>
Total Infrastructure, plant and equipment, and intangibles	<u>1,376</u>	<u>2,098</u>

Table B Analysis of property, plant and equipment, and intangibles.
Movement summary 2002-2003 for fixed assets irrespective of valuation

Item	Leasehold improvements (\$'000)	Plant and equipment (\$'000)	Total infrastructure, plant and equipment (\$'000)	Intangibles (\$'000)	Total (\$'000)
Gross value					
As at 1 July 2002	3,876	2,469	6,345	528	6,873
Additions	10	250	260	11	271
Disposals	—	(142)	(142)	—	(142)
Write-offs	—	—	—	—	—
As at 30 June 2003	<u>3,886</u>	<u>2,577</u>	<u>6,463</u>	<u>539</u>	<u>7,002</u>
Accumulated depreciation/amortisation					
As at 1 July 2002	2,878	1,489	4,367	408	4,775
Charge for additions	—	34	34	1	35
Charge for assets held 1 July 2002	442	394	836	94	930
Disposals	—	(114)	(114)	—	(114)
Write-offs	—	—	—	—	—
As at 30 June 2003	<u>3,320</u>	<u>1,803</u>	<u>5,123</u>	<u>503</u>	<u>5,626</u>
Net book value as at 30 June 2003	<u>566</u>	<u>774</u>	<u>1,340</u>	<u>36</u>	<u>1,376</u>
Net book value as at 1 July 2002	998	980	1,978	120	2,098

Leasehold improvements were revalued as at 30 June 1999 in accordance with the 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 of assets that would be replaced.

Table C Summary of valuation adjustments as at 30 June 2003.

	2002-03 (\$'000)	2001-02 (\$'000)
Valuation		
Cost adjustment	—	—
Depreciation adjustment	—	—
Net increment (decrement) on revaluation	—	—

Note 8 Provisions and Payables

Note 8A – Employee provisions

	2002-03	2001-02
	(\$'000)	(\$'000)
Salaries and wages	612	401
Annual leave	2,254	2,290
Long service leave	3,639	3,619
Superannuation	69	58
Total	<u>6,574</u>	<u>6,368</u>
Current	3,435	3,248
Non-Current	3,139	3,120

Note 8B – Suppliers

	2002-03	2001-02
	(\$'000)	(\$'000)
Trade creditors	<u>302</u>	<u>415</u>
	<u>302</u>	<u>415</u>

Note 9 Equity

	Accumulated Results	Asset Revaluation Reserve	Capital	Total Equity	
	2002-03	2002-03	2002-03	2002-03	2001-02
	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Balance 1 July	(1,972)	96	1,686	(190)	358
Net surplus (deficit)	(1,009)	–	–	(1,009)	(548)
Interest clawback	<u>(24)</u>	<u>–</u>	<u>–</u>	<u>(24)</u>	<u>–</u>
Balance at 30 June	<u>(3,005)</u>	<u>96</u>	<u>1,686</u>	<u>(1,223)</u>	<u>(190)</u>

Transactional banking arrangements introduced from 1 July 1999 enabled agencies to manage their surplus cash balances and earn interest on them. Reviews were conducted by the Department of Finance and Administration with each agency to determine whether interest earned to 30 June 2002 was consistent with the Government's Budget-neutrality condition for the arrangements. As a result, the Commission was required to repay \$24,000 to the Government during 2002-03.

Note 10 Cash Flow Reconciliation

	2002-03 (\$'000)	2001-02 (\$'000)
Reconciliation of cash per Statement of Financial Position to Statement of Cash Flows		
Cash at year end per Statement of Cash Flows	534	64
Statement of Financial Position items comprising above cash: 'Financial Asset – Cash'	534	64
Reconciliation of operating surplus to net cash provided by operating activities:		
Operating surplus (deficit)	(1,009)	(548)
Depreciation/Amortisation	965	937
Loss (profit) on sale of non-current assets	19	35
Write down of assets	–	9
Decrease (increase) in receivables	(3,369)	(43)
Decrease (increase) in prepayments	80	(164)
Increase (decrease) in employee liabilities	206	213
Increase (decrease) in suppliers liability	(113)	234
Increase (decrease) in other liabilities	(123)	103
Net cash provided (used) by operating activities	<u>(3,344)</u>	<u>776</u>

Note 11 Appropriations

Annual appropriations for outputs

	2002-03 (\$'000)	2001-02 (\$'000)
Balance available at 1 July	4,164	3,880
Add: Appropriation Act No 1 – s6 – basic appropriations (budget)	23,014	22,605
Add: FMA Act appropriations		
s30A appropriations (GST recoverables)	443	452
s31 appropriations	<u>343</u>	<u>457</u>
Total appropriations available for year	27,964	27,394
Cash outflows during the year (excluding transfers to the OPA)	<u>24,030</u>	<u>23,230</u>
Balance of appropriations held for future cash outputs at 30 June	3,934	4,164

Note 12 Reporting of Outcome

Note 12A – Net cost of outcome delivery

	2002-03 \$'000's	2001-02 \$'000's
Operating expenses	<u>24,396</u>	<u>23,645</u>
External revenues		
Interest	131	197
Sale of goods and services	199	237
Sale of assets	9	24
Total external revenues	<u>339</u>	<u>458</u>
Net cost of outcome	24,057	23,187

Note 12B – Major revenues and expenses by output

	Output 1		Output 2		Output 3	
	2003 (\$'000)	2002 (\$'000)	2003 (\$'000)	2002 (\$'000)	2003 (\$'000)	2002 (\$'000)
Operating revenues						
Revenues from government	9,942	8,599	3,572	3,209	2,285	2,150
Sales of goods and services	86	90	31	34	20	22
Other non-taxation revenues	75	97	27	36	17	25
Total operating revenues	<u>10,103</u>	<u>8,786</u>	<u>3,630</u>	<u>3,279</u>	<u>2,322</u>	<u>2,197</u>
Operating expenses						
Employees	7,579	6,552	2,821	2,440	1,912	1,737
Suppliers	2,548	2,064	813	777	405	412
Depreciation and amortisation	402	352	150	131	101	93
Other	12	25	4	10	3	7
Total operating expenses	<u>10,541</u>	<u>8,993</u>	<u>3,788</u>	<u>3,358</u>	<u>2,421</u>	<u>2,249</u>

	Output 4		Output 5		Total	
	2003 (\$'000)	2002 (\$'000)	2003 (\$'000)	2002 (\$'000)	2003 (\$'000)	2002 (\$'000)
Operating revenues						
Revenues from government	241	285	6,974	8,362	23,014	22,605
Sales of goods and services	3	3	59	88	199	237
Other non-taxation revenues	2	3	53	94	174	255
Total operating revenues	<u>246</u>	<u>291</u>	<u>7,086</u>	<u>8,544</u>	<u>23,387</u>	<u>23,097</u>
Operating expenses						
Employees	204	230	5,684	6,482	18,200	17,441
Suppliers	40	54	1,397	1,892	5,203	5,199
Depreciation and amortisation	11	13	301	348	965	937
Other	–	1	9	25	28	68
Total operating expenses	<u>255</u>	<u>298</u>	<u>7,391</u>	<u>8,747</u>	<u>24,396</u>	<u>23,645</u>

The Commission has one outcome (see Note 1), 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.

Overheads and other indirect expenses that cannot be attributed directly to outputs are allocated to outputs in proportion to the direct costs (principally salaries) of the activities undertaken within each output.

Revenues and expenses have been allocated to outputs based on the direct costs of the activities undertaken together with a proportion of corporate overheads.

The Commission's assets and liabilities cannot be attributed to specific outputs.

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, changes in the value of accrued leave and other package components such as executive vehicles.

	2002-03	2001-02
	No.	No.
Total remuneration		
\$100,000 to \$110,000	1	–
\$110,000 to \$120,000	–	1
\$120,000 to \$130,000	2	2
\$130,000 to \$140,000	–	1
\$140,000 to \$150,000	4	3
\$150,000 to \$160,000	3	3
\$160,000 to \$170,000	7	4
\$170,000 to \$180,000	2	1
\$180,000 to \$190,000	–	4
\$190,000 to \$200,000	–	1
\$210,000 to \$220,000	2	1
\$220,000 to \$230,000	–	1
\$230,000 to \$240,000	4	1
\$240,000 to \$250,000	–	2
\$260,000 to \$270,000	–	1
\$280,000 to \$290,000	1	–
	26	26
Aggregate amount of total remuneration of executives shown above	\$4,549,468	\$4,583,872
Aggregate amount of performance pay during the year to executives shown above	\$ 270,171 ¹	\$ 281,858 ¹
Aggregate amount of separation and redundancy payments during the year to executives shown above	-	\$ 262,464

¹ 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*.

Note 16 Average Staffing

The average staffing level is in respect of all employees of the Commission, including Holders of Public Office.

	2002-03	2001-02
	No	No
Average staffing level	202	201

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

Financial Instrument	Accounting Policies and Methods (including recognition criteria and measurement basis)	Nature of underlying instrument (including significant terms & conditions affecting amount, timing and certainty of cash flows)
Financial Assets	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 4.5% 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. (2001-2002: 30 days).
Financial Liabilities	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 1993. 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

2002-2003

Financial Instrument	Floating Interest Rate 2002-03 (\$'000)	Fixed Interest Rate 2002-03 (\$'000)	Non-Interest Bearing 2002-03 (\$'000)	Total 2002-03 (\$'000)	Weighted Average Effective Interest Rate 2002-03 (%)
Financial assets					
Cash at bank		534	–	534	2.0
Receivables		–	<u>3,476</u>	<u>3,476</u>	n/a
Total Financial assets	<u>–</u>	<u>534</u>	<u>3,476</u>	<u>4,010</u>	
Total Assets				<u>5,663</u>	
Financial liabilities					
Suppliers			302	302	n/a
Other			<u>10</u>	<u>10</u>	n/a
Total Financial liabilities			<u>312</u>	<u>312</u>	
Total Liabilities				<u>6,886</u>	

2001-2002

Financial Instrument	Floating Interest Rate 2001-02 (\$'000)	Fixed Interest Rate 2001-02 (\$'000)	Non-Interest Bearing 2001-02 (\$'000)	Total 2001-02 (\$'000)	Weighted Average Effective Interest Rate 2001-02 (%)
Financial assets					
Cash at bank		64	–	64	2.0
Investments – Term deposit		4,100		4,100	4.5
Receivables		–	<u>107</u>	<u>107</u>	n/a
Total Financial assets	<u>–</u>	<u>4,164</u>	<u>107</u>	<u>4,271</u>	
Total Assets				<u>6,726</u>	
Financial liabilities					
Suppliers			415	415	n/a
Other			<u>133</u>	<u>133</u>	n/a
Total Financial liabilities			<u>548</u>	<u>548</u>	
Total Liabilities				<u>6,916</u>	

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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