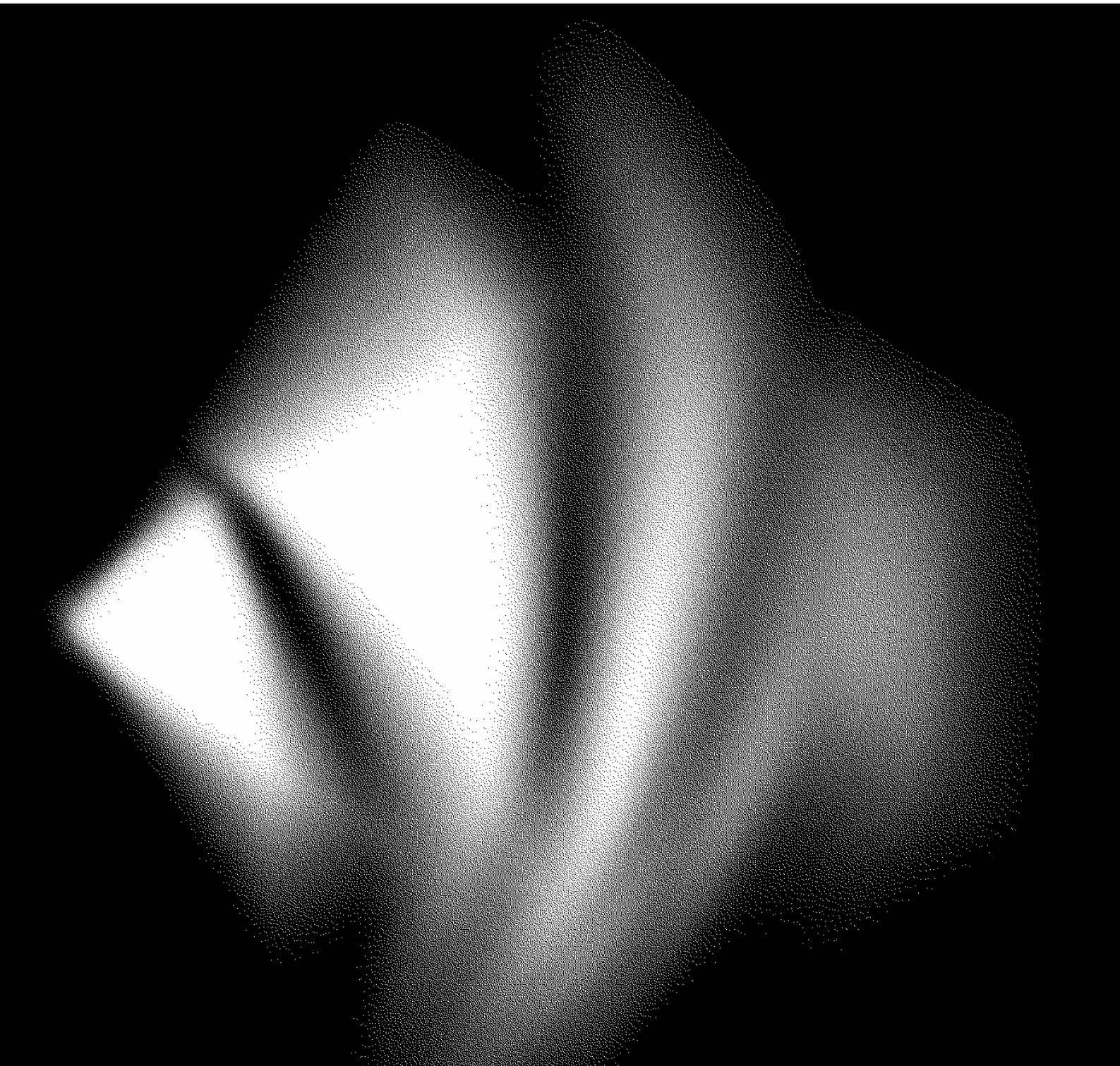




Australian Government
Productivity Commission

Annual Report 2003-04

Productivity
Commission
Annual Report Series



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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.



30 November 2004

The Treasurer
Parliament House
CANBERRA ACT 2600

Dear Treasurer

We submit to you the Productivity Commission's annual report for 2003-04. 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

Robert Fitzgerald
Commissioner

Tony Hinton
Commissioner

Helen Owens
Commissioner

Judith Sloan
Commissioner

Philip Weickhardt
Commissioner

Michael Woods
Commissioner

Chairman and Commissioners



Neil Byron, Helen Owens and Robert Fitzgerald



Gary Banks (Chairman) and Judith Sloan



Philip Weickhardt, Tony Hinton and Mike Woods

Acknowledgments

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

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Abbreviations

ABS	Australian Bureau of Statistics
ACCC	Australian Competition and Consumer Commission
AGCNCO	Australian Government Competitive Neutrality Complaints Office
APEC	Asia Pacific Economic Cooperation (forum)
APS	Australian Public Service
AUSFTA	Australia–United States Free Trade Agreement
CCNCO	Commonwealth Competitive Neutrality Complaints Office
CER	Australia–New Zealand Closer Economic Relations Trade Agreement
COAG	Council of Australian Governments
CSIRO	Commonwealth Scientific and Industrial Research Organisation
GDP	Gross domestic product
ESD	Ecologically Sustainable Development
GP	General practice
GTEs	Government trading enterprises
IC	Industry Commission
IMF	International Monetary Fund
NCC	National Competition Council
NCP	National competition policy
OECD	Organisation for Economic Co-operation and Development
OHS	Occupational health and safety
ORR	Office of Regulation Review
PC	Productivity Commission
RIS	Regulation Impact Statement
SES	Senior Executive Service
TCF	Textile, clothing, footwear and leather (industries)
WTO	World Trade Organisation

1 Prospering in an ageing society

The ageing of our population is one of the biggest policy challenges facing Australia. It will reduce the relative size of the labour force and cut growth in per capita incomes. At the same time, it will substantially increase demands for health and aged care services. In response, governments need to tackle regulatory, tax and other impediments to increased labour supply. They must also focus on ways to improve efficiency, effectiveness and equity in Australia's health and aged care systems. But fostering higher productivity growth remains the key to future living standards in an ageing society.

Australia's demographic transition

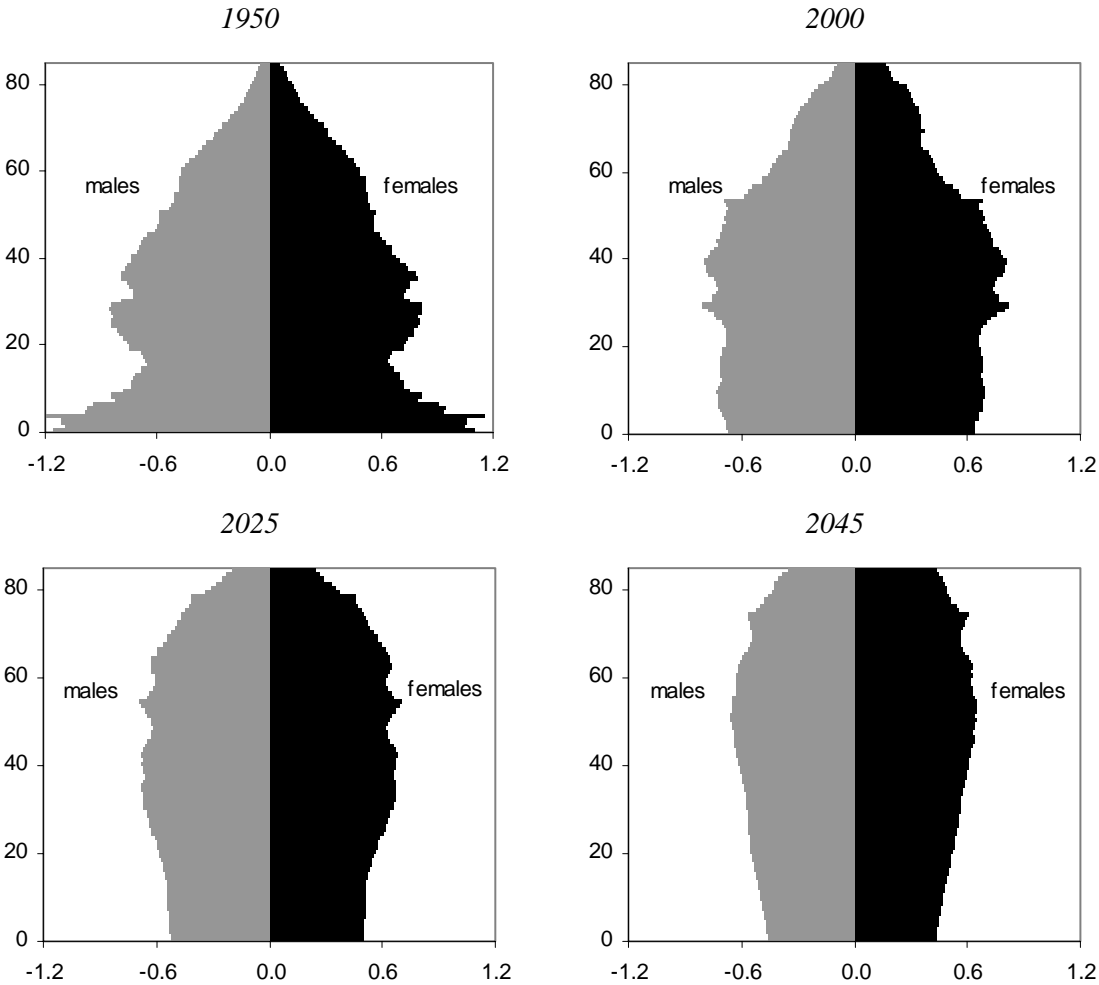
The ageing of Australia's population is becoming a key frame of reference for governments, the media and community groups to assess the adequacy of current policy settings and difficult reform options. Rising incomes, advances in healthcare and less physical work have led to Australians living longer. The average life expectancy at birth of a female born today is 83 years and 77 years for a male, up from 71 and 66 years respectively at the end of World War II. In combination with a long-term decline in fertility rates, this has led to Australia's population structure ageing. Projecting over the next 40 years, Australia's demographic structure will be transformed from a roughly pyramid-shaped distribution — with a wide base of young people and workers — to one resembling a coffin shape (figure 1.1). Other advanced economies face a similar demographic transition and some have moved further than Australia.

The Government's Intergenerational Report of 2002 rightly placed population ageing and its economic and financial impacts, particularly at the Commonwealth level, at centre stage. Two years on, and at the request of the Council of Australian Governments (COAG), the Government has asked the Commission to review the economic effects of ageing across Australia. Its reporting extends to impacts on productivity, economic growth and labour supply, and assesses fiscal impacts on all jurisdictions in Australia.

The broad dimensions of Australia’s demographic future are now reasonably well known. The proportion of people aged 65 and over is likely to double over the next 40 years, reaching 26 per cent of the population by 2044-45. But other aspects of Australia’s demographic transition appear less well understood.

- Ageing could be more profound than indicated by official estimates. Most projection techniques have proved too pessimistic about the prospect for declining mortality at older age groups. On plausible alternative assumptions about changes in life expectancy over the next 40 years, there could be 2.3 million Australians aged 85 years or more and 1.3 million aged 90 years or more, roughly double the ‘standard’ ABS projections for 2044-45.
- The demographic impact will have regional dimensions. Ageing pressures will be more accentuated in Tasmania, South Australia and Western Australia than in other States and Territories, with Tasmania and South Australia having the greatest concentrations of the old (65+) and oldest old (85+) by 2044-45.

Figure 1.1 The changing age structure of Australia’s population
Percentage share of population



Source: PC 2004c.

-
- The number of children under 15 years is set to fall in absolute terms (by about ¼ million) but this comes nowhere near providing a fiscal offset for the rise in aged dependency as governments spend much more on old people than the young.

Australia's population structure has been slowly ageing for more than a century, although the consequences will become more evident as increasing numbers of post-WW II baby boomers retire later this decade. However, this should not obscure the personal and wider social benefits entailed. The baby boom effectively delayed population ageing and reduced age dependency until the mid-2030s. The consequent boost to labour supply contributed to higher per capita incomes in Australia from the mid-1960s at a time when there were many policy-related impediments to income growth.

There are no simple demographic 'fixes' to Australia's ageing 'problem'. A significant revival in fertility levels seems unlikely and, even if it happened, the time lag before those children entered the workforce means that any counter to ageing, however slight, would not start to appear until after 2020. Indeed, the short to medium term effect of a sudden increase in fertility would be to worsen the burden on those of workforce age. Moreover, immigration could not offset the ageing process over the long term. Feasible increases in immigration would have a modest effect and at best only temporarily delay the onset of ageing (box 1.1).

Pervasive change in prospect

Australia's demographic transition is likely to have pervasive social and economic effects. These include not only changes in the types of goods and services demanded, but also national saving and investment; innovation and creativity; family and social networks; community expectations; and, as the median age of voters increases from 43 to 53 years over the next 40 years, political clout.

The two dominating economic impacts, however, will be:

- a significant reduction in the growth of hours worked by the population, with a strong prospect of a slowing in rates of economic growth and per capita income growth; and
- the fiscal pressures on governments arising from increased demand for age-related expenditure in areas such as health and aged care.

Box 1.1 **Increased immigration: not a solution to ageing**

Contrary to popular opinion, there is limited scope to reverse or significantly stem the ageing of Australia's population structure through increased immigration.

It is well known that net inflows of migrants have made a significant contribution to the size of Australia's population — nearly a quarter of current Australian residents were born elsewhere. While recognising the difficulty in measuring permanent arrivals and departures accurately, the ABS estimates that net overseas migration has accounted for around half of Australia's population growth in recent years. But can net immigration levels be used to offset an ageing population *structure*?

Net migration largely adds to the working age population of Australia, and thereby helps to lower the aged dependency ratio — the number of people aged 65 years or more relative to the population aged 15 to 64 — in any given year. However, migrants themselves age. The long-term effect of migration on the age structure of the population turns on whether the rate of growth of net migration can be increased sufficiently over time to offset ageing effects.

Net migration of 100 000 people a year (as projected by the ABS) makes a significant difference to population ageing compared to the (unrealistic) assumption of zero future net migration. Commission projections suggest that the aged dependency ratio would be nearly 9 percentage points higher in 2044-45 if there were no further net intake. However, the reductions in aged dependency from extra migration get smaller as the base level of migration gets larger. For example, an increase from 100 000 to 120 000 net migrants a year for 40 years would make only a slight difference to the pace of population ageing — the aged dependency ratio would fall from a projected 44.3 per cent to 43.1 per cent. And even an increase to 150 000 net migrants a year would see the ratio fall by only 3 percentage points.

An ageing population structure could only be avoided by raising the annual net migration intake to about 3.4 per cent of the population, which is around six times its present rate. On this basis, the aged dependency ratio (and share of the population aged 65 or more) would stay roughly constant over the next 40 years — but Australia's population size would be around 114 million by 2044-45, with an annual migrant intake at that time of 3.7 million.

The practical scope for an immigration 'solution' to ageing is also constrained by the increasing world-wide competition for skilled migrants from other countries facing their own ageing problems. Indeed, there is a risk that Australia could lose many of its own skilled people to other countries if income levels do not keep pace.

Labour supply: the rear-vision view

The output of goods and services in the Australian economy broadly depends on the number of potential workers in the population, their work involvement and their productivity. These factors have been summarised in the now familiar ‘3Ps’ of population, participation and productivity.

In terms of labour force participation, the Australian economy has benefited from rising rates in recent decades. This is despite declining male participation rates across all the prime working age groups. Women have been the saviours of Australia’s aggregate labour force participation rate over the past 40 years. Female participation rates have risen for all but the youngest and oldest age groups. Fewer children, shorter absences from the workforce after childbirth, greater access to part-time employment and childcare, and changing social attitudes have all played a role.

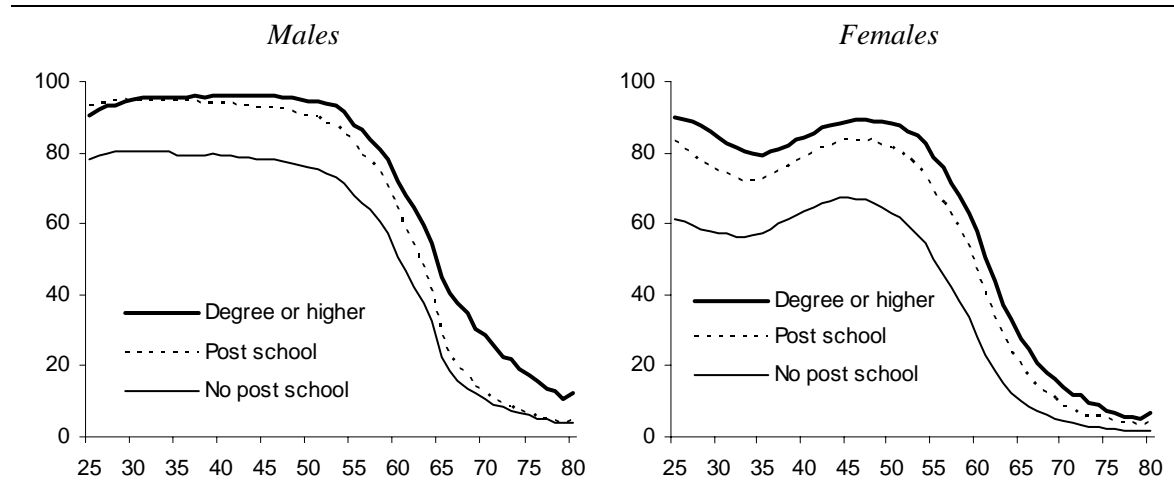
Australia’s effective labour supply — total hours worked per capita — has not increased as much as labour force participation. Average weekly hours worked in the economy have fallen by around 5 per cent over the past two decades. Most of the job growth for women has been in part-time jobs. Women over 25 years old work fewer hours on average than men, whether in full or part time jobs. And males exiting the labour force left full-time jobs. Further, relatively high levels of unemployment also reduced effective labour supply in Australia from the early 1980s until quite recently.

An important counter to these trends has been the rising educational attainment of Australians. Higher educational attainment is associated with higher lifetime attachment to the labour force (figure 1.2). So in addition to raising the productivity potential of individuals, there is an ongoing participation effect.

The labour force behaviour of older Australians adds its own dynamic, both negative and positive, to these wider labour supply trends:

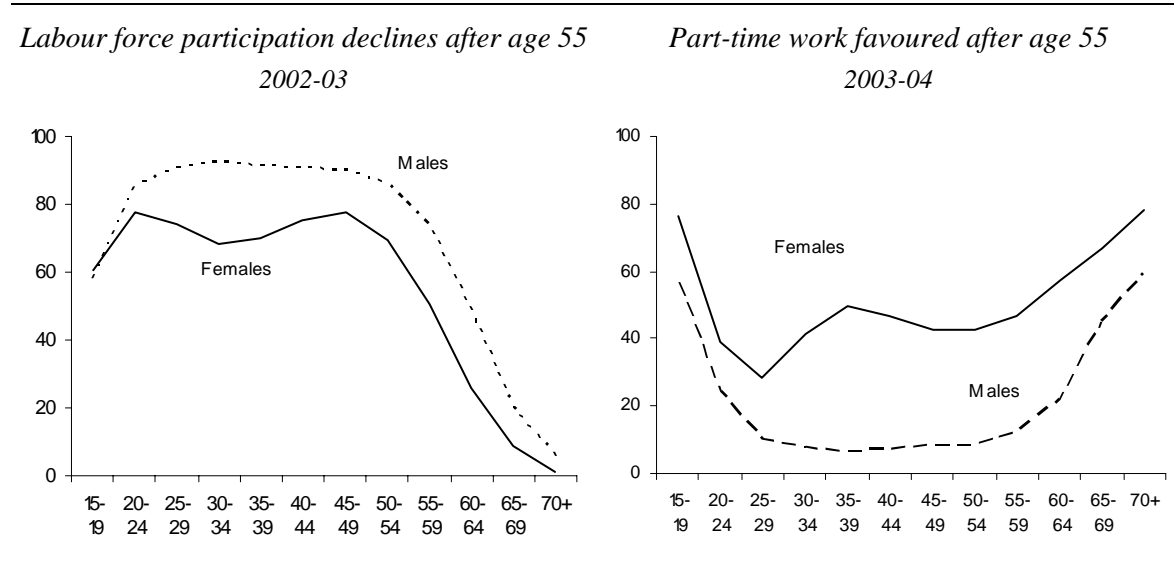
- as people age, on average they participate in the labour force less — engagement falls significantly for those over 55 years and, understandably, is negligible after the age of 70 (figure 1.3); and
- the incidence of part-time work is much higher for older workers (figure 1.3); whereas
- older workers have low unemployment rates, if only because they typically exit the labour force and retire if jobs are hard to find; and
- the higher educational attainment of each successive cohort of the newly aged should help to raise the participation rate for older workers over time to some extent.

Figure 1.2 Education raises labour force participation
 Percentage rates by age and highest educational attainment, 2001



Source: PC 2004c.

Figure 1.3 Participation in the labour force
 Percentage rates by age groups



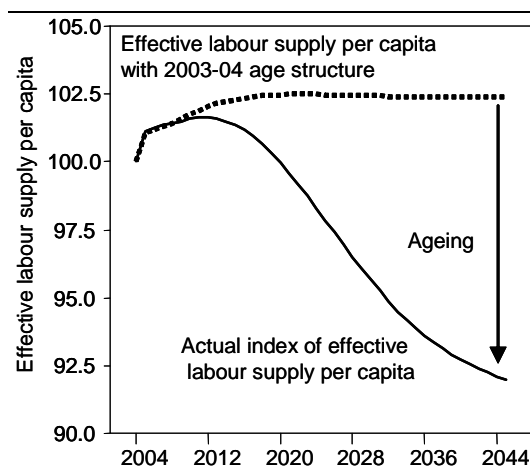
Sources: PC 2004c and ABS Labour Force Survey, unpublished data.

Labour supply: looking forward

An ageing population structure will therefore have a compounding effect on the potential labour supply in Australia's economy — older people work less hours on average and there will be more of them. Commission projections suggest there will be a decline of about 8 per cent in the hours worked per capita by the total population in the next 40 years (figure 1.4). In the absence of ageing, hours worked per capita would most likely have risen by about 2 per cent. In terms of aggregate labour force participation, the rate will fall to 55.4 per cent, nearly 11 percentage points below where it would be in the absence of ageing.

Figure 1.4 **Ageing and effective labour supply**

Australia 2003-04 to 2044-45

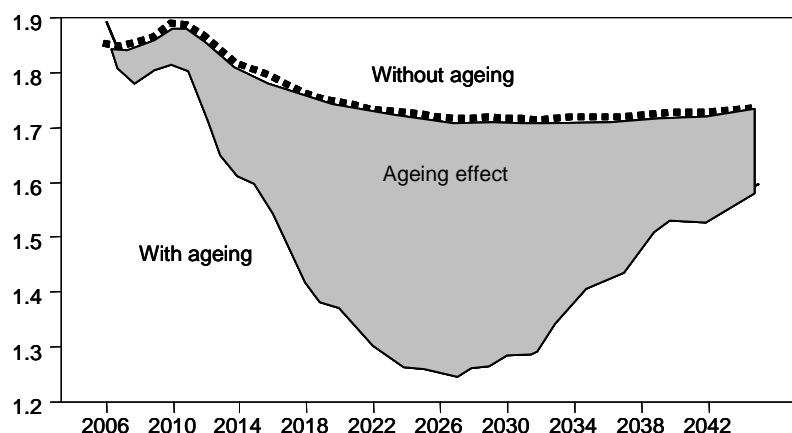


Source: PC 2004c.

Accordingly, although the per capita income and wealth of Australians will most likely continue to grow, the Commission's work confirms the Intergenerational Report's assessment that the potential diminished labour supply available to an ageing Australia will severely constrain that growth. If Australia were to maintain its long-term labour productivity growth rate of 1.75 per cent a year, growth in the real per capita output of the Australian economy would fall steadily over the period to the mid-2020s to nearly 1.25 per cent annually, roughly half its present rate, with a partial recovery in the following 20 years (figure 1.5).

Ageing would create a \$3200 billion dent in cumulative national output from 2003-04 to 2044-45. Even if Australia were to sustain its 'miracle' productivity performance of the 1990s, average annual growth in real GDP per capita would still fall to around 1.6 per cent in the 2020s compared to recent growth of more than 2 per cent a year. Sustaining a high productivity growth is thus one of the challenges inherent in responding to Australia's demographic transition.

Figure 1.5 Economic growth in Australia — a 40 year projection
 Per capita GDP, 2005-06 to 2044-45 (percentage growth rates)



Source: PC 2004c.

Fiscal impacts on governments

As a share of GDP, government revenues are not as sensitive to ageing as expenditure. At the Commonwealth level, the factors that drive GDP are also the prime determinants of revenue so that, over the long term, the two roughly move in balance. However, some State government revenue streams may decline as a share of GDP. In particular, GST revenue may not grow as fast as GDP because tax-exempt expenditures, such as private health care goods and services, are expected to increase in importance. However, Commission projections suggest that the effect is modest and likely to be offset by growth in other direct sources of State revenue.

At the same time as demography drives down growth in Australia's income and tax base, it will push up age-related public spending demands. Some critical age-related goods and services — substantial expenditures on health and aged care, as well as pensions — are provided by governments. On the other hand, while expenditure pressures in areas such as school education should abate as the share of Australia's population in younger age groups falls, the impact will not be as significant.

In the absence of policy responses, Commission projections show that the fiscal gap opened by ageing will reach around 7 per cent of GDP by 2044-45, with an accumulated value over the 40 years of around \$2200 billion. The bulk of this gap will arise at the Commonwealth level, reflecting its greater funding responsibilities for health and aged care — assuming that its financial transfers to the States and Territories continue to rise with service needs.

In some significant respects, Australia's fiscal outlook with ageing poses fewer risks than in other countries. In particular, Australia has avoided the worst of the pension financing problems besetting many OECD countries (OECD 2003a, p. 69). It has been a leader in such reforms as requiring compulsory superannuation contributions while working, and the concessional taxation of voluntary superannuation and other private savings. These will help reduce to a degree the reliance of Australians on the publicly funded age pension for retirement income. The lesson from this experience — with wider application to other policy challenges posed by ageing — is that early policy action can play a significant role in ameliorating the adverse long-term effects in prospect.

Health and aged care costs are the major pressure points

Older people consume more health services on average than other Australians. For example, expenditures per person in the Pharmaceutical Benefits Scheme are strongly age related — average costs for a male aged 65 to 74 are more than 18 times those for a male aged 15 to 24. Hospital costs follow a similarly steep profile, while Medicare costs also rise with age, though less steeply (figure 1.6). Across health services as a whole, expenditure on those 65 years and over is around four times greater than for those under 65, with the multiple rising to between six to nine times for the very old.

Important as it is, this ageing effect on growth in health expenditure has so far played a relatively minor role in expenditure pressures. Non-demographic factors — in particular, rising demand fuelled by higher incomes and community expectations, together with the emergence and diffusion of new medical technologies — have been the major drivers. Since the mid-1980s, average per capita expenditures (age-adjusted) under the Pharmaceutical Benefits Scheme have grown at a rate nearly 5 percentage points above per capita GDP growth. Other government health expenditure has experienced a premium of around 0.5 percentage points. Such strong underlying demand and technology drivers, when overlaid on an ageing population structure, form a potent cocktail. Moreover, tentative evidence is emerging that medical technologies may be leading to higher health expenditures in older age groups. If true, this would further exacerbate pressures on future health budgets (box 1.2).

Government health and aged care expenditures will bear the brunt of an ageing Australia.

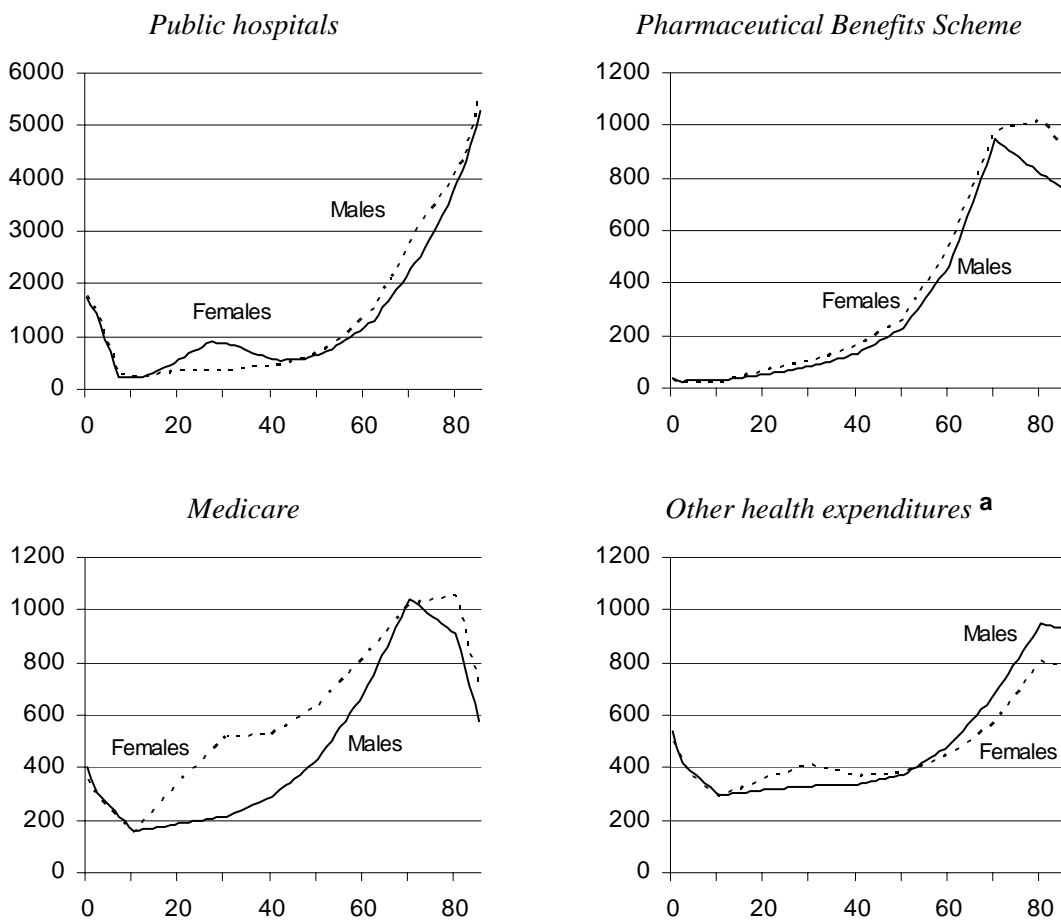
- Commission projections suggest that the ageing of the population will cause health care spending by all governments to be about one third higher than otherwise. This estimate was found to be relatively insensitive to assumptions

about non-demographic cost drivers. In total, government health expenditure in Australia is projected to almost double to around 11 per cent of GDP by 2044-45, with the aged share increasing from around one third to nearly 60 per cent.

- Total government aged care expenditure is projected to more than double, reaching just over 2 per cent of GDP in 2044-45.

Figure 1.6 Health care costs increase with age

Government health expenditure per person by age, dollars



^a Includes other health professionals, aids and appliances, community and public health, dental, ambulance services, research and administration.

Source: PC 2004c.

Box 1.2 Future health care expenditure: does ageing matter?

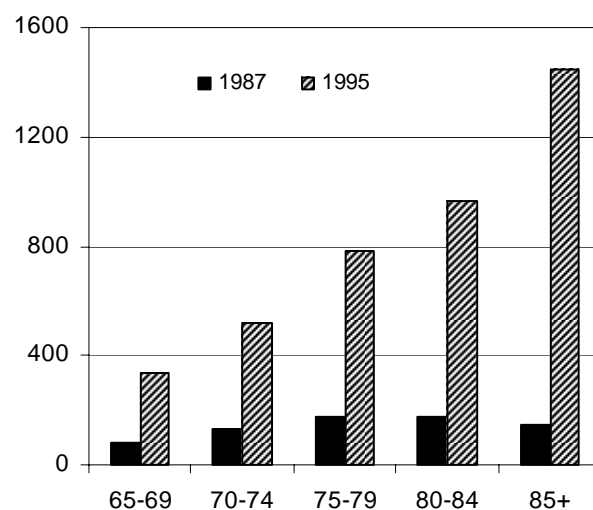
The implications of ageing for future health care costs have been contentious in some circles. Many health economists have seen ageing as a relatively minor influence, arguing that its impact will be swamped by demand and technology effects that are relatively neutral across age groups. They point out that tomorrow's old will be healthier, which could lessen health costs for each cohort, and that hefty end-of-life health costs will simply be deferred as people live longer.

The Commission has examined the arguments and evidence and concluded that ageing *does* matter. In combination with demand and technology pressures, ageing will place significant additional pressure on future health expenditure for the simple reason that older people can be expected to use many times more health services than other age groups. A doubling in the share of Australia's population over 65 will ensure that any increase in health costs due to demand or technology factors gets amplified. In the context of the current debate, a number of points need emphasis.

- Interpretation of an apparent decline in age-specific disability rates in international data to mean that the old are becoming healthier overlooks the role of effective (but costly) treatments in improving health status and managing chronic conditions which are on the rise. Moreover, while smoking is declining, some public health trends — such as obesity and the associated risks of diabetes type II to kidney, eye and cardiovascular function — could see the prevalence of certain diseases increase amongst the old.
- While health costs are high in the year or two before death, they do not account for most health spending. Even if they did, the expected 60 per cent rise in the death rate between now and 2044-45 will lead to a major increase in *aggregate* health expenditure in Australia.
- With incomes and life expectancy increasing and more senior Australians, there is a rise in community expectations that treatment, even if costly, will be provided at older ages.
- Medical technologies — such as less traumatic surgical techniques and better anaesthesia — have improved the prospects for medical intervention to improve the quality of life for the oldest old. Hip replacements trends for older American women are a sign of this potential for increased expenditure. (Separate to its ageing study, the Commission is currently investigating the impact of advances in medical technology on healthcare expenditure in Australia and is due to report in August 2005.)

Hip replacement trends for US women

No. per 100 000 women



Source: Fuchs 1998, p.10

Difficult policy choices to face

The impacts of an ageing population structure are unlikely to reach ‘crisis’ proportions. For one thing, under a range of likely scenarios, the per capita income of Australians in the mid-2040s will be nearly double what they are today. Nevertheless, extra demands on government services at a time of potentially slower economic growth will pose some difficult policy choices.

Governments could respond to the increased fiscal demands by gradually increasing the average tax burden. However, if that were the only measure, taxes would need to rise by 23 per cent on average. Higher incomes taxes would risk creating disincentives for increased labour supply, thereby compounding the effects of ageing. And with increasing international competition for labour from other ageing countries, skilled Australians would have incentives to move overseas. Increased resort to other tax bases could risk widening other distortions.

Financing the increased consumption of health and aged care by increasingly accumulating public debt is not a sustainable long-term strategy. It shifts the costs to future generations, and mounting interest payments would eventually cut into the ability to finance age-related and other government expenditures.

The public expenditure burden could be shifted onto individuals through increasing their share of the costs, constraining service quality and/or by rationing access. Progressively shifting more of the cost burden onto those who can afford it needs careful examination, but the policy ground work would need to be well laid out for it to receive community endorsement. And cutting services that would otherwise yield significant benefits to the community is clearly not a desirable strategy.

More promising policy approaches are to be found in ameliorating ageing pressures at their source and in improving the economic wherewithal to deal with them. Two obvious age-related priorities are: tackling artificial impediments to increased labour supply in labour market regulation and the anti-work incentives in Australia’s tax-transfer system; and addressing inefficiencies and service inadequacies in Australia’s health and aged care systems. More generally, policy reforms to raise Australia’s productivity across the board are needed. Failure to take appropriate policy action well before ageing effects accelerate would necessitate significantly greater adjustment challenges later.

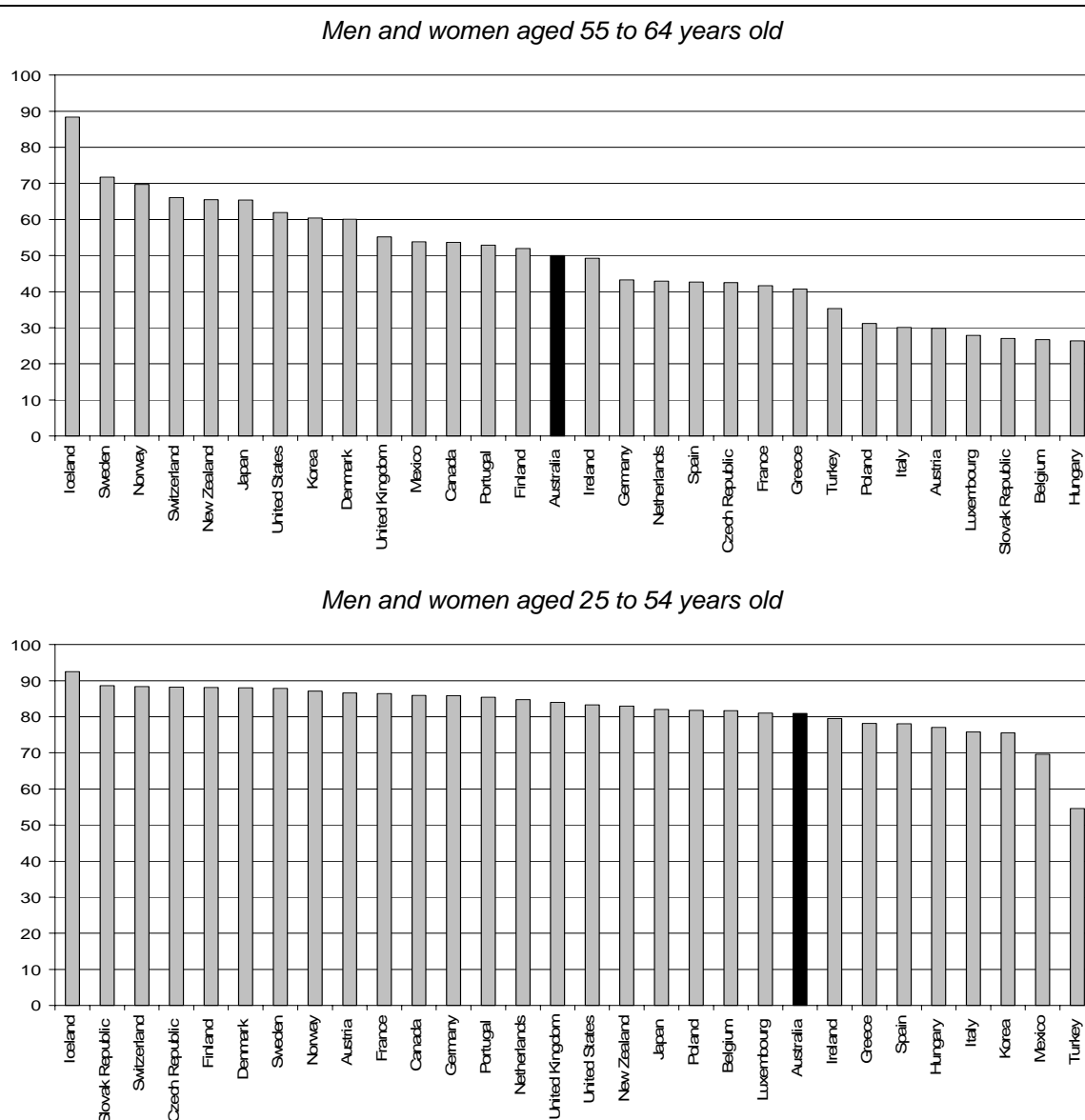
Reducing impediments to labour supply

Rising incomes expand the choices older Australians have over their mix of work, leisure and volunteering activities, and are an important way for individuals to pursue higher overall wellbeing.

However, a range of high income OECD countries appear to have significantly higher labour force participation rates than Australia (figure 1.7). The comparative data are suggestive, in particular, of a potential to raise participation levels for 55 to 64 year old Australians.

Figure 1.7 **OECD labour force participation rates 2002**

Per cent



Source: OECD 2004, Statistical Annex Table C.

Government incentives, not just personal preferences, condition the work choices and expectations of older Australians. They can influence early withdrawal from full-time employment or from the formal labour force altogether. For example:

- Commission estimates indicate that uptake of the disability support pension could explain 95 per cent of the decline in the participation rate of 60 to 64 year old males over the past 25 years in Australia. Almost half of all recipients of the disability support pension are aged 50 or more. This pension has no equivalent to the activity test required to access unemployment benefits and a number of studies have pointed to the role of labour market factors in explaining the growth in numbers of recipients (PC 2004a, p. 81). While the employment prospects for those who have been on disability pensions for a long time are now probably poor — their move into the labour force would increase unemployment more than employment — future cohorts of workers should be encouraged to remain engaged in the labour force and to access Job Network services tailored to their needs. The Australian Government has been seeking legislative approval to tighten disability pension eligibility requirements since 2002.
- Government policies — such as raising the age at which superannuation benefits can be accessed from 55 to 60 years and the progressive removal of access to the aged pension for females aged below 65 — are specifically targeted at discouraging ‘premature’ retirement. The Government’s proposed tax rebate on earned income for those over the age of 55 is similarly intended to encourage mature aged workers to remain in the workforce.

Raising the labour force participation rate of older Australians will only be possible, however, if workplace arrangements are flexible enough to accommodate their work preferences and if wages reflect productivity differentials. Yet ‘non-traditional’ working arrangements most likely to appeal to increasing numbers of older Australians — such as part-time and casual jobs — have been under challenge. For example, there is trade union pressure to convert casual jobs to permanent employment as a matter of right, regulate minimum daily hours and lift casual loadings to a minimum of 25 per cent. Employers will be less willing to take on older workers under such arrangements. Similarly, any extension of industrial awards beyond minimum safety net requirements would be likely to diminish, rather than enhance, job opportunities for an ageing workforce.

Reductions in policy-induced barriers to the employment preferences of older Australians are worthwhile in themselves. But as the Commission’s projections show, focusing just on the over 55s could only have a limited impact on overall labour supply. For example, if the participation rate for males aged 55 years or more could somehow be raised an unprecedented 10 percentage points above the Commission’s projected rate in 2044-45, the participation rate across the whole economy would still only increase by 2 percentage points.

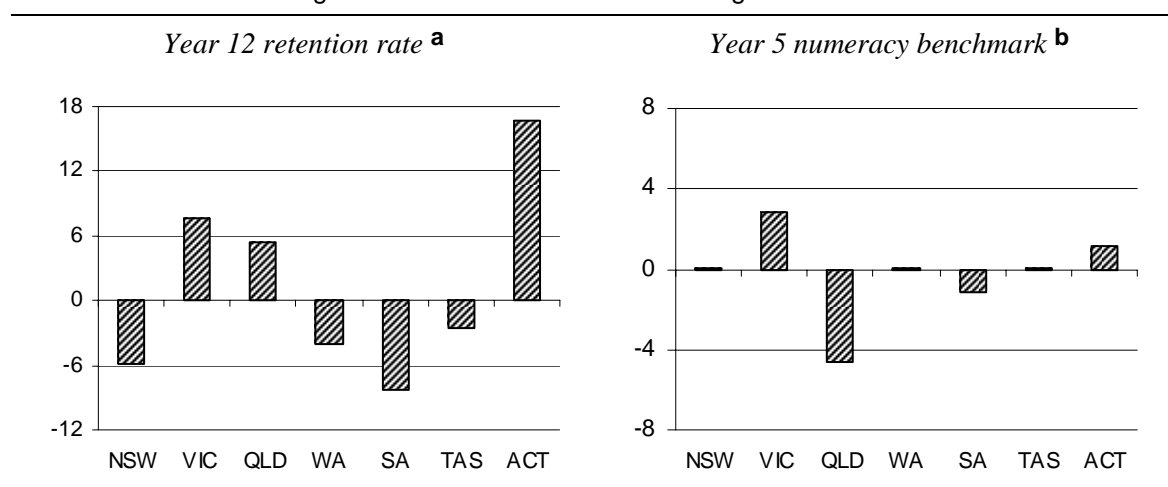
To have a significant pay-off in per capita income levels, participation rates would need to rise across all age groups. For example, if age-specific participation rates in Australia were to rise gradually over the next 20 years and then match the current performance of the top fifth of certain OECD countries, Australia's aggregate participation rate would fall to around 60 per cent by 2044-45, not the 55 per cent otherwise projected. This would mitigate the effects of ageing on participation by around half. Nevertheless, the implied increase in male participation is a big 'ask', requiring rates close to or exceeding historical maximums over the past 25 years.

The core labour reform strategies to raise aggregate participation rates have been identified. In broad terms, these include improving the capacity of people to undertake work, giving them better work incentives and creating more flexible workplace arrangements (Australian Government 2004). Building on past and recent policy initiatives, there is scope to:

- raise the performance of Australia's schools — for which figure 1.8 provides two indicators of variable performance — as well as its higher education and training systems, so that they respond to changing personal and community needs for human capital development and innovation, and to extend people's labour force participation in their older years;
- address the continuing disincentives that arise from high marginal rates of income tax and the high effective marginal tax rates that result from the rapid withdrawal of various income support payments as individuals and family members engage in more work;
- ensure that systems supporting a return to work — such as childcare for working parents, workers' compensation and rehabilitation for injured workers and labour market assistance programs for the unemployed — operate efficiently and effectively, and that no future cohorts of workers are consigned solely to income support programs when there is the possibility of at least some labour force engagement;
- wind back further those labour market regulations which prevent employees and employers reaching mutually beneficial arrangements in their workplaces; and
- explore the interaction between general social safety nets and the regulation of minimum wages and conditions by industrial tribunals in achieving similar social objectives.

Even when implemented, many responses to the challenges posed by an ageing Australia will take time to have an appreciable effect. The pay-off from initiatives to increase school retention rates, for example, is likely to take a decade. Fortunately, however, Australia lags behind many other developed countries in the severity of the onset of ageing. Thus there is a window of opportunity to make beneficial changes to labour supply related policy to ensure that adjustment to the demographic transition is well managed.

Figure 1.8 Variability in Australia's schools
Percentage variation from the national average



a Apparent retention rates of full-time secondary students from years 10 to 12, all schools, 2002. Retention rates can be affected by State-specific factors which limit comparability. Exclusion of part-time students has particular implications for South Australia and Tasmania. **b** Variation from the national upper or lower bound estimate (as appropriate) in the proportion of Year 5 students achieving the numeracy benchmark, 2001. **Note:** The caveats that jurisdictions attach to the data and the confidence intervals for numeracy benchmarks are reported in SCRGSP (2004, pp. 3.36-3.46). The Northern Territory is included in national averages but not separately identified here because of the size of its indigenous population and other features.

Source: Derived from SCRGSP 2004, tables 3A.32 and 3.11.

Better health and aged care systems

Australia's health and aged care systems are not well placed to respond to the growing demands of an ageing population. Against international indicators such as life expectancy and health care expenditure per capita and as a percentage of GDP, Australia's health system appears relatively cost effective. However, both the health and aged care systems are under pressure.

- The health status of indigenous Australians, the relatively poor health outcomes of other Australians living in rural and remote areas and growing concerns about access to public hospitals, general practitioners and residential aged care services, even in metropolitan areas, indicate significant unmet needs.
- Further shortages in some key workforce areas such as nurses, general practitioners and some medical specialties are likely to add to pressures on access and service quality in the future. In recognition of such issues, COAG (2004) recently called for a review of health workforce issues, including supply and demand pressures over the next 10 years.
- There is potential for Australian hospitals to improve overall safety and quality of care for patients. Around 4500 preventable deaths are 'conservatively' estimated to occur in hospitals each year as a result of mistakes and

inappropriate procedures (Richardson 2003). Health outcomes would improve if more hospitals could match the safety and quality-of-care performance of the best achievers (ACHS 2003 and SCRGSP 2004).

- Considerable variations in service performance across jurisdictions for the same service, whether for the general population or the aged, are indicative of the potential for raising performance (figure 1.9).

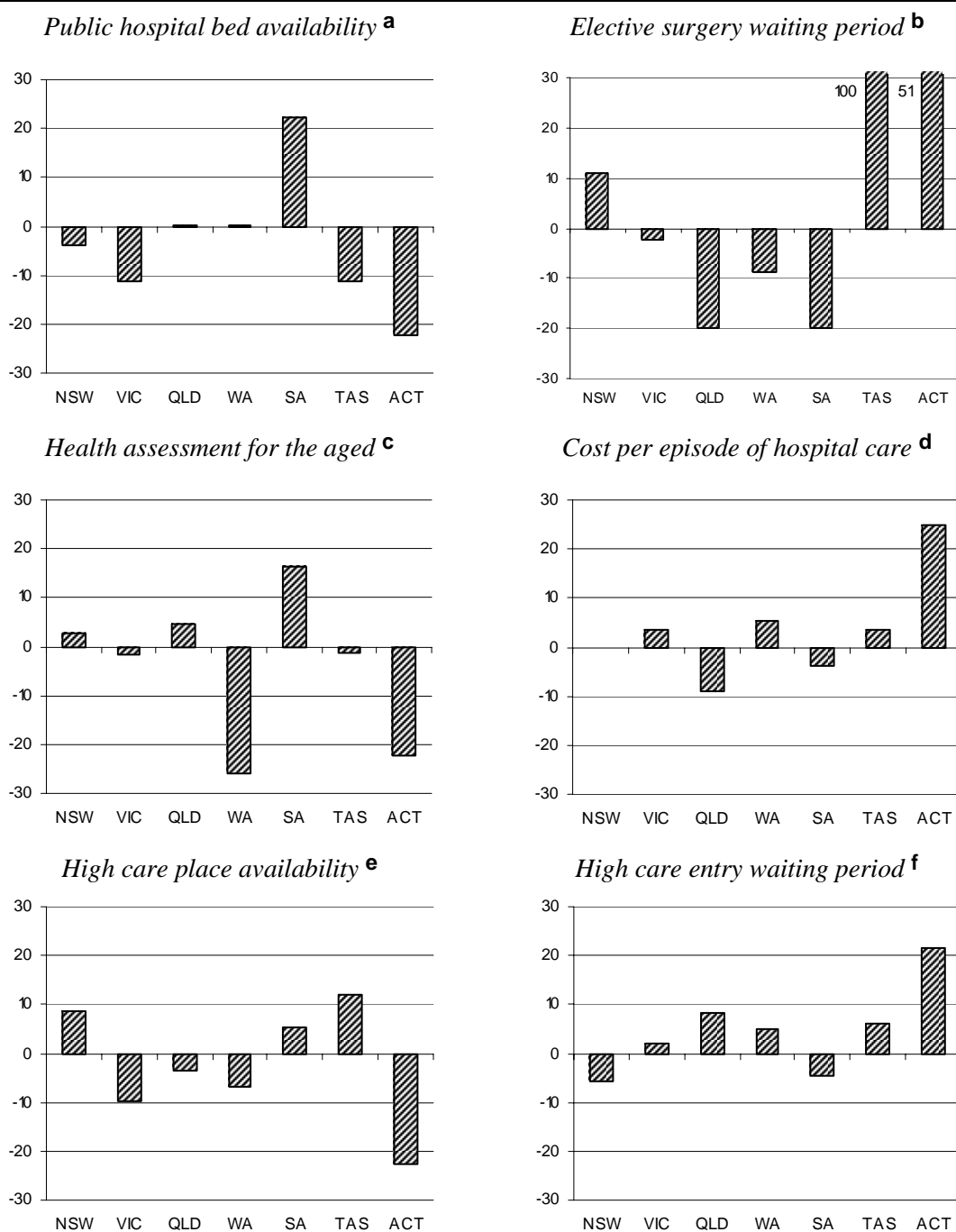
Australia's aged care system is also characterised by a range of problems. These include: unduly limited access for those assessed as requiring care, including to high-level residential and dementia-specific care; inequities in charges/fees between low and high level residential care and between residential 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 (PC 2003a).

A reform program for residential aged care services has recently been mapped out by the Hogan Review (2004) and the Australian Government has agreed to adopt most of its shorter term recommendations. Consideration of its longer term options — in particular, giving greater emphasis to self reliance in meeting the cost of aged care and the associated development of more relevant tax and asset arrangements governing the sale of the family home — will prove controversial and any such reforms will require a change from current expectations. But this seems unavoidable if the community's future needs for quality residential aged care are to be met efficiently, effectively and equitably.

Governments have attempted piecemeal reforms in health care, but have yet to come to grips with the deep-seated structural problems arising from fragmentation of responsibility and lack of coordination across services. Three areas stand out in particular: the interface between public and private hospital services; hospital-based services versus health care provided in the community, such as general practice; and the interface between health care and other community services, including aged care. Apart from the direct efficiency costs, the divided responsibility for service provision between the Commonwealth and States creates considerable incentive for cost, risk and blame shifting. 'Bed blocking' — whereby elderly patients prevent multiple use of acute care hospital beds while waiting for a nursing home placement — is one example of dysfunction. As a former head of the Victorian Health Department observed:

The surprising thing is that Australian healthcare, operating under such compromised arrangements, manages to be as good as it is. (Paterson 2002)

Figure 1.9 Variability in Australia's health and aged care systems
 Percentage variation from the national average



a Available public hospital beds per 1000 people, 2001-02. **b** Proportion of patients waiting more than a year for elective surgery in public hospitals, 2001-02. **c** Proportion of the aged population (75 and over, indigenous people 55 and over) receiving a voluntary health assessment, 2002-03. **d** Total recurrent cost per casemix-adjusted separation, selected public hospitals, 2001-02. **e** Operational high care places per 1000 people aged 70 years and over, 30 June 2003. **f** Proportion of people entering high residential care within three months of their ACAT assessment, 2002-03. **Note:** The caveats that jurisdictions attach to the data are reported in SCRGSP (2004). The Northern Territory is included in national averages but not separately identified here because of the size of its indigenous population and other features.

Source: Derived from SCRGSP 2004, tables 9A.6, 9A.18, 10A.20, 9A.4, 12A.10 and 12A.37.

Systemic health care reform in Australia has so far proved to be nearly intractable. A number of possible strategies has been identified (box 1.3). But thorough public evaluation of such strategies has been lacking.

Without broader agreement on the causes of underperformance and possible solutions, making headway will remain difficult. As a first step, the Commission has proposed that COAG initiate an independent national public review of Australia's health system as a whole. The review should encompass all aspects of the system, but with particular emphasis on:

Box 1.3 Different paths to health care reform in Australia

There has been a range of proposals in recent years for health care reform in Australia. Some have involved more ambitious or large scale changes than others. These were canvassed in the Commission's Discussion Draft, *Review of National Competition Policy Reforms*, and categorised as follows:

- 'Incremental', but nonetheless significant, changes could be made in both the public and private sectors, while maintaining the existing roles and responsibilities of the various levels of government and in the context of current funding arrangements.
 - Examples could include: reducing the scope for cost shifting, improving service integration, addressing shortages in the health care workforce, addressing shortcomings in private health insurance arrangements, and facilitating choice by providing improved information to patients.
- Major changes could be made to roles, responsibilities and funding arrangements. Possible options include:
 - The Australian Government assuming funding and delivery responsibility for public hospital services.
 - The States assuming responsibility for a greater range of health services, for example, after-hours GP clinics.
 - Allowing, or obliging, those people who can afford adequate private health insurance to opt out of the public system.
 - Introducing 'managed competition' whereby 'budget holders' (or competing third party payers) would purchase health care services from competing providers on behalf of their client populations. There are various possibilities in this regard:
 - : Richard Scotton, for example, has proposed a scheme involving three main elements: the amalgamation of existing health programs; the specification of clear and separate roles for governments; and the integration of private sector funding and service provision into a national program (PC 2002b, p. xiv).
 - : A somewhat different, but related approach, would involve pooling of federal and state funds, with responsibility for service provision devolved to regional health authorities that would purchase the full range of health services for their residents.

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- health financing issues (including federal/state responsibilities and their implications);
 - coordination of care (including with aged care);
 - the interface between private and public services; and
 - information management in health care (such as transferable patient records and use of information in quality assurance).

Recommendations from such a review — akin to the review by the Hilmer Committee that preceded the national competition policy — could be used by COAG to develop an agreed coordinated reform framework and program, and an implementation timetable to drive the reform process.

The efficiencies arising from such a cooperative national reform program could be directed to enhancing service quality and accessibility and help to address the burgeoning fiscal pressures that will otherwise result from Australia's ageing population.

Wider reforms to promote productivity

Although an ageing population structure is probably Australia's biggest foreseeable policy challenge, it is not the only one. There is pressure both domestically and internationally to improve environmental outcomes and the sustainability of resource use, whether through rectifying land degradation and salinity, reducing greenhouse gas emissions, conserving biodiversity or enhancing environmental amenity. And the growing emphasis on bilateral and regional trade agreements in place of multilateral trade reform adds to the ongoing challenges to Australia's economic performance as the world's economies becoming increasingly integrated.

In the future, even more than in the past, productivity growth will be the prime determinant of the living standards of Australians given ageing and other pressures. Over a 40 year period, the power of compounding means that even a seemingly small lift in annual productivity growth eventually has big effects. For example, if Australia were able to match the 1990s labour productivity growth rate of 2.05 per cent after 2003-04, rather than the long-term average of 1.75 per cent, Australians would cumulatively have \$3900 billion more income by 2044-45 — a sizeable buffer against ageing costs. General productivity growth thus has a key role to play in easing the fiscal pressures associated with ageing, even if the higher real wages and expectations about service levels that come with it bring fiscal pressures of their own.

Productivity growth was the mainspring of Australia's economic performance in the 1990s. During the last completed growth cycle, multifactor productivity — a measure of the efficiency of both labour and capital use — grew at more than double the rate in the previous cycle. Australian households benefited from the equivalent of an additional \$7000 income, on average, by the end of the 1990s. Notwithstanding the difficulties in establishing causality, a range of indicators confirm that structural reforms, including national competition policy, have been the principal contributors to that surge in productivity and income.

As more recent experience shows, however, sustaining high productivity growth can be difficult. Annual multifactor productivity growth averaged only 1 per cent in the five years to 2003-04 compared to twice this rate in the 1993-94 to 1998-99 growth cycle. Short-term influences, such as drought, have adversely affected Australia's productivity performance in the latest incomplete cycle, but the disparity with the earlier period illustrates the challenges.

COAG's review of national competition policy in 2005 provides an opportunity to build on past efforts and commit to a new and enlarged productivity-enhancing reform agenda for Australia.

The Commission's current inquiry on national competition policy reforms is intended to inform that review. In addition to assessing the substantial net benefits of reforms to date, the Commission has identified areas where the national coordination of reform would offer a high pay-off to the community compared with individual jurisdictions acting independently. These encompass important areas of Australia's economic infrastructure — energy, water and freight and passenger transport — as well as natural resource management and, as noted above, the health care system. Continuing reforms in other human services areas — such as education training and aged care — as well as in labour market and tax policy, are also crucial to Australia's future prosperity, but appear in less need of national coordination at this stage.

Implementation of a broad-based reform effort would play a central role in helping to maintain and enhance the living standards of Australians in the face of population ageing and the other major challenges ahead. Even though there are some uncertainties about the precise demographic transition over the next 40 years, the risks to our future prosperity from an ageing population are relatively clear. The lead times involved in achieving necessary reforms, and seeing a pay-off from them, add to the importance of taking action sooner rather than later.

2 Commission activities

Diverse social and environmental issues were prominent in the Commission's inquiries and research in 2003-04. Its standing secretariat and research responsibilities encompassed new reporting on indicators of indigenous disadvantage, implementation of a new performance indicator framework for government services and research on governance arrangements for publicly-owned enterprises. The Office of Regulation Review reported higher levels of compliance with the Government's requirements for regulation impact statements in 2003-04. Competitive neutrality complaints also increased significantly. The Commission's research program responded to identified needs on productivity, environmental, trade, regulatory and social policy issues, although it became increasingly curtailed as the number of government-commissioned projects grew. 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 1998b).

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 2003-04 (box 2.1). A variety of social and environmental issues, each with significant economic dimensions, featured strongly in the work program. The Commission completed inquiries on disability discrimination regulation, first home

Box 2.1 **Commission publications in 2003-04**

Public inquiries (draft reports and position papers)

National workers' compensation and occupational health and safety frameworks	Impacts of native vegetation and biodiversity regulations
Review of the Disability Discrimination Act	First home ownership
Review of the gas access regime	

Public inquiries (final reports)

Review of TCF assistance	First home ownership
National workers' compensation and occupational health and safety frameworks	Impacts of native vegetation and biodiversity regulations
Review of the gas access regime	Review of the Disability Discrimination Act

Government-commissioned research reports (draft reports)

Rules of origin under CER

Government-commissioned research reports (final reports)

Evaluation of the mutual recognition schemes	Rules of origin under CER
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Supplements to government-commissioned research reports

Assistance in Australia and New Zealand under the CER Agreement	Restrictiveness index for preferential rules of origin
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Performance reporting

Overcoming indigenous disadvantage: key indicators 2003: overview and main report	Report on government services 2004: education, health, justice, community services, emergency management and housing
Report on government services 2003: indigenous compendium	International benchmarking of container stevedoring
Water rights arrangements in Australia and overseas	

Competitive neutrality reports

Australian Valuation Office

Annual report suite of publications

Annual report 2002-03	Regulation and its review 2002-03
Trade & assistance review 2002-03	

Commission research papers

Trends in Australian manufacturing	Social capital: reviewing the concept and its policy implications
Submission in response to the NCC's draft recommendation on declaration of Sydney Airport	Assessing environmental regulatory arrangements for aquaculture

(continued next page)

Box 2.1 (continued)

Other Commission papers

Richard Snape Lecture: 40 million Aussies? The immigration debate revisited (Max Corden)	From industry assistance to productivity: 30 years of 'the Commission'
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Staff working papers

Mechanisms for improving the quality of regulations: Australia in an international context	Restrictions on trade in education services: some basic indexes
A comparison of gross output and value- added methods of productivity estimation	Australia's industry sector productivity performance

ownership, national frameworks for workers' compensation and occupational health and safety, and the impacts of native vegetation and biodiversity regulation. A first report on *Overcoming Indigenous Disadvantage*, commissioned by the Council of Australian Governments (COAG), increases the transparency of governments' performance in realising the goal that indigenous people enjoy the same overall standard of living as other Australians.

The Commission also published its own research on 'social capital', the management of water rights benchmarked against international practice, the performance of the Australian manufacturing sector and the efficiency and effectiveness of the various environmental regulatory arrangements for aquaculture in Australia. Other work focused on the regulation of trade and industry and ongoing analysis of Australia's productivity performance. A full listing of publications is in appendix F.

During the year the Commission commenced a major inquiry on national competition policy and, at the request of the COAG, a study of the economic implications of Australia's ageing population structure. The Commission's continuing involvement in reporting on cross-jurisdictional policy issues is further demonstrated by the recent references sent to it on the mutual recognition schemes, building regulation, and the trans-Tasman integration of competition and consumer protection regimes.

30th anniversary

This year marked the 30th anniversary of 'the Commission', going back to the formation of the Industries Assistance Commission. The legislation transforming the Tariff Board into the Industries Assistance Commission was given assent on 11 December 1973 and the new body began operations on 1 January 1974.

Driven by market pressures and the contributions of many institutions and individuals, Australian economic policy has changed markedly over the past three decades. A protectionist and anticompetitive focus has given way to a more open, pro-competition and community-wide focus. The Commission helped to lay the foundations for these new policy directions.

The combination of its three core principles — an arm's length relationship with government, advice and analysis that is open to public scrutiny and a mandate to advance the interests of the community at large — have distinguished the Commission among public sector institutions around the world. How these principles have manifested themselves in its role and influence over the years was the central theme of the brief commemorative history, *From industry assistance to productivity: 30 years of 'the Commission'*, launched by the Treasurer, Peter Costello, at a function on 11 December 2003 (PC 2003c).

The creation of the Productivity Commission in April 1998 saw the Commission's mandate renewed and broadened. Six years on it has a full program of inquiries and research, with its activities attracting broad involvement and support from across governments and the wider community.

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 2003-04 were as follows.

Public inquiries and other commissioned studies

The Commission had eight public inquiries and five government-commissioned research studies underway at some time during 2003-04, with a number of additional references from the Government in prospect.

Much of the year was spent completing the increased volume of references received in 2002-03 (figure 2.1). These encompassed inquiries on national frameworks for workers' compensation and occupational health and safety, the Commonwealth's Disability Discrimination Act, native vegetation and biodiversity regulation and the gas access regime.

An inquiry on first home ownership — covering the nature and causes of changes in housing affordability and policy initiatives to improve affordability and the

efficiency of housing markets generally — was commenced and completed within the year. Two other public inquiries were commenced:

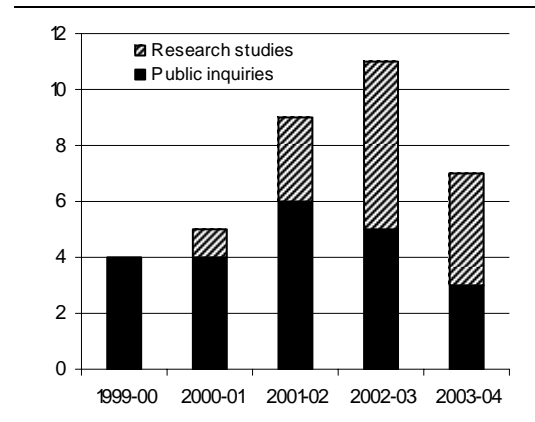
- in advance of COAG’s consideration of future arrangements, a review of past impacts of national competition policy and related reforms and areas offering opportunities for significant gains to the Australian economy from removing impediments to efficiency and enhancing competition; and
- a review of the exemption accorded international liner cargo shipping under Part X of the Trade Practices Act from some of the more general provisions which would otherwise apply to such anti-competitive arrangements.

During 2003-04 the Commission finalised an evaluation of mutual recognition schemes within Australia and in New Zealand and commenced four additional research studies requested by the Government:

- a review of the rules of origin arrangements under the Australia New Zealand Closer Economic Relations Trade Agreement that are intended to confine access to trade concessions to goods produced in either country but which impose regulatory and other burdens (the study was completed in May 2004);
- an assessment of the contribution that national reform of building regulation, under the auspices of the Australian Building Codes Board, has made to the productivity of the building and construction industry and to economic efficiency;
- an examination of the productivity, labour supply and fiscal implications of likely demographic trends over the next 40 years to further improve understanding of the challenges and opportunities resulting from an ageing Australia; and
- an assessment of the potential for greater cooperation, coordination and integration of the general competition and consumer protection regimes in Australia and New Zealand.

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.

Figure 2.1 References received number



Performance reporting and other services to government bodies

The Commission's role as secretariat to the Steering Committee for the Review of Government Service Provision is in its eleventh year. The *Report on Government Services 2004* 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 \$80 billion of government expenditure and approximately 10 per cent of gross domestic product in 2002-03. The collaborative efforts of more than 80 Federal, State and Territory government agencies contributed to the 2004 Report.

The Review's philosophy is one of continuous improvement and a number of measures were introduced to improve the quality and scope of the 2004 Report. Most notably, a new performance indicator framework was implemented for most services. The new framework emphasises the Review's focus on outcomes and accentuates the importance of equity as well as efficiency and effectiveness. Other improvements included enhanced comparability of data, and the reporting of new performance indicators in the areas of police, court administration, health and emergency management. In April 2004 the Review issued a second collection of indigenous data from the Report to make it more accessible. Improvements in the 2004 Indigenous Compendium included new indicators for school education, vocational education and training, and primary and community health.

In April 2002 COAG asked the Steering Committee to produce a regular report on key indicators of indigenous disadvantage as part of the COAG reconciliation commitment. The first report, *Overcoming Indigenous Disadvantage: Key Indicators 2003* was released in November 2003. The report focuses on indicators of the state of indigenous people, rather than individual government services. Building on earlier 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. There are ongoing consultations with governments and indigenous people to ensure that future reporting maintains currency and relevance, and improves.

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 are relevant to the policy concerns of governments.

The Commission currently has a three year program of monitoring the financial performance of government trading enterprises and reporting on their external governance arrangements. In addition to compiling financial indicators for 84 enterprises over the period 1998-99 to 2002-03, work this year focused on the role and application of various accountability mechanisms. The Commission published its report in July 2004. In order to inform its ongoing research, the Commission convened a workshop with invited board members, chief executive officers and senior government officials in September 2003 to discuss governance issues and lessons from governance reforms. Major themes were the continuing high levels of ministerial control over GTEs, the unsustainability of current governance arrangements given the lack of clearly defined and non-conflicting objectives, and the erosion of some of the commercial disciplines of the Corporatisation Acts through the encroachment of other legislation.

The Commission completed studies of two key infrastructure industries during the year. One examined the improved performance of Australian container terminals compared to overseas terminals in the period since the Commission's 1998 study. The other compared the legal, organisational and regulatory arrangements for managing water rights in Australia and overseas against accepted best practice principles and was undertaken, with strong support from government, to increase awareness of similarities and differences in various complex water rights systems. The studies were released in July and October 2003, respectively.

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 departments, regulatory agencies and statutory authorities, and about 40 Ministerial Councils on processes for the development of regulatory proposals and for the review of existing regulation.

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 aims to ensure consideration of the social and environmental as well as economic impacts of any proposed regulation. This includes an examination of alternative approaches and an assessment of likely 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 objective of effective and efficient legislation by providing advice on, and monitoring compliance with, the Australian Government's RIS guidelines (box 2.2). 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 an estimated 440 government officials in 2003-04.

The ORR liaises with State and Territory government officials, federal and state parliamentary committees concerned with regulation and officials from other national governments — including New Zealand — and monitors developments in regulatory best practice internationally. Such activity results in greater consistency in regulation making processes 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.

A Staff Working Paper on mechanisms for improving the quality of regulations — which examined selected regulatory policies and practices from the Australian States and Territories and 10 OECD countries — was published in July 2003.

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 Australian Government 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 nine written complaints in 2003-04 with one complaint proceeding to formal investigation and report. Seven complaints did not proceed beyond preliminary investigation and one complaint remains subject to ongoing investigation.

The Office also provides informal advice and assists agencies in implementing the competitive neutrality requirements. It provided advice around five times a week, on average, to government agencies or in response to private sector queries during 2003-04.

Details of the complaints and the action on them, and the advisory and research activities of the Australian Government Competitive Neutrality Complaints Office, are reported in appendices B and D.

Box 2.2 Compliance with RIS guidelines in 2003-04

The Commission is required to report annually on compliance with the Government's Regulation Impact Statement (RIS) requirements. Its report for 2003-04 reveals that:

- the Australian Government made about 1700 regulations. The ORR provided advice on 845 regulatory proposals and 114 proposals, equal to about 7 per cent of all regulations made, required preparation of a RIS;
- overall, the compliance of departments and agencies in 2003-04 with the RIS requirements at the decision-making stage of regulatory policy development was higher than in previous years:
 - adequate RISs were prepared for 92 per cent of 114 regulatory proposals (compared to 81 per cent in 2002-03 and 88 per cent in 2001-02); and
 - compliance for regulatory proposals assessed as having a more significant impact on business and the community was also higher at 94 per cent (compared to 46 per cent in 2002-03 and 70 per cent in 2001-02).
- 24 departments and agencies were required to prepare RISs. Of these, 18 were fully compliant (compared to 12 of 23 in 2002-03); and
- compliance by Ministerial Councils and national standard-setting bodies with the COAG's RIS requirements at the decision-making stage was 88 per cent, similar to that in 2002-03.

COAG strengthened its RIS requirements in June 2004 — including a new requirement for the ORR to work closely with its New Zealand counterpart in assessing draft consultation RISs involving New Zealand issues.

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 2003-04* (PC 2004b).

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, including potential commissioned work; 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 objective that guided the 2003-04 program of supporting research was to identify:

- 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 issues concerning the ageing of the population and environmental sustainability.

With an increasing number of government-commissioned projects on hand or in prospect, the Commission’s supporting research outputs became increasingly curtailed through the year. Most of the supporting research outputs listed in box 2.1 were completed in the first half of 2003-04. Further information on the Commission’s supporting research activities and publications in 2003-04 is provided in appendix E. This also details the 67 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 E.1). The Commission briefed 25 international delegations and visitors during 2003-04, with a particular focus on the nature of the Commission, its processes, activities and related policy issues (table E.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. An indication of the extent of consultation undertaken by Commission is that during the course of its public inquiry activities in 2003-04 it met with more than 180 people, organisations or groups; conducted 66 days of public hearings; and received more than 1220 submissions from participants.

The Commission has adapted its consultative processes to suit the variety of research studies commissioned by the Government. These studies typically require less public interaction than inquiries, but the Commission provides opportunities to obtain feedback on its analytic framework and preliminary findings and, where applicable, draft recommendations. In the course of the two studies completed in 2003-04 — mutual recognition schemes and rules of origin — the Commission met with a total of 225 organisations or people in visits or roundtable discussions in Australia and New Zealand, and received more than 220 submissions. In advance of finalising its reports, the Commission convened nine roundtable discussions in place of public hearings, including in Auckland and Wellington.

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 targeting 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 consultative activities in 2003-04 extended well outside the Melbourne–Canberra–Sydney axis, encompassing regional Australia as well as New Zealand. For example, the Commission held public hearings for its native vegetation inquiry in Cairns, Mackay, Toowoomba, Moree, Dubbo and Albury, and also convened a roundtable discussion with participants in Geraldton.

The Commission's inquiry on the Disability Discrimination Act provided an opportunity to review the accessibility aspects of its inquiry processes and, with the assistance of the Vision Australia Foundation, upgrade its website. Other specific initiatives in the inquiry included making publications available in formats such as Braille, large print and audio on request; advertising on Radio for the Print Handicapped; vetting venues for ease of access and using a portable hearing loop in most hearings; utilising AUSLAN interpreters; and placing an MP3 audio file of the draft report overview on the Commission's website. The Commission invites users of its website to advise the Commission of any accessibility difficulties.

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 its inquiry and research work. From time to time the Commission also taps specialist external expertise. Examples from the past year were:

- In July 2003 the Commission convened a workshop to provide an opportunity for industry experts to discuss a draft of the Commission's benchmarking report on water rights arrangements.
- In September 2003 the Commission organised a roundtable, attended by some 30 housing experts and major interest groups, to elicit views and discussion on the key issues for its inquiry on first home ownership.
- In February 2004 the Commission convened a workshop to discuss its preliminary quantitative analysis of the size of the economic impacts of broad scale native vegetation clearing restrictions in two shires — Moore Plains in northern NSW where people are typically looking to switch from grazing to cropping, and Murweh in south-west Queensland where people are looking to improve the livestock carrying capacity of their properties.
- In order to increase confidence in its recommendations on national frameworks for workers' compensation and occupational health and safety, the Commission sought and published:
 - advice from the Australian Government Actuary on the financial impact on the Australian Government should private sector employers seek to self insure;
 - advice from independent consulting actuaries as to the possible impacts of Commission proposals for national frameworks on State and Territory workers' compensation schemes; and

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- legal advice from the Australian Government Solicitor on the powers available to the Australian Government to operate an alternative national workers' compensation and occupational health and safety regime.

The Commission continued its program to attract senior academics as 'Visiting Researchers' on a regular basis in 2003-04. This program is designed to strengthen the Commission's expertise and its research capacity and linkages. Emeritus Professor Peter Lloyd, (recently retired from Melbourne University), Dr Geoff Edwards, (formerly Associate Professor at La Trobe) and Dr Mark Harrison (formerly of the Australian National University and since then an independent economic consultant) continued their participation in the program in 2003-04. Professor Knox Lovell from the University of Georgia in the USA, who has a particular interest in measuring productivity growth in the non-market sector, rejoined the program for a short period in June 2004. Professor Max Corden, who had joined the program as an honorary Visiting Researcher in April 2003, delivered the inaugural Richard Snape Lecture, *40 Million Aussies? The Immigration Debate Revisited*, on 30 October 2003.

The Commission was able to arrange secondments from the New Zealand Ministry of Economic Development to assist it with each of the government-commissioned studies on the mutual recognition schemes and on the trans-Tasman integration of competition and consumer protection regimes.

Research program consultations

The Commission deferred this year's consultations on its supporting research program until 2005. With available resources committed to priority references from the Government, finalising existing research projects or ongoing research on productivity issues, the Commission would have had almost no scope to respond in the immediate future to new suggestions. The outcome of the Government's review of the Commission's future funding, expected during the 2004-05 Additional Estimates process, will also affect the scale of supporting research activity in 2005.

Research collaboration

The Commission participates in collaborative research projects with academic institutions. Partners in such research projects in 2003-04 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 NSW Health

Department, the Health Insurance Commission, the Australian Bureau of Statistics and the Australian Institute of Health and Welfare);

- 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.

The Commission participated in a consortium to develop modelling capacity to understand better the economic impacts of changes in water use at a regional level. Consortium members — the Productivity Commission, Centre for Policy Studies at Monash University, Victorian Departments of Primary Industry and Treasury and Finance, and CSIRO — provided funding and in-kind assistance to enhance TERM, a computable general equilibrium model of the Australian economy, developed by the Centre for Policy Studies, to enable analysis of a range of water policy and regional issues.

The Commission also works cooperatively with other government agencies on projects of joint interest. During 2003-04 the Commission continued to work with the Australian Bureau of Statistics, the Department of Industry, Tourism and Resources and the (former) 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 established to provide an Australian contribution to a set of country studies facilitated and coordinated by the OECD. Findings from the early stages of the Australian study were summarised in OECD (2003b). The Commission and its project partners updated that earlier research and undertook additional streams of work in 2002 and 2003, producing a total of eight working papers. The key findings were drawn together in a Commission Research Paper, *ICT Use and Productivity: A Synthesis from Studies of Australian Firms*, published in July 2004.

As foreshadowed in last year's annual report, staff from the Productivity Commission and the United States International Trade Commission collaborated in 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 that are needed in its research, 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. The 15th East Asian Seminar on Economics, held in Tokyo in June 2004, focused on monetary policy. Commission research on productivity and the trade and investment effects of preferential trading arrangements featured in the two previous seminars.
- Commission Chairman, Gary Banks, is a member of the Advisory Board of the Melbourne Institute of Applied Economic and Social Research and serves on the Board of Advisory Fellows for the Regulatory Institutions Network (RegNet) at the Australian National University. Commissioners are members of various advisory boards and committees including at CSIRO, universities, non-profit organisations and a Cooperative Research Centre.
- With an ongoing role in monitoring the financial performance of government trading enterprises, the Commission continues to be a member of the Australian Accounting Standards Board Consultative Group.
- Staff members are also involved in such networking activities. Assistant Commissioner Dean Parham is a member of the Bureau of the Statistical Working Party to the OECD's Committee on Industry and the Business Environment, as well as being on the International Advisory Committee for the *International Productivity Monitor*, which serves as a vehicle for international discussion of productivity topics. Assistant Commissioner Deborah Peterson is on the editorial board of the *Australian Journal of Agricultural and Resource Economics* and president-elect of the Australian Agricultural and Resource Economics Society.

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- The Office of Regulation Review organised and chaired the annual meeting of regulation review units — from the States, Territories and New Zealand — in September 2003. The ORR also liaised on a variety of regulatory issues with the New Zealand and United Kingdom governments and the Bertelsmann Foundation in Germany.
 - The AGCNCO hosted the annual meeting of competitive neutrality policy and complaint agencies of the Australian, State and Territory governments held in June 2004.

Informing and communicating via the internet

Internet technology has facilitated speedier and easier notification of developments in Commission inquiries and community access to the research outputs that inform community debate on microeconomic policy and regulation. 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, Commission submissions to other review bodies, key speeches made by the Chairman, competitive neutrality complaints reports, benchmarking studies, and reports arising from its secretariat work for the Review of Government 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.

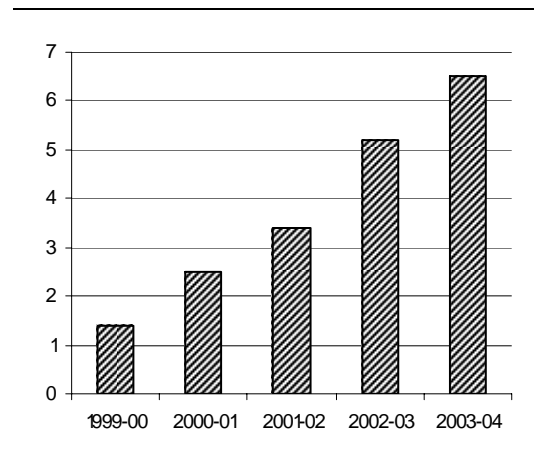
In the 12 months to 30 June 2004 there were 153 000 external requests for the index pages of inquiries and government-commissioned research studies current in 2003-04, up from 86 000 equivalent requests in the previous year. The references of most interest were the inquiries on first home ownership (49 600 requests), workers' compensation (21 500 requests) and the Disability Discrimination Act (20 000 requests).

Even after an inquiry or project is completed, community interest can remain high. For example, during the year, web pages for the Commission's 1999 inquiry on Australia's gambling industries were requested more than 24 500 times. The 2003 and 2004 Reports on Government Services and the reports on indigenous

disadvantage and social capital were also amongst the most frequently requested publications from the website during the year.

The Commission's website received a total of 6.5 million file requests from external users in 2003-04, a 25 percent increase on activity in the previous financial year (figure 2.2).

Figure 2.2 **Website hits**
Million



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 2001b); feedback from State and Territory Treasury officials on the quality and usefulness of reporting on the financial performance of government trading enterprises (PC 2002c); and feedback on the quality and usefulness of the Commission's supporting research program (PC 2003b).

In May 2004 the Commission undertook another survey of users and contributors to the Report on Government Services to obtain feedback on its usefulness in meeting the objectives of the Review of Government Service Provision. Notwithstanding a low response rate, the results provide some indication of respondents' perceptions of the quality of the information in the Report. Ninety five per cent of respondents in total rated the usefulness, credibility and relevance of the Report as 'adequate', 'good' or 'very good'; about 85 per cent similarly rated its timeliness; and around 80 per cent of respondents similarly rated the comparability of data in the Report.

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. Nevertheless, the examples in box 2.3 help illustrate the breadth of support for the Commission's policy-advising contribution.

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

Various recent Senate Committee reports have recommended that the Commission be asked to report on:

- structural reform options for Australian telecommunications, including the structural separation of Telstra;
- any proposed trading agreements; and
- the impact of the Australia–United States Free Trade Agreement (AUSFTA) five years after its implementation.

In addition, Labor Senators recommended that the Commission be asked to report comprehensively on the impacts of any bilateral trading or investment agreements before they are pursued; on the impact of the AUSFTA on the Pharmaceutical Benefit Schedule listing process; and on whether the foreign investment liberalisation in the AUSFTA should be extended to other countries.

The Australian Minister for Trade, the Queensland Minister for Primary Industries and Fisheries, the Labor Party's 2004 election platform and the Australian Milk Producers Association all proposed that the Commission review Australia's dairy processing sector.

The Drought Review Panel (2004) saw merit in the Commission reviewing the effectiveness of government drought assistance and its impact on agricultural productivity and structural adjustment.

Other examples of recommendations for Commission reviews made by various bodies, industry groups and others include:

- the economic impact of negative externalities arising from such sources as dryland salinity, acid-sulphate soils, soil erosion, landscape and river system degradation, climate change, coral reef bleaching, disease migration, drought, bush fires, exotic weed infestations, ozone depletion and pollution;
- the alignment of benchmarks and outcomes agreed at the local level with COAG's National Framework for Reporting on Indigenous Disadvantage;
- a review of new residential aged care funding arrangements;
- Australia's antidumping system;
- regular reporting on the mandatory renewable energy target;
- the impact of climate change and policy action to address it across all sectors of the economy;
- options for the provision of emergency response and maritime salvage services;
- progressing regulatory reform in the chemical and plastics industry through a Commission review of the operations of the Therapeutic Goods Administration, the Australian Pesticides and Veterinary Medicines Authority and the National Industrial Chemicals Notification and Assessment Scheme.

Details of these and other examples are provided in appendix B.

The Commission systematically offers recipients of its reports the opportunity to provide feedback. Survey cards are inserted into printed reports, the Commission's website has provision for sending comments via e-mail and an on-line survey form. Though small in number, feedback through these mechanisms in 2003-04 was, on the whole, positive, and respondents' comments were forwarded to management and authors for consideration. The Commission also provides an opportunity for people attending its public hearings to express their views on the organisation and conduct of hearings. While mostly positive, some of the feedback nominated the advertising of hearings, explanation of the hearing process and venue selection as areas for improvement.

The number of recipients of the Commission's e-mail alert service, 'Productivity Commission News', continues to grow. Feedback on the service remains generally positive and some refinements were made in response to suggestions including, for example, providing direct website links to reports rather than to the Commission's home page.

Policy and wider impacts

The influence of the Commission's work is difficult to evaluate but is reflected in 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 recent inquiry reports, the Government:

- accepted the Commission's preferred tariff option and broadly endorsed its approach to other post-2005 assistance arrangements for the TCF industry;
- accepted all of the Commission's recommendations on native vegetation and biodiversity regulation and indicated that it would pursue implementation of them by the States and Territories through COAG processes;
- confirmed its intentions, previously announced in an interim response, to endorse the majority of the Commission's recommendations on the national access regime, particularly as regards the provision of clearer directions to regulators and greater certainty for investors; and

-
- accepted the Commission's recommendation relating to section 2D of the Trade Practices Act relating to local government exemptions.

Governments do not always accept the Commission's advice. For example, the Government:

- supported recommendations in the Commission's report on first home ownership relating to areas of State Government responsibility — such as stamp duties, land supply and infrastructure charging — but rejected those relating to reviews of the personal income taxation regime and the housing needs of low income households and changes to the First Home Owner Scheme; and
- rejected key elements of the Commission's proposed national framework for worker's compensation and occupational health and safety and deferred consideration of recommendations relating to design elements for worker's compensation and occupational health and safety pending advice from a new tripartite body, the Australian Safety and Compensation Council.

Recent research studies specifically commissioned by the Government were also influential in policy development this year. For example, COAG officials have recommended that 25 of the Commission's findings from the Commission's evaluation of the mutual recognition schemes be accepted and that further work be undertaken on the remainder. In response to the Commission's 2003 study of general practice administrative and compliance costs and subsequent consultation through a Red Tape Taskforce, the Government announced administrative changes to the Practice Incentives Program and Enhanced Primary Care Program and a range of other measures to reduce the paperwork burden on general practitioners (Abbott 2004).

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

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.8). 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 1997 Industry Commission information paper on community service obligations, 1998 research papers on cost allocation and rate of return issues, and the Commission's 1999 report on gambling (box B.2).

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 2003-04 sittings of the *Federal Parliament*:

- 52 Members and 34 Senators referred to 30 different Commission reports or inquiries, or to the Commission's role in policy processes;
- of the 200 mentions in debates and questions, federal parliamentarians cited the Commission as an authoritative source about three-quarters 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
- Commission reports which featured most prominently were the inquiries or inquiry reports on first home ownership and the reviews of post-2005 assistance arrangements for the automotive and TCF industries, as well as the Commission's productivity research.

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 2003-04 sittings of these eight parliaments:

- 130 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 226 mentions in debates and questions, State and Territory parliamentarians cited the Commission as an authoritative source 68 per cent of the time. Only 3 per cent of mentions were critical of the particular finding, report or Commission attribute referred to; and
- more than a quarter of mentions were to the Report on Government Services, with the Commission's first home ownership, gambling and native vegetation reports and inquiries also featuring prominently.

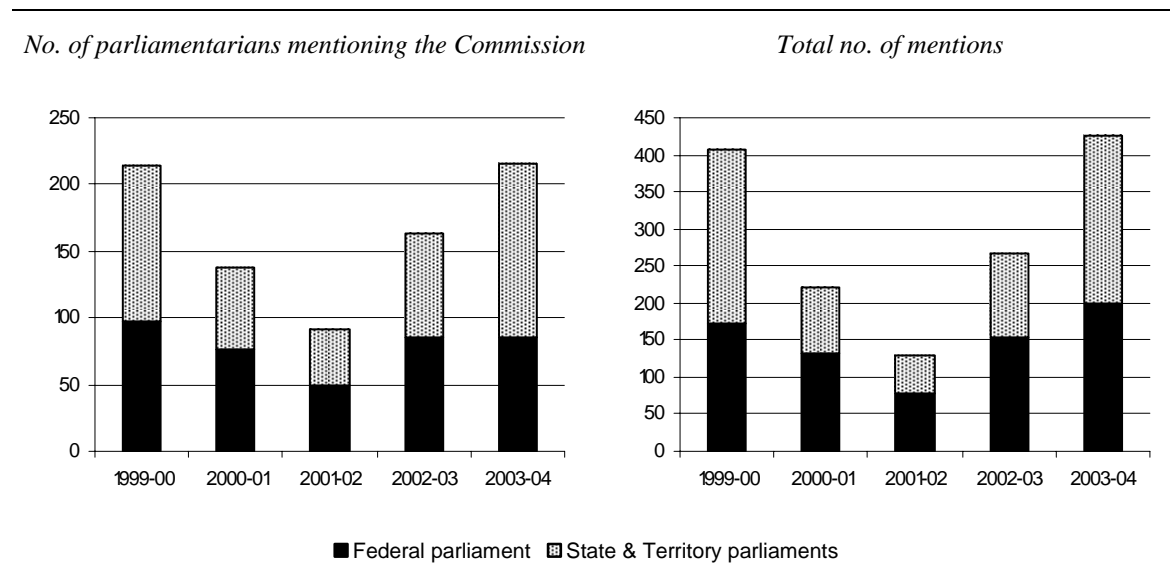
Recent trends in mentions of the Commission in Federal, State and Territory parliamentary proceedings are shown in figure 2.3.

In addition, there were more than 200 mentions of the Commission and its work in the Hansard proceedings of *federal parliamentary committees* in 2003-04, around double the number of mentions in 2002-03. The Commission was mentioned in the proceedings of 17 different committees, the majority of mentions being in proceedings of Senate committees investigating the Australia–United States Free Trade Agreement. The most common mentions were to the Staff Working Paper on

preferential trading arrangements, to the inquiry report on telecommunications competition regulation and to the Commission's role and capabilities in policy advice, generally. Twenty four parliamentary committee reports in 2003-04 referred to 25 different Commission inquiries or research reports (table B.1).

Examples of the use of a range of Commission reports by the Parliamentary Library in 2003-04 are reported in appendix B.

Figure 2.3 Mentions of the Commission in Australian parliaments
1999-2000 to 2003-04



Other indicators of policy impact

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

- the support of Australian jurisdictions in having the Commission undertake research studies on a national approach to building regulation and on the economic implications of Australia's ageing population structure;
- the support of the New Zealand Government in having the Commission report on trans-Tasman policy issues such as the mutual recognition schemes, rules of origin under CER and the current review of the Australia and New Zealand competition and consumer protection regimes;
- though its focus is State-specific issues, the Victorian Competition and Efficiency Commission, which was established on 1 July 2004, is modelled on the functions and processes of the Productivity Commission;

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- New Zealand and a number of Australian jurisdictions have recently implemented RIS systems modelled broadly on the requirements overseen by the Commission's Office of Regulation Review;
 - the expanding scope of reporting on government service provision and use made of information in the annual Report on Government Services by central and line agencies within government, and in parliamentary and wider community debate on the funding and performance of such services as hospitals and schools;
 - the positive response to the first report on indigenous disadvantage;
 - use made by the Australian Government of AGCNCO investigation and research reports in its 2004 Competitive Neutrality Guidelines for Managers;
 - the contribution made by the Commission's research paper on aquaculture to the reform agenda being pursued by the Primary Industries Ministerial Council; and
 - and the continuing use of the Commission's productivity and trade-related research by government, members of parliament, the OECD and IMF, policy analysts and media, and in the wider community.

One continuing indicator of interest in the Commission's inquiry and other work is the many invitations it received in 2003-04 to give briefings and present papers to parliamentary, business and community groups and to conferences (table E.1). As part of a rolling program of briefings for the States and Territories on the Commission's work, presentations and visits were made to all State and Territory governments. The Commission also responded to requests from visiting officials and delegations from Japan, Korea, Taiwan, the Philippines, Malaysia, Singapore, Indonesia, New Zealand, the United Kingdom, Ireland, the United States, 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 E.2).

A further indicator of public interest in the Commission's work, and its potential influence, is the extent of media coverage. During 2003-04, 86 editorials in 13 metropolitan newspapers drew on the findings or recommendations in 17 different Commission reports, or referred to the Commission's role in assisting public policy making. The Commission's inquiry on first home ownership accounted for more than half of all editorial mentions and of those, 20 related to the Commission's Discussion Draft. However, editorialists also drew on the analysis in a wide range of inquiry and research reports including the report on indigenous disadvantage, gambling, the gas access regime, research publications and Chairman's speeches. There were a further 19 editorials in various regional

newspapers, principally on the Commission's first home ownership Discussion Draft. The Commission rated an average of 250 mentions a month in electronic media and an average of 190 mentions a month in print media in 2003-04. The inquiries on first home ownership, TCF assistance and native vegetation 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

Management and accountability information for 2003-04 is reported in appendix A. The audited financial statements for the Commission are contained in appendix G.

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

- *Regulation and its Review 2003-04*, released in November 2004, assessed compliance by departments and agencies with the Australian Government's requirements for the making and review of regulation, discussed the importance of effective consultation in generating high quality regulation, reported on the activities of the Office of Regulation Review and provided information on developments in regulatory policy in Australia and internationally; and
- *Trade and Assistance Review 2003-04*, 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 Management and accountability

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

Overview

Role and structure

The Commission — established under the *Productivity Commission Act 1998* — is the Australian Government's principal review and advisory body on microeconomic policy and regulation. Information about the Commission's role is detailed in its first annual report (PC 1998b, pp. 25–36).

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

The Commission's structure and senior staff at 30 June 2004 are shown in figure A.1.

Commissioners

At 30 June 2004 there were eight Commissioners, including the Chairman. Three Commissioners were appointed on a part-time basis (table A1.1 of attachment A1).

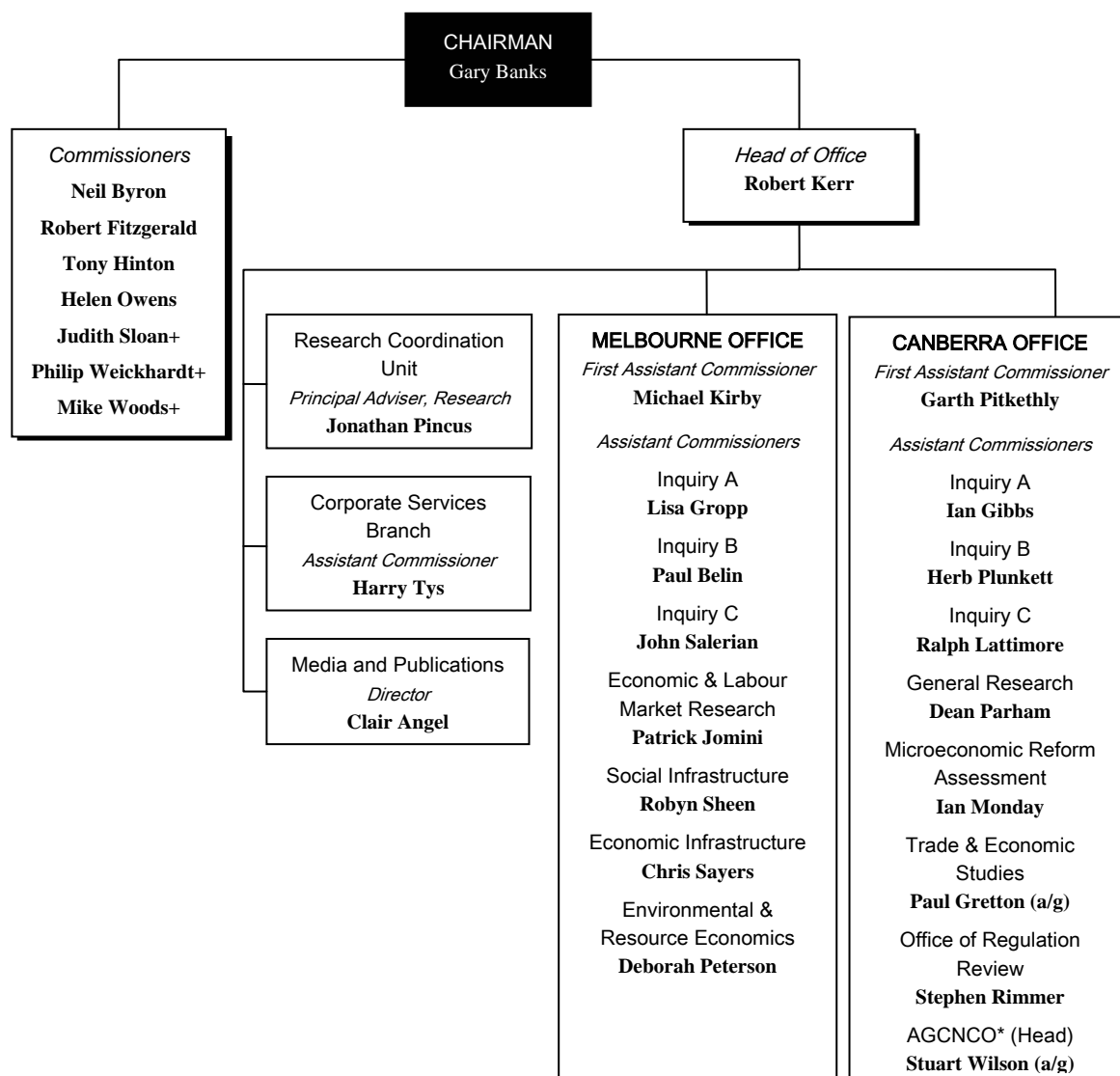
Two new Commissioners — Mr Robert Fitzgerald AM and Mr Philip Weickhardt — were appointed during the year. Biographical information on the new Commissioners is provided in box A.1 and on all Commissioners on the Commission's website.

The appointment of one Commissioner — Dr David Robertson — concluded during the year. His most recent inquiries included those on first home ownership; review of TCF assistance; and a review of radiocommunications regulation.

Associate Commissioners

At 30 June 2004 there was one Associate Commissioner — Mr Gary Potts — appointed for the duration of a particular inquiry on a part-time basis (table A1.2 of attachment A1). Mr Potts was appointed to the review of Part X of the Trade Practices Act. He is currently a Director of AGEST Pty Ltd and Director of the Project Governance Board at the Department of Defence. Mr Potts has had extensive policy advising experience over many years in senior positions in the Australian Treasury.

Figure A.1 **Productivity Commission structure and senior staff, 30 June 2004**



+ Part-time Commissioners

* Australian Government Competitive Neutrality Complaints Office

a/g acting

Dr Ed Shann was appointed as a part-time Associate Commissioner to the inquiry on first home ownership that both commenced and was completed during 2003-04. Dr Shann is currently a Non-Executive Director, Prime Value Asset Management and columnist with the Melbourne Herald Sun. He has previously held senior positions in Access Economics, the Business Council of Australia, Shell Australia, the Department of Prime Minister and Cabinet and the Treasury.

On completion of his term as Commissioner, Dr David Robertson was reappointed as a part-time Associate Commissioner for the remaining duration of the inquiry on first home ownership.

During the year six other Associate Commissioners appointed for the duration of a particular inquiry on a part-time basis completed their appointments (table A1.3 of attachment A1). They were:

- Mr Philip Weickhardt (review of TCF assistance);
- Dr Gary Johns (national workers' compensation and OHS frameworks);

Box A.1 New Commissioners

Robert Fitzgerald AM was appointed as a full-time Commissioner, effective from 27 January 2004, for a five-year term. A commercial lawyer for more than 20 years, Robert has a diverse background and extensive experience in commerce, law, public policy and community services. Prior to being appointed to the Commission, he was the Community and Disability Services Commissioner and Deputy Ombudsman in NSW, and previously Commissioner for Community Services. He also served as a member of the National Competition Council for five years (1999 to 2003) and as Chair of the Commonwealth Taskforce on Franchising Regulation, Chair of the Franchising Code Administration Council, member of the Ministerial Advisory Council on Social Security and member of the Commonwealth Inquiry into the Definition of Charities and Related Organisations. For over 25 years he has also been involved in a voluntary capacity in numerous community services, including as President of the Australian Council of Social Services (1993 to 1997). He currently serves on a number of university advisory and non-profit boards.

Philip Weickhardt commenced with the Commission in January 2004, following his appointment for a five-year term as a part-time Commissioner effective from 4 December 2003. He has had extensive business and management experience. He was CEO and Managing Director of Orica Limited (previously ICI Australia Limited) from 1997 until July 2001. Prior to this he held a range of senior positions with ICI both overseas and in Australia. Since leaving Orica in 2001, he has been appointed as an Adjunct Professor of Global Business at the Mt Eliza Business School. He is also Chairman of Earthwatch Institute, a not-for-profit organisation which contributes to scientific research on environmental issues, and Pilotlight Australia, a small not-for-profit charity organisation doing work in the area of corporate social responsibility. He was a member of the Business Council of Australia and Chairman of its Energy Reform Task Force from 1997 to 2001, and was a member of the Government's Trade Policy Advisory Council from 2000 to 2001.

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- Dr Brian Fisher and Professor Warren Musgrave (impacts of native vegetation and biodiversity regulations);
 - Ms Cathryn McKenzie (review of the Disability Discrimination Act); and
 - Dr Michael Folie (gas access regime).

Staff

At 30 June 2004 there were 180 staff, down from 194 a year ago.

Staff turnover — excluding departures from end-of-contract and voluntary redundancy packages — rose from 9 per cent in 2002-03 to 13 per cent in 2003-04. Turnover in the Melbourne and Canberra offices was of the same order.

The Commission recruited 16 staff during the year, including five through its graduate recruitment program.

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

Outcome, outputs and resources

The financial and staffing resources devoted to achievement of the Government's desired outcome for the Commission — outlined on page 85 — through the provision of five mandated outputs, are summarised in table A.1. Further information on these matters is provided in appendix B.

Governance

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

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

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

Key responsibilities

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

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

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

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

	<i>Budget 2003-04</i>	<i>Actual 2003-04^a</i>	<i>Budget 2004-05^b</i>
Price of Outputs	\$'000	\$'000	\$'000
Output 1.1 – Government-commissioned projects	13 900	13 491	10 900
Output 1.2 – Performance reporting and other services to government bodies	3 100	3 036	3 900
Output 1.3 – Regulation review activities	2 800	2 645	2 500
Output 1.4 – Competitive neutrality complaints activities	200	173	300
Output 1.5 – Supporting research and activities and statutory annual reporting	6 609	6 344	7 273
Total Price of Outputs	26 609	25 689	24 873
Revenue from Government	24 346	24 346	24 588
Revenue from other sources	297	276	285
Total Resources	24 643	24 622	24 873
	<i>2003-04</i>	<i>2003-04</i>	<i>2004-05</i>
Commissioner/staff years (number)	195	190	172

^a Actual expenditure across output groups responds to demands during the year, particularly work commissioned under terms of reference by the Government. ^b As estimated in January 2004 for the Portfolio Budget Statements.

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

Accountability

Management Committee monitors the general direction, development, operational 'health' and resourcing of the Commission. This process is aided through the provision of regular reports covering staffing, expenditure, staff development and other operational matters.

Monthly meetings of Commissioners — also attended by some senior staff — are used to discuss and monitor progress with the Commission's five mandated outputs. Specifically:

- presiding Commissioners on government-commissioned projects report monthly on significant issues and progress against key milestones;
- the Research Committee reports on a quarterly basis on the status and future directions of the research program;
- the activities of the Steering Committee for the Review of Government Service Provision, chaired by the Chairman of the Commission, are reported on a quarterly basis;
- the Chairman also oversees the work of the Office of Regulation Review, which provides quarterly reports on its activities;
- one Commissioner is designated with responsibility for competitive neutrality issues, and reports to the Commission on a quarterly basis; and
- the Head of Office provides Commissioners with a monthly update on key management issues.

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

Risk management

The Commission continues to integrate risk management into its planning and everyday business operations.

During the year specific risk assessments were undertaken in respect of a number of areas including the Commission's website, the security of electronic information and the replacement of the human resource management information system. Risk assessments associated with the renewal of the Comcover insurance policy were also conducted.

Risk assessments are undertaken within a formal risk management model specified in the Commission's risk management plan. The plan, founded on Joint Standard AS/NZS 4360:1999, is reviewed annually by senior management and the Audit Committee.

Fraud control is an important component of risk management. Fraud risk assessments and control arrangements are set out in the Commission's fraud control plan which complies with the Australian Government Fraud Control Guidelines. No instances of fraud were reported during 2003-04.

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

Ethical standards

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

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

The Commission has developed a number of specific policies relating to ethical standards which have regard to its own operational context. These deal with matters such as email and internet use, harassment and bullying, discrimination, fraud,

disclosure of information, and managing conflicts of interest. The policies are readily available to all employees.

The importance of the Values and Code, as well as related policies, is regularly promoted as a guide to expected behaviour. This occurs during the Chairman's 'all staff' meetings, as part of staff development sessions, and in conjunction with policy updates.

External and internal scrutiny

External scrutiny is promoted in a number of ways. Chief amongst these are the Commission's transparent and consultative processes, which provide for community participation and scrutiny of its work. These processes were outlined in some detail in the corporate chapters of the Commission's annual reports.

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.

Both the Commission and the Australian Government Competitive Neutrality Complaints Office (which has separate functions although located within the Commission) have service charters. A review of the Commission's charter was completed in August 2003.

The charters set out the service standards that those who deal with the Commission can expect, and outline points of contact should standards not be up to expectation. Performance against the charters is monitored on an exceptions basis — that is, by complaints to designated senior managers. No complaints were received during 2003-04 in respect of either charter.

A broad assessment of the Commission's operational efficiency was commenced during the year by the Department of Finance and Administration. The assessment was part of a review of the Commission's future funding arrangements. The review outcome is expected in the first half of 2004-05.

Other than an (unqualified) Independent Audit Report on the Commission's 2002-03 financial statements, there were no Auditor-General, parliamentary committee or Commonwealth Ombudsman reports specific to the operations of the Commission. (References to particular reports of the Commission made by parliamentary committees during the year are detailed in appendix B.)

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

Website: in accordance with the Government's June 2003 decision that common branding should apply to all departments and agencies, the Commission's website has been redesigned to incorporate the standard Australian Government design. In conjunction with this redesign, the coding of the site has been upgraded to make it consistent with the latest HTML standards. When this work is completed early in 2004-05, the site will conform with XHTML 1.0 and level 'A' of W3C *Web Content Accessibility Guidelines 1.0*.

Human resources management information system: an investigation into a new system solution was commenced during the year, largely brought about by the impending withdrawal of certain services by the current external providers. The opportunity will be taken to implement an effective and efficient system with enhanced service features.

Financial management information system: work commenced on upgrading the Commission's financial management information system to the latest version of the software. An improved payment processing system will also be implemented when the upgrade is completed later in 2004.

Information Technology: the Commission's information technology efforts focused on maintaining an efficient, reliable, secure and ethical operating environment. The upgrade of its desktop operating system and application suite from Windows NT 4.0 to Windows XP was completed in December 2003.

The Audit Committee also plays an important internal scrutiny role. The Committee's efforts during the year related mainly to the annual financial statements, and the implications for the Commission of ANAO reports issued during the year. The Committee also reviewed the risk assessments on which the fraud control and risk management plans are based, and considered aspects of physical security arrangements for the Commission's offices.

Management of human resources

Management of the Commission's human resources is devolved to senior managers within a broad framework agreed by Management Committee. The Committee routinely monitors the performance of people management functions through a range of feedback mechanisms, including through standing reports to its monthly meetings.

Workforce planning

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

A significant and ongoing issue is the workforce size able to be supported by current funding arrangements. The sharp decline in employee numbers projected for 2004-05 and beyond is being considered through a Department of Finance and Administration funding review.

Another key issue is its employee age profile. Relative to the APS, the Commission has a somewhat older workforce with a higher proportion of mature-aged workers (those over age 50).

This reflects the Commission's success in retaining its older employees, but it also represents a risk for the future which needs to be managed. Steps being taken in this regard include flexible working arrangements, a willingness to consider superannuation issues for some key CSS employees approaching age 55, succession planning for key positions and maintaining a graduate recruitment program.

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

Remuneration and employment conditions

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

The Commission's 19 Senior Executive Service (SES) employees are all employed under Australian Workplace Agreements (AWAs). SES remuneration is set in the context of public and private sector benchmarks, including those contained in the APS SES Remuneration Survey conducted for the Department of Employment and Workplace Relations. Third-round agreements, negotiated in early 2004, restructured SES remuneration to a 'total remuneration' basis and reduce future reliance on performance bonuses as a remuneration component.

Information on Commissioners and SES employees who received total remuneration of \$100 000 or more is set out in Note 14 to the Financial Statements (appendix G).

Eight non-SES employees with ‘non-standard’ duties have negotiated AWAs. These agreements rely for the most part on the Commission’s certified agreement, except where specifically overridden.

About 170 employees are covered by the Commission’s certified agreement. A new three-year agreement, under section 170LK of the *Workplace Relations Act 1996*, was negotiated with staff during the second half of 2003 and was certified by the AIRC on 16 January 2004.

A key feature of the agreement is the phasing down of automatic annual ‘across-the-board’ pay increases, with greater reliance in future on performance outcomes as the means of achieving remuneration increases. In addition, performance bonuses now form a smaller component of total remuneration and are only available to those achieving the highest rating. The performance management system was modified in light of Commission experience with, and staff feedback on, the previous system.

Apart from improved remuneration, the new agreement provides for up to five days leave in association with the birth or adoption on an employee’s child, and modifications in the studies assistance package.

APS salary ranges — corresponding to the Commission’s broadbanded classifications — are shown in the certified agreement which is available on the Commission’s website.

Performance management and pay

All employees participate in the Commission’s performance management scheme. As noted, the scheme was recently modified as part of the certified agreement negotiations. The scheme seeks to:

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

Ahead of each appraisal round — which occur at six monthly intervals — senior staff attend ‘context setting’ meetings to promote a consistent approach to the

appraisal process and outcomes. In addition, training is conducted for new staff and managers to ensure employee readiness for the appraisal round.

Appraisals outcomes influence salary advancement and, for Staff Level 3, Staff Level 4 and SES employees, performance bonuses. Under the new certified agreement, bonuses of up to 6 per cent of salary were paid to those Staff Level 3 and Staff Level 4 employees who achieved the highest performance rating. For SES employees, somewhat 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 2003-04 are summarised in table A.2.

Table A.2 Performance bonuses paid for 2003-04

<i>Classification level</i>	<i>Employees receiving</i>		
	<i>No.</i>	<i>Total bonuses paid</i>	<i>Average bonus paid</i>
		\$	\$
Staff Level 3	33	53 682	1 626
Staff Level 4	45	109 757	2 439
SES	19 ^a	172 186	9 062
Principal Executive Officer	7	75 372	10 767
Total	104	410 997	3 952

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

Consultative arrangements

The key employee consultative mechanism is the Productivity Commission Consultative Committee (PCCC). The PCCC comprises five elected employee representatives and four management representatives, with union representation possible at the invitation of the Committee's employee representatives.

Owing to the negotiation of the new certified agreement over the first half of 2003-04, the PCCC convened on only one occasion during the financial year. The main agenda item related to implementation of the certified agreement.

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

Structured feedback from employees on a range of organisation, work condition and employee issues is sought through biennial confidential staff surveys. The next survey is due in the second half of 2004-05.

Learning and development

The Commission continues to encourage employees to undertake learning 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.

The need for learning and development can be employee identified (through individual development plans settled with supervisors as part of performance appraisals), be supervisor encouraged or directed, or as part of organisation-wide programs (such as those relating to time management or workplace behaviour).

Recorded expenditure on learning and development in 2003-04 was 1.5 per cent of the annual salary budget, down slightly from the previous year. This expenditure related to:

- 129 employees who undertook a total of 359 days of specific training and development;
- 36 Staff Level 2 employees who attended a two-day general development program;
- 18 employees who received studies assistance in the form of paid leave and assistance with fees in the pursuit of tertiary qualifications;
- two employees who were granted Post Graduate Study Awards to undertake full-time tertiary study for a semester; and
- one employee who participated in the second year of a scholarship for an Executive Masters of Public Administration offered by the Australia New Zealand School of Government.

A skills enhancement priority for the year was training associated with the upgrade of the Commission's desktop computers. A total of 109 employees participated in the program.

The above activities are in addition to the extensive on-the-job training within the Commission.

Occupational health & safety (OHS)

The Commission's commitment to health and safety is outlined in its current OHS Agreement between management, employees and the Community and Public Sector Union.

The OHS Committee — which operates under the OHS Agreement — oversees the Commission's health and safety program. Committee membership includes health and safety representatives and their deputies from both offices. The Committee met four times during 2003-04.

New OHS activities during the year included:

- revitalisation of the OHS training program, covering particularly employee responsibilities and procedures. The program was trialled with senior employees in the Canberra office and is planned to be offered more widely; and
- employee seminars covering a range of health issues, including on: prevention of skin cancer by the Anti-Cancer Council; taking care of mental as well as physical health; giving up smoking; and the practice of meditation.

Ongoing OHS activities during the year included:

- free flu vaccinations (with a take-up of around 45 per cent of employees);
- ergonomic work station assessments for all new employees and, as required, existing employees. This service has proven beneficial as a preventative measure and in the early identification of potential workplace injuries;
- the opportunity for employees to complete 'working hours questionnaires' at the conclusion of projects, designed to elicit information about excessive working hours, their possible causes, and the impact on employees and their families;
- desk calendars for all employees promoting emergency evacuation and bomb threat procedures;
- workplace massage for employees on a fee-for-service basis (paid for by participating employees);
- workplace hazard inspections; and
- lunch time yoga classes (employees pay class fees while the Commission provides the administrative support and a venue).

In addition, a rolling program of policy reviews was maintained, with attention focused on the return-to-work, first aid and induction policies. The development of key OHS personnel continued through activities such as fire warden and first aid

officer training. Case manager development focused on participation in a variety of Comcare run or sponsored activities.

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 2004-05 is projected to be one-third of the rate for the whole-of-Australian Government pool, which maintains the position of the previous year.

Employee Assistance Program

The Commission offers its employees independent, confidential and professional counselling, consultation and training assistance for work-related or personal issues. The service is provided by the OSA Group and is available to employees as well as their immediate families. Sixteen employees or their families utilised the service in 2003-04, about the same number as in 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 equity and diversity plan and harassment policy are currently being reviewed and will be reissued later in 2004.

Workplace behaviour training was conducted in its Canberra and Melbourne offices for graduates and new employees. Diversity issues were also promoted at the Chairman's 'all staff' meetings and in the staff newsletter.

The Commission participates in, and contributes to, workplace diversity networks.

Commonwealth Disability Strategy

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

The 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.

Financial statements

The audited financial statements for 2003-04 are shown in appendix G.

A deficit of \$1 067 000 was incurred during 2003-04, which was consistent with forward financial plans to use accumulated cash reserves from previous years to help fund operations.

The Commission is budgeting for a break-even result in 2004-05. This will require a significant reduction in staffing levels based on current funding levels. The Government has agreed to an input-based costing review of the Commission's funding which is expected to be completed in time for consideration during the 2004-05 Additional Estimates process.

Other information

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 2003-04 is shown in table A.3. Further details are provided in attachment A3.

Table A.3 Summary of consultancies let in 2003-04

<i>Purpose</i>	<i>No. of consultancies</i>	<i>Contract amount (\$)</i>
Government-commissioned projects	15	107 256
Performance reporting	1	1 760
Supporting research and activities and annual reporting	8	40 300
Corporate management and services	5	124 367
Total	29	273 683

Special payments

The Commission made a number of special payments during 2003-04. 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: \$26 539 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 that are needed in its research, priority access to model training, and input to the future direction of model and database development.

Research partnerships: \$22 000 to the University of Canberra (NATSEM) for a partnership project on the distributional impact of health outlays and \$22 000 to Monash University for economic modelling development.

Conference sponsorships: \$13 550 to the University of Melbourne for part sponsorship of the 2003 'Pursuing Opportunity and Prosperity Conference'; \$5500 for the 48th Annual Conference of the Australian Agricultural and Resource Economics Society; and \$5000 to the Economics Society of Australia for the 32nd Conference of Economists.

Awards: \$1200 to the top 2003 student, Economics Honours, at Monash University (R H Snape – Productivity Commission Prize) and \$500 to the top 2003 student, Master of Economics, at the Australian National University (Robert Jones Productivity Commission Prize).

Purchasing

The Commission applies 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.

Richard H Snape Collection

The Commission's library received a valuable addition this year through the donation of former Deputy Chairman Richard Snape's personal book collection. Professor Snape died in 2002, and the collection was formally dedicated on the occasion of the Inaugural Richard Snape Lecture presented at the Commission's Melbourne office by Professor Max Corden on 30 October 2003.

Ecologically sustainable development (ESD)

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

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

The Commission has in the past conducted an inquiry and reported on the implementation of ecologically sustainable development by Commonwealth departments and agencies (PC 1999).

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

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

Reflecting its statutory guidelines, ESD principles are integral to the Commission's analytical frameworks, their weighting depending on the particular inquiry or research topic. Examples of Commission projects where different aspects of ESD

have arisen were provided in the 2000-01 annual report. The inquiry on the impacts of native vegetation and biodiversity regulations, completed in April 2004, and the government-commissioned study on the reform of building regulation, are further examples 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 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, 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 National Information Library Service, 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 OHS 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 in 2002. The Environmental Management System contains the Commission's

environmental policy, an environmental management program to address identified impacts, and provision for monitoring and reporting on performance.

During 2003-04 the Commission recorded energy usage of 11 630 MJ/person/annum against the Government's target of 10 000 MJ/person/annum. Efforts are continuing to reduce energy usage. For example, lease negotiations for the Commission's Melbourne office include provision for tri-phosphor lamps, fixed dimming and an after-hours reset based control system which, according to an independent energy audit, should reduce lighting energy usage by around 25 per cent.

Freedom of Information

No requests were received in 2003-04 for access to information under the *Freedom of Information Act 1982*.

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 \$91 304 was paid for advertising (including recruitment advertising) in 2003-04 to HMA Blaze Pty Ltd.

Publications and submissions

Appendix E lists all publications and submissions to other review bodies completed in 2003-04.

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 2004**

	<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 R Fitzgerald (C)	27 Jan 2004	26 Jan 2009
Mr A M Hinton (C)	27 Mar 2002	26 Mar 2007
Mrs H J Owens (M)	17 Apr 2001	16 Apr 2006
Prof J Sloan (M) (p/t)	17 Apr 2001	16 Apr 2006
Mr P Weickhardt (M) (p/t)	4 Dec 2003	3 Dec 2008
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 2004**

	<i>Inquiry</i>	<i>Period of appointment^a</i>	
		<i>From</i>	<i>To</i>
Mr G R Potts	Review of Part X of the Trade Practices Act	30 June 2004	31 Jan 2005

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

Table A1.3 **Part-time Associate Commissioners completing appointments during 2003-04**

	<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	19 April 2004
Prof W F Musgrave	Impacts of Native Vegetation and Biodiversity Regulations	13 April 2003	19 April 2004
Ms C R McKenzie	Review of the <i>Disability Discrimination Act 1992</i>	1 May 2003	30 April 2004
Dr E Shann	First Home Ownership	14 Aug 2003	31 May 2004
Dr D H Robertson	First Home Ownership	12 Dec 2003	31 May 2004
Dr G M Folie	Review of the Gas Access Regime	13 June 2003	11 June 2004

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

Table A1.4 **Staff^a by location and gender, 30 June 2004**

<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	6	9	0	7	7	3	13	16
Staff Level 4	7	22	29	6	16	22	13	38	51
Staff Level 3	8	13	21	9	13	22	17	26	43
Staff Level 2	13	7	20	3	10	13	16	17	33
Staff Level 1	16	5	21	9	3	12	25	8	33
Total	47	56	103	27	50	77	74	106	180
Corresponding totals at 30 June 2003	55	58	113	30	51	81	85	109	194

^a Excludes 12 inoperative staff at 30 June 2004 and 16 at 30 June 2003.

Table A1.5 Staff^a by employment status and gender, 30 June 2004

<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 ^b	0	3	3 ^b	0	3
SES Band 1	3 ^b	0	3	13	0	13	16 ^b	0	16
Staff Level 4	10	3	13	35	3 ^c	38	45	6 ^c	51
Staff Level 3	14 ^b	3	17	23	3	26	37 ^b	6	43
Staff Level 2	13 ^b	3	16	17	0	17	30 ^b	3	33
Staff Level 1	20 ^b	5	25	8	0	8	28 ^b	5	33
Total	60	14	74	100	6	106	160	20	180
Corresponding totals at 30 June 2003	70	15	85	104	5	109	174	20	194

^a Excludes 12 inoperative staff at 30 June 2004 and 16 at 30 June 2003. ^b Includes 1 non-ongoing employee. ^c Includes 2 non-ongoing employees.

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

Table A1.6 Staff by level and reason for separation, 2003-04

<i>Level</i>	<i>Promotion</i>	<i>Transfer</i>	<i>Resignation</i>	<i>Invalidity Retirement</i>	<i>VRP^a</i>	<i>Other</i>	<i>Total</i>
SES	0	0	2	0	0	0	2
Staff Level 4	0	0	4	0	1	2	7
Staff Level 3	0	1	6	1	0	0	8
Staff Level 2	0	6	6	0	1	0	13
Staff Level 1	0	0	1	0	0	3	4
Total	0	7	19	1	2	5	34
Corresponding totals at 30 June 2003	0	0	18	0	2	4	24

^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>Commission policies have checklists with items that cover the consideration of access and equity (including disability) matters. The extent to which such considerations develop varies from inquiry to inquiry. One inquiry, for example, the report on the Review of the <i>Disability Discrimination Act 1992 (DDA)</i>, commented extensively.</p> <p>Project evaluation templates now include a section for comment on disability issues as defined in our Disability Action Plan.</p> <p>The Commission continues to promote the awareness of issues related to people with disabilities to its employees through:</p> <ul style="list-style-type: none">• 'all staff' meetings;• staff news articles;• intranet documents;• induction; and• briefings as appropriate.

<i>Performance indicator</i>	<i>Performance measure</i>	<i>Outcome</i>
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 the public. Where appropriate, as with the DDA Inquiry, consultation was facilitated by:</p> <ul style="list-style-type: none"> • advertisements in the national press inviting submissions; • visits to regional locations; • development of interested parties lists; • website conforms to mandatory disability access requirements; • Radio for the Print Handicapped used for advertising; • TTY machine installed and the number promoted on inquiry material and in Service Charter available on website; • portable hearing loop available for public hearings; • AUSLAN interpreters utilised; • access audit conducted and tactile and braille signage installed in public areas of Melbourne office; • copies of reports and circulars available in braille, large print and audio on request; • acceptance of submissions in multiple formats, including oral recordings; • advertisements and circulars included a request for any particular accessibility issue in attending public hearings; • MP3 audio file of the draft report overview placed on web site; • braille business cards; and • checklist on accessibility at venues.
Public announcements of policy initiatives are available in accessible formats for people with disabilities in a timely manner.	<p>Percentage of new, revised or proposed policy/program announcements available in a range of accessible formats.</p> <p>Time taken in providing announcements in accessible formats.</p>	<p>100 per cent available on website. The Commission has worked with National Information Library Services to ensure the website continues to conform with W3C. An additional page has been added on 'accessibility', to provide assistance.</p> <p>Other formats as outlined above.</p> <p>Between one and two weeks if requested. Some circulars from DDA Inquiry were available in braille and audio at time of release.</p>

Performance requirements of the 'employer' role

<i>Performance indicator</i>	<i>Performance measure</i>	<i>Outcome</i>
Recruitment information for potential job applicants is available in accessible formats on request.	<p>Percentage of recruitment information requested and provided in:</p> <ul style="list-style-type: none"> • accessible electronic formats; and • accessible formats other than electronic. <p>Average time taken to provide accessible information in:</p> <ul style="list-style-type: none"> • electronic format; and • formats other than electronic. 	<p>All vacancies are advertised in the gazette and on our website. Most vacancies are advertised in the press.</p> <p>100 per cent available.</p> <p>None requested.</p> <p>Immediate.</p> <p>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.</p>
Agency recruiters and managers apply the principle of 'reasonable adjustment'.	Percentage of recruiters and managers provided with information on 'reasonable adjustment'.	<p>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'.</p> <p>A register has also been developed to record all requests for information in formats such as braille and audiocassette. No requests were received during 2003-04.</p>
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. No assistance was requested during 2003-04.

<i>Performance indicator</i>	<i>Performance measure</i>	<i>Outcome</i>
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.	Induction and graduate programs include information on these issues including our Access and Equity and Disability Action Plan. 'All staff' meetings provide information on disability issues and promote the use of initiatives such as TTY, interpreters and the hearing loop.
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 2003-04.

Attachment A3

Consultancies let in 2003-04

<i>Consultant</i>	<i>Nature of consultancy</i>	<i>Cost (\$)</i>	<i>Method of selection</i>
Government-commissioned projects			
AM Actuaries P/L	Provide actuarial advice in respect of the inquiry into workers' compensation	7 500	Directly approached one provider
AM Actuaries P/L	Analyse data provided by Victorian Workcover Authority for inclusion in report	2 850	Directly approached one provider
Attorney General's Department	Trans-Tasman mutual recognition arrangement review advice	1 357	Directly approached one provider
Australian Government Actuary	Assess financial risk for Commonwealth if application for self-insurance under SRC Act approved	17 085	Directly approached one provider
Australian Government Solicitor	Legal advice for the Workers' Compensation inquiry	10 143	Directly approached one provider
Australian Government Solicitor	Legal advice for the Disability Discrimination Act inquiry	18 486	Directly approached one provider
Constable Consulting	Review of the quantitative analysis of a clearing ban in the Moree Plains Shire	3 851	Directly approached one provider
Devine Agribusiness	Provide data on the returns to clearing in Murweh Shire	5 758	Directly approached one provider
Devine Agribusiness	Additional data provided on vegetation thickening and returns to clearing in Murweh Shire	10 091	Directly approached one provider
Dowrick, Prof S Australian National University	Referee a study on the relationship between information and communications technology use and firm performance	1 200	Directly approached one provider
Financial Training and Analysis Services University of Western Sydney	Referee research paper on productive efficiency in Australia's banking industry	1 650	Directly approached one provider
Inder, Prof Brett Monash University	Review paper on dynamics of Australian housing prices	1 500	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>
Pirac Economics	Referee draft chapters of DDA inquiry report	2 200	Directly approached one provider
Slaughter, Dr Geoff University of Queensland	Review of the quantitative analysis of a clearing ban in Murweh Shire	3 695	Directly approached one provider
Taylor Fry Consulting Actuaries	Assess the financial implications to states and territories if applications for self-insurance were to be approved under the SRC Act	19 890	Sought tenders directly from 3 providers
<i>Government-commissioned projects — total</i>		<i>107 256</i>	
Performance reporting			
National Systems Management P/L	Database tuning, application and problem identification	1 760	Directly approached one provider
<i>Performance reporting — total</i>		<i>1 760</i>	
Supporting research and activities and annual reporting			
ACIL Tasman	Referee research paper on aquaculture	1 500	Directly approached one provider
Breusch, Dr Trevor	ABS/DITR/PC project on information and communication technology and firm performance	5 000	Directly approached one provider
Centre of Policy Studies Monash University	Modify TERM-Water to allow for analysis of water trade through use of a regional quota restriction mechanism	8 000	Directly approached one provider – change to existing model
Douglas, Mr Robert	Assist with preparation of report on factors influencing water demand in the irrigation sector, and assess the responsiveness of demand for irrigation water to changes in price	18 750	Sought tenders from 4 providers
Harper Associates	Referee research paper on productive efficiency in Australia's banking industry	1 650	Directly approached one provider
Malcolm-Esparon P/L	Referee draft report on 'Responsiveness of Water Demand'	1 200	Directly approached one provider
Reap Research	Referee research paper on irrigation water demand	1 200	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>
Rose, Mr Roger	Referee research paper on incorporating externalities into the pricing of irrigation water	3 000	Directly approached one provider
<i>Supporting research and activities and annual reporting – total</i>		<i>40 300</i>	
Corporate management and services			
Australian Government Solicitor	Legal advice on liability issues	1 188	Directly approached one provider
IPEX information Technology Group P/L	Design, develop and deploy Windows XP desktop standard operating environments and provide user training to all staff	92 214	Sought tenders from 4 providers
KB&D Independent Property Advisors	Property consulting services — market research and strategy paper	1 694	Sought tenders directly from 2 providers
KB&D Independent Property Advisors	Negotiate terms and conditions for the Commission's Melbourne office accommodation requirements	12 221	Sought tenders from 4 providers
Obsidian Consulting Group	Website re-branding implementation & HTML standards compliance	17 050	Directly approached one provider
<i>Corporate management and services — total</i>		<i>124 367</i>	
Total consultancies		273 683	

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 typically 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 consultations due in 2004 were deferred until 2005.

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

The procedures of the Australian Government 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 Government 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 from 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 2003-04.

Assessment of the Commission's performance

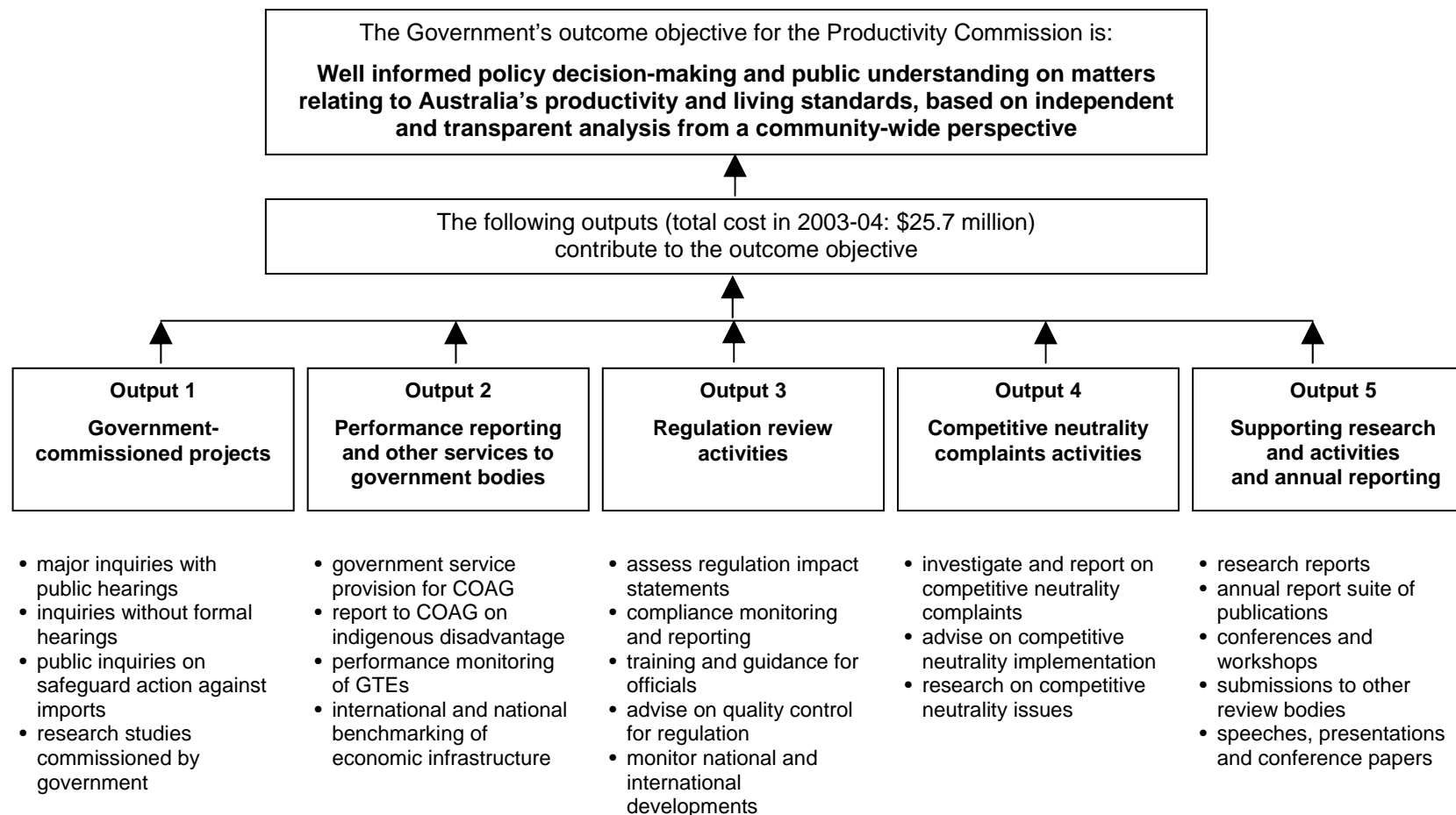
The Commission's inquiry, research, advisory and associated activities derive from its statutory functions. Having regard to the Government's accrual budget outcome and output framework, and with the agreement of the Treasurer, these activities have been classified into five outputs:

- 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 2003-04**



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 Government 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 — such as Industry Commission research on community service obligations and copyright reform, the Productivity Commission's 1999 gambling report, competitive neutrality research reports and a range of other supporting research outputs from the late 1990s — demonstrate the 'shelf life' of Commission reports in policy formulation and debate (box B.2).

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 Government 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, enhances the transparency of government decision making on Commission reports and permits 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 national workers' compensation and OHS frameworks, first home ownership, impacts of native vegetation and biodiversity regulations, the Disability Discrimination Act and the gas access regime were released within the statutory period. The last two reports were released in advance of a government decision on them. In the case of the report on the gas access regime, a response is to be developed by the Ministerial Council on Energy.
- The Commission's review of TCF assistance arrangements was released shortly after the statutory tabling period, along with an announcement that the Government had accepted the Commission's preferred tariff option and quantum of transitional assistance, although with some variations in the components of that support package.

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.

- The Commission's 1999 report, *Australia's Gambling Industries*, continues to be a prime reference source in parliamentary and community debate on gambling issues. For example, information and analysis in the report were used extensively in the recent Independent Pricing and Regulatory Tribunal report on gambling (IPART 2004). IPART referred to the Commission's analysis as 'the most extensive cost benefit analysis of gambling undertaken in Australia'. The Commission's report was also cited extensively in the NSW Parliamentary Background Paper on the economic and social implications of gambling (Drabash 2003) and mentioned on more than 30 occasions in State and Territory parliamentary proceedings during 2003-04.
- The Australian Government's *Competitive Neutrality Guidelines for Managers*, released in February 2004, directed users to a 1997 Commission paper for information on the costing, funding, definition, identification and monitoring of community service obligations (IC 1997); to two 1998 research papers for specific guidance on cost allocation and rate of return issues (CCNCO 1998a, b); and a range of investigation reports from 1999 to 2001 by the Competitive Neutrality Complaints Office within the Commission for information on particular aspects of the implementation of competitive neutrality, such as assessing regulatory neutrality and the existence of competitors. The 1998 research papers were also extensively cited in the work of the Competition Committee of the OECD's Directorate for Financial and Enterprise Affairs during 2004.
- The consultants selected by the Department of Foreign Affairs and Trade for economic modelling and analytical work to assess the impact of the AUSFTA (CIE 2004) drew on a range of Commission outputs including research on offshore investment (PC 2002a); copyright (ORR 1995); measures of restrictions on services trade (Nguyen-Hong 2000); workshop proceedings (PC/ANU 1998); and model development work (eg Hanslow et al. 2000), as well as more recent inquiry and research publications. The Commission's analysis of international pharmaceutical price differences was also used in community debate and parliamentary committee work on the AUSFTA (PC 2001a).
- Findings on the rate of business failure in Australia in a Staff Research Paper (Bickerdyke et al. 2000) received wide media coverage of small business issues in 2004.
- In July 1998 the Treasurer, at the request of the ACT Government, asked the Commission to undertake public benefits tests on ACT legislation banning the production and sale of battery eggs and requiring specific labelling of eggs (PC 1998a). Such a review was necessary to discharge obligations under the Competition Principles Agreement. Hen welfare and the cage system of egg production in Australia have been under consideration by the Primary Industries Ministerial Council (and its predecessor) since 1999. A June 2000 'synopsis report' prepared for the ministerial council noted that the Commission's report provided 'an objective analysis of this complex issue' and a report prepared for the Rural Industries Research and Development Corporation on the economic impact of changing egg production systems had extensive references to the Commission's study (Trewin 2002). In May 2004 the Primary Industries Ministerial Council reaffirmed its commitment to implement the layer hen welfare reforms agreed in August 2000 and the authority of the Commission's analysis was still being used to help resolve contentious issues (PIMC 2004b).

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- The Government announced its decision to accept the Commission's recommendation on section 2D of the Trade Practices Act in December 2003, a year after releasing the inquiry report.
 - The Government has not formally responded to the Commission's March 2000 inquiry report on broadcasting. The Government is reviewing some 11 different aspects of digital broadcasting regulation in 2004 and 2005. Although the first of the related discussion papers (DCITA 2004) makes no reference to it, the Commission's 2000 broadcasting report continues to be a key reference point for agencies such as the Australian Competition and Consumer Commission and the National Competition Council, media reporting and community debate on reform of broadcasting regulation in Australia.

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. 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 2001b);
- a survey of 26 'significant opinion formers', users and observers of the Commission's work in March 2002 (PC 2002c);
- a survey of State and Territory Treasury officials on the quality and usefulness of reporting on the financial performance of government trading enterprises (PC 2002c);

-
- a survey of recipients of its e-mail alert service, 'Productivity Commission News', in October 2002 (PC 2003b); and
 - a survey of participants in the Commission's supporting research program consultations in May 2003 on the quality and usefulness of research reports from the previous two years (PC 2003b).

In May 2004 the Commission undertook another survey of users and contributors to the Report on Government Services to obtain feedback on its usefulness in meeting the objectives of the Review of Government Service Provision. The positive feedback received is reported in chapter 2 and elsewhere in this appendix (pages 121–2).

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 2003-04. Comments received are passed to management and authors for consideration.

Commission outputs and the work of the Federal Parliament

The inquiries and reports which figured most prominently in parliamentary debate during 2003-04 were the Commission's reviews of first home ownership and post-2005 assistance arrangements for the automotive and TCF industries. Potential roles for the Commission in assessing the impacts of preferential trading arrangements and its productivity research also figured prominently in parliamentary proceedings of the Federal Parliament.

Ministers drawing on specific findings and analysis from Commission reports included the Education Minister (on salary ranges in Australian universities compared to their counterparts overseas), the Industry Minister (on the impact of State taxes and charges on the TCF industries), the Environment Minister (on the value of the tourism industry in the Great Barrier Reef region) and the Employment Minister (on productivity research highlighting the role of labour market flexibility in Australia's productivity revival). As noted in chapter 2, 52 Members of the House of Representatives and 34 Senators collectively referred to 30 different Commission inquiries or reports, or to the Commission's role in policy processes, during the 2003-04 parliamentary proceedings.

The Commission's Chairman was invited to appear before the Senate Legal and Constitutional References Committee in its hearing on progress towards national reconciliation in July 2003.

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 24 parliamentary committee reports listed in table B.1 referred to 25 different Commission inquiries or research reports.
- People appearing at the hearings of parliamentary committees in 2003-04 referred to Commission outputs in more than 30 different topic areas, including the Staff Working Paper on preferential trading arrangements, telecommunications competition regulation and data in the Report on Government Services, as well as the Commission's productivity research and role in public policy formulation.
- Research material provided to parliamentarians during 2003-04 by the Parliamentary Library — such as Bills Digests, Research Papers, Research Notes and E-briefs — referred to 13 different Commission outputs (table B.2). These included nine inquiry and other government-commissioned reports, the Report on Government Services, and three different publications from the Commission's supporting research program.

Other broad-based performance indicators

In addition to the performance indicators for 2003-04 referred to in chapter 2 and those detailed elsewhere in this appendix, recognition of the ability of the Commission to contribute to policy making and public understanding through independent and transparent analysis was demonstrated by the following developments. These mostly involve suggestions for specific references or reporting tasks, but also encompass other roles for the Commission or proposals to model new agencies on the Commission.

- The Victorian Competition and Efficiency Commission (VCEC), which was established on 1 July 2004, is modelled on the functions and processes of the Productivity Commission. The VCEC is the Victorian Government's foremost body advising on business regulation reform and identifying opportunities for improving Victoria's competitive position. Its principal functions are to review regulatory impact statements and advise on the economic impact of significant new legislation; undertake inquiries on matters referred to it by the Victorian Government; and operate Victoria's Competitive Neutrality Unit (Victorian Government 2004).
- The Victorian Government's submission to the Senate Community Affairs References Committee inquiry into poverty and financial hardship in Australia raised the possibility of expanding the responsibilities of the Commission to make it a 'Productivity and Equity Commission', an institutional forum to assist in the formulation of a national strategy on poverty.

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

<i>Parliamentary Committee and report</i>	<i>Commission output used</i>
Senate Economics Legislation Committee, <i>Provisions of the ACIS Administration Amendment Bill 2003 and the Customs Tariff Amendment (ACIS) Bill 2003</i> , September 2003	Inquiry report, <i>Review of Automotive Assistance</i> , August 2002.
Senate Environment, Communications, Information Technology and the Arts Legislation Committee, <i>Provisions of the Telstra (Transition to Full Private Ownership) Bill 2003</i> , October 2003	Inquiry Report, <i>Telecommunications Competition Regulation</i> , September 2001.
Senate Legal and Constitutional References Committee, <i>Reconciliation: Off track</i> , October 2003	Steering Committee for the Review of Government Service Provision: <i>Report on Government Services 2003: Indigenous Compendium</i> , May 2003; <i>Draft framework for reporting on indigenous disadvantage: Report on consultations</i> , May 2003.
Senate Environment, Communications, Information Technology and the Arts References Committee, <i>Regulating the Ranger, Jabiluka, Beverley and Honeymoon uranium mines</i> , October 2003	Mention of the (Industry Commission) Inquiry Report, <i>Mining and Minerals Processing in Australia</i> , February 1991, as a major report relating to uranium mining.
Senate Select Committee on Medicare, <i>Medicare – healthcare or welfare?</i> , October 2003	Research Report, <i>General Practice Administrative and Compliance Costs</i> , March 2003; Workshop Proceedings, <i>Managed Competition in Health Care</i> , August 2002; Steering Committee for the Review of Government Service Provision, <i>Report on Government Services 2003</i> , January 2003.
Senate Foreign Affairs, Defence and Trade References Committee, <i>Voting on trade: the General Agreement on Trade in Services and an Australia-US Free Trade Agreement</i> , November 2003	Staff Working Paper, <i>The Trade and Investment Effects of Preferential Trading Arrangements – Old and New Evidence</i> , May 2003.
House of Representatives Standing Committee on Environment and Heritage, <i>Employment in the environment: Methods, measurements and messages, Inquiry into the environment sector</i> , November 2003	Mention of the Inquiry Report, <i>Implementation of Ecologically Sustainable Development by Commonwealth Departments and Agencies</i> , May 1999.
Parliamentary Joint Committee on Corporations and Financial Services, <i>Money matters in the bush: Inquiry into the level of banking and financial services in rural, regional and remote areas of Australia</i> , January 2004	Inquiry Report, <i>Impact of Competition Policy Reforms on Rural and Regional Australia</i> , September 1999.

Table B.1 (continued)

Parliamentary Committee and report	Commission output used
Senate Community Affairs References Committee, <i>A hand up not a hand out: Renewing the fight against poverty – Report on poverty and financial hardship</i> , March 2004	Inquiry Reports, <i>Australia's Gambling Industries</i> , November 1999 and <i>Independent Review of the Job Network</i> , June 2002. Review of Government Service Provision, Reports on Government Services 2003 & 2004;
House of Representatives Standing Committee on Science and Innovation, <i>Science overcoming salinity: Coordinating and extending the science to address the nation's salinity problem</i> , May 2004	(Industry Commission) Inquiry Report, <i>A Full Repairing Lease: An Inquiry into Ecologically Sustainable Land Management</i> , April 1998.
House of Representatives Standing Committee on Aboriginal and Torres Strait Islander Affairs, <i>Many ways forward: Report of the inquiry into capacity building and service delivery in indigenous communities</i> , June 2004	Steering Committee for the Review of Government Service Provision, <i>Overcoming Indigenous Disadvantage: Key Indicators 2003</i> , November 2003.
House of Representatives Standing Committee on Agriculture, Fisheries and Forestry, <i>Getting water right(s) – The future of rural Australia: Inquiry into future water supplies for Australia's rural industries and communities</i> , June 2004	Research Paper, <i>Water Rights Arrangements in Australia and Overseas</i> , October 2003.
House of Representatives Standing Committee on Communications, Information Technology and the Arts, <i>From reel to unreal: Future opportunities for Australia's film, animation, special effects and electronic games industries</i> , June 2004	(Industry Commission) Inquiry Report, <i>Research and Development</i> , May 1995; (Industry Commission) Information Paper, <i>Informal Equity Investment</i> , April 1997; mention of the Productivity Commission 2000 inquiry on broadcasting.
Joint Standing Committee on Foreign Affairs Defence and Trade, Trade Sub-Committee, <i>Australia's engagement with the World Trade Organisation: A report on the proceedings of the 2003 annual public hearing</i> , June 2004	Staff Working Paper, <i>The Trade and Investment Effects of Preferential Trading Arrangements – Old and New Evidence</i> , May 2003.
The Senate Employment, Workplace Relations and Education References Committee, <i>Beyond Cole, the future of the construction industry: confrontation or co-operation?</i> , June 2004	Labour Market Research Report, <i>Workplace Arrangements on Large Capital City Building Projects</i> , August 1999; the Commission's inquiry on national workers' compensation and occupational health and safety frameworks.
House of Representatives Standing Committee on Transport and Regional Services, <i>Ship salvage: Inquiry into maritime salvage in</i>	Inquiry Report, <i>Economic Regulation of Harbour Towing and Related Services</i> , August 2002.

Australian waters, June 2004

Senate Select Committee on the Free Trade Agreement between Australia and the United States of America, *Interim report*, June 2004

The Senate Economics Legislation Committee, *Provisions of the Textile, Clothing and Footwear Strategic Investment Program Amendment (Post-2005 scheme) Bill 2004 and the Customs Tariff Amendment (Textile, Clothing and Footwear Post-2005 Arrangements) Bill 2004*, August 2004

Senate Environment, Communications, Information Technology and the Arts References Committee, *The Australian telecommunications network*, August 2004

The Senate Environment, Communications, Information Technology and the Arts References Committee, *Competition in broadband services*, August 2004

Joint Standing Committee on Treaties, *Treaties tabled on 30 March 2004*, August 2004

Joint Standing Committee on Treaties, *Australia – United States, Free Trade Agreement*, August 2004

Senate Rural and Regional Affairs and Transport References Committee, *Rural water resource usage*, August 2004

Senate Select Committee on the Free Trade Agreement between Australia and the United States of America, *Final report*, August 2004

Staff Working Paper, *The Trade and Investment Effects of Preferential Trading Arrangements – Old and New Evidence*, May 2003.

Inquiry Report, *Review of TCF Assistance*, July 2003.

Inquiry Report, *Telecommunications Competition Regulation*, September 2001.

Inquiry Report, *Telecommunications Competition Regulation*, September 2001; mention of the inquiry on national competition policy reforms.

Mention of Inquiry Report, *Review of Cost Recovery by Commonwealth Agencies*, March 2002.

Mentions of the role of the Productivity Commission as the 'competent authority' for safeguards investigations; research on the mutual recognition schemes; and potential role in assessing preferential trading arrangements.

Research Paper, *Water Rights Arrangements in Australia and Overseas*, October 2003.

Research Report, *International Pharmaceutical Price Differences*, July 2001; Staff Research Paper, *Trade Related Aspects of Intellectual Property Rights*, May 1999; and mention of a potential role for the Commission in assessing preferential trading arrangements.

- Five parliamentary committee reports of the Senate contained recommendations for specific references to the Commission (table B.3).
- The Australian Minister for Trade, the Queensland Minister for Primary Industries and Fisheries, the Labor Party's 2004 election platform and the Australian Milk Producers Association separately proposed that the Commission be asked to review Australia's dairy processing sector.

Table B.2 Parliamentary Library use of Commission outputs in 2003-04

<i>Parliamentary Library output</i>	<i>Commission output used</i>
<i>Trade Practices Legislation Amendment Bill, Bills Digest, No. 9, 4 August 2003</i>	Inquiry report, <i>Review of the Prices Surveillance Act</i> , August 2001.
<i>Job Network, the 3rd Contract, E-Brief, 11 August 2003</i>	Inquiry report, <i>Independent Review of the Job Network</i> , June 2002.
<i>The 5 per cent tariff on Four Wheel Drive Vehicles, Research Note, No. 17, 24 November 2003</i>	Inquiry report, <i>Review of Automotive Assistance</i> , August 2002.
<i>Free Trade Negotiations, the PBS and Pharmaceutical Prices, Research Note, No. 32, 10 February 2004</i>	Research Report, <i>International Pharmaceutical Price Differences</i> , July 2001.
<i>Disability Discrimination Amendment Bill, Bills Digest, No. 84, 11 February 2004</i>	Mention of the Commission's review of the Disability Discrimination Act.
<i>Industry Research and Development Amendment Bill 2003, Bills Digest, No. 87, 16 February 2004</i>	(Industry Commission) Inquiry Report, <i>Research and Development</i> , May 1995; Staff Research Paper, <i>Statistical Analysis of the Use and Impact of Government Business Programs</i> , November 2001.
<i>The Commonwealth's Role in Infrastructure Provision, Research Paper No. 8, 1 March 2004</i>	Inquiry report, <i>Price Regulation of Airport Services</i> , January 2002
<i>Textile, Clothing and Footwear Strategic Investment Program Amendment Bill 2004, Bills Digest, No. 105, 5 March 2004</i>	Inquiry Report, <i>Review of TCF Assistance</i> , July 2003.
<i>Coastal Shipping: An Overview, Research Paper, No. 12, 3 May 2004</i>	Inquiry Report, <i>Economic Regulation of Harbour Towing and Related Services</i> , August 2002; Inquiry Report, <i>Progress in Rail Reform</i> , April 2000.
<i>Export Market Development Grants Amendment Bill 2004, Bills Digest, No. 146, 26 May 2004</i>	Annual report series, <i>Trade and Assistance Review 2002-03</i> , January 2004.
<i>Healthy Measures – key health statistics, E-Brief, 27 May 2004</i>	Steering Committee for the Review of Government Service Provision, <i>Report on Government Services 2004</i> .
<i>Intellectual Property Rights and the Australia – US Free Trade Agreement, Research Paper No. 14, 31 May 2004</i>	Staff Research Paper, <i>Trade Related Aspects of Intellectual Property Rights</i> , May 1999.

- The Labor Party's 2004 election platform proposed two new annual reporting tasks for the Commission: to Parliament on the AUSFTA's impact on the Pharmaceutical Benefits Scheme; and to COAG on the gambling industry.
- The Drought Review Panel (2004) saw merit in the Commission reviewing the effectiveness of government drought assistance and its impact on agricultural productivity and structural adjustment.

Table B.3 Parliamentary committee recommendations on Commission tasks

<i>Parliamentary committee</i>	<i>Summary of recommendations</i>
Senate Foreign Affairs, Defence and Trade References Committee, <i>Voting on trade: The General Agreement on Trade in Services and an Australia – US Free Trade Agreement</i> , November 2003	Before embarking on the pursuit of any bilateral trading or investment agreement the Commission be requested to examine and report upon the proposed agreement (Recommendation 11).
Senate Employment, Workplace Relations and Education Legislation Committee, <i>Workplace Relations Amendment (Award Simplification) Bill 2002 [and other related Bills]</i> , June 2004	Australian Democrats' additional report: The Commission should undertake a thorough independent review of the current workplace bargaining system, including the effectiveness of Australian Workplace Agreements (p. 39).
Joint Standing Committee on Treaties, <i>Report 61: The Australia – United States Free Trade Agreement</i> , June 2004	To enable the Australian Parliament to assess the economic impact of the AUSFTA, a review of its implementation be conducted by the Commission five years after the agreement enters into force (Recommendation 1).
Senate Select Committee on the Free Trade Agreement between Australia and the United States of America, <i>Final Report</i> , August 2004	Labor Senators recommended that: before embarking on the pursuit of any bilateral trading or investment agreement, Australian Governments request the Commission to examine and report upon the proposed agreement (Recommendation 4); the ANAO or the Commission should be asked to carry out an independent audit of the PBS listing process after the additional transparency mechanisms of the AUSFTA are implemented (Recommendation 21); and the Commission examine the economic and other impacts of extending the increased Foreign Investment Review Board threshold (from \$50 million to \$800 million) under the AUSFTA to investment from any country (Recommendation 39).
Senate Environment, Communications, Information Technology and the Arts References Committee, <i>Competition in broadband services</i> , August 2004	The Commission undertake a full examination of all the options for structural reform in Australian telecommunications including, but not restricted to, the structural separation of Telstra (Recommendation 3).

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- The Aboriginal and Torres Strait Islander Social Justice Commissioner (Jonas 2004) recommended that
 - COAG request the Commission (as Chair of the Steering Committee for the Review of Government Service Provision) to provide advice on aligning the benchmarks and outcomes agreed at the local level with COAG’s National Framework for Reporting on Indigenous Disadvantage; and
 - COAG agree and fund an independent monitoring and evaluation process for the whole-of-government community trials initiative, nominating the Commission as one of three agencies suitable to conduct this review.
 - The Hogan Review (2004) suggested that the Commission ‘is well placed’ to conduct the future evaluation of the four year supplement the Review proposed to current indexation of funding arrangements for residential aged care.
 - The Chemicals and Plastics Leadership Group (2004), a group appointed by the Minister for Industry, Tourism and Resources to oversee the implementation of the sector’s Action Agenda, recommended that the Commission be asked to undertake a review of the operations of three agencies — the Therapeutic Goods Administration, the National Industrial Chemicals Notification and Assessment Scheme and the Australian Pesticides and Veterinary Medicines Authority — to identify opportunities for efficiency improvements, productivity targets and the adoption of best practice.
 - The Minerals Council of Australia (2003) recommended that there should be regular reviews of the mandatory renewable energy target by the Commission to ensure the program effectively achieves the objectives set by Parliament.
 - Environment Business Australia, a peak body representing the environment and sustainability industry in Australia, has recommended that the Commission be asked to undertake a variety of evaluations including:
 - the potential tax saving possible from the reduction of externalities associated with fossil fuel energy (EBA 2003a);
 - the impacts of climate change and actions to address it across all sectors of the economy (EBA 2003b); and
 - the economic impacts of a wide range of negative environmental externalities, indicating that it considered the Commission to be ‘the organisation best placed to undertake this complex study’(EBA 2004).
 - In a response critical of the House of Representatives Standing Committee on Transport and Regional Services report on maritime salvage, Shipping Australia (2004) recommended that the Commission be sent a reference on the best economic option for the provision of emergency response and salvage services.

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- There were a number of calls during 2003-04, including by the National Farmers' Federation, for the Commission to review Australia's antidumping arrangements.
 - Pork industry bodies requested that the Commission be asked to report on the impact of imports on their industry (Truss 2004).

In addition to the media coverage reported elsewhere in this appendix, the Commission and its reports are widely cited elsewhere. The Commission found evidence of at least 160 citations of the Commission and its reports in 2003-04. More than 85 per cent of mentions related to the work of the Productivity Commission (the remainder were mentions of the Commission's predecessor organisations). Seventeen per cent of mentions related to inquiries and other commissioned projects current in 2003-04. The Commission's work was cited most frequently in *Online Opinion*, the *Economic Record*, *Economic Papers* and *Agenda*. Commission work which received the most citations were the inquiries on first home ownership and gambling and the Commission Research Paper, *Social Capital: Reviewing the Concept and its Policy Implications*.

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 2003-04 were:

- 74.8 staff years; and
- \$13.5 million on an accrual basis.

All government-commissioned inquiries in 2003-04 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 2003-04

The Commission had eight public inquiries and five government-commissioned research studies underway at some time during the year, with a number of additional references in prospect. The program of government-commissioned projects is summarised in table B.4, although growth in the complexity of policy issues being addressed is difficult to capture.

Much of the year was spent completing the increased volume of references received in 2002-03. These encompassed inquiries on national frameworks for workers' compensation and occupational health and safety, the Commonwealth's Disability Discrimination Act, native vegetation and biodiversity regulation and the gas access regime. The Commission commenced three public inquiries during 2003-04:

- an inquiry on first home ownership covering the nature and causes of changes in housing affordability and policy initiatives to improve affordability and the efficiency of housing markets generally (the Commission reported in March 2004);
- in advance of COAG's consideration of future arrangements, a review of past impacts of national competition policy and related reforms and areas offering opportunities for significant gains to the Australian economy from removing impediments to efficiency and enhancing competition; and
- a review of the exemption accorded international liner cargo shipping under Part X of the Trade Practices Act from some of the more general provisions which would otherwise apply to such anticompetitive arrangements.

In a continuation of recent trends, research studies commissioned by the Government remained a significant component of the Commission's workload (figure B.2). During 2003-04 the Commission finalised an evaluation of mutual recognition schemes within Australia and in New Zealand and commenced four additional studies:

- a review of the rules of origin arrangements under the Australia New Zealand Closer Economic Relations Trade Agreement that are intended to confine access to trade concessions to goods from either country but which impose regulatory and other burdens (the study was completed in May 2004);

Figure B.2 **References received**
number

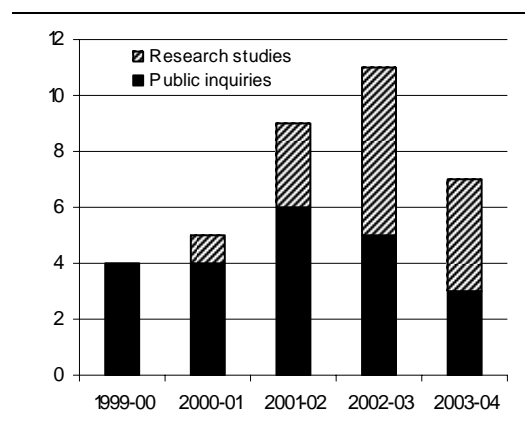


Table B.4 Program of public inquiries and other government-commissioned projects^a

	2002-03						2003-04						2004-05					
	Month												J	A	S	O	N	D
Public inquiries:																		
Review of TCF assistance																		
Review of the Disability Discrimination Act																		
National workers' compensation & OHS frameworks																		
Impacts of native vegetation & biodiversity regulations																		
Review of the gas access regime																		
First home ownership																		
Review of national competition policy reforms																		
2004 review of Part X of the Trade Practices Act																		
Australian pigmeat industry																		
Smash repair and insurance																		
Energy efficiency																		
Commissioned research studies:																		
Evaluation of mutual recognition schemes																		
Rules of origin under CER																		
Reform of building regulation																		
Economic implications of an ageing Australia																		
ANZ competition and consumer protection regimes																		
Medical technology																		

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

- an assessment of the contribution that national reform of building regulation, under the auspices of the Australian Building Codes Board, has made to the productivity of the building and construction industry and to economic efficiency;
- an examination of the productivity, labour supply and fiscal implications of likely demographic trends over the next 40 years, to further improve understanding of the challenges and opportunities resulting from an ageing Australia; and
- an assessment of the potential for greater cooperation, coordination and integration of the general competition and consumer protection regimes in Australia and New Zealand.

Trends in public inquiry activity and participation over the past five years are shown in table B.5. 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 six inquiries and two commissioned research studies completed in 2003-04 are shown in table B.6.

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 1999-2000 to 2003-04 are in table B.7.

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.5 Public inquiry and other commissioned project activity, 1999-2000 to 2003-04

<i>Indicators</i>	<i>1999-00</i>	<i>2000-01</i>	<i>2001-02</i>	<i>2002-03</i>	<i>2003-04</i>
Public inquiries					
Inquiry references received	4	4	6	5	3
Issues papers released	4	5	6	4	3
Public hearings (sitting days) ^a	40	38	24	31	66
Organisations/people visited	103	217	318	191	186
Submissions received	1 017	460	847 ^d	540	1221
Draft reports ^b	4	5	8	1	5
Inquiry reports completed	6	2	9	3	6
Inquiries on hand (at 30 June)	4	6	3	5	2
Research studies^c					
References received	–	1	3	6	4
Research reports completed	2	–	2	7	2
Studies on hand (at 30 June)	–	1	2	1	3
Total references					
Total references received	4	5	9	11	7
Total references completed	8	2	11	10	8
Total references on hand (at 30 June)	4	7	5	6	5

^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.6 Cost of public inquiries and other commissioned projects completed in 2003-04^a

<i>Government-commissioned project</i>	<i>Total cost</i>
	\$'000
Review of TCF assistance	1 009
National workers' compensation & OHS frameworks	1 262
Review of the Disability Discrimination Act	2 058
Impacts of native vegetation & biodiversity regulations	1 841
Review of the gas access regime	1 529
First home ownership	2 100
Evaluation of mutual recognition schemes	599
Rules of origin under CER	623

^a Includes estimated overheads.

Table B.7 Direct administrative expenditure on public inquiries and other government-commissioned projects^a, 1999-2000 to 2003-04

<i>Expenditure item</i>	<i>1999-00</i>	<i>2000-01</i>	<i>2001-02</i>	<i>2002-03</i>	<i>2003-04</i>
	\$	\$	\$	\$	\$
Travel	195 142	193 972	215 062	381 491	415 835
Printing	216 865	59 972	171 399	91 813	181 435
Consultants	49 262	2 882	106 621	348 974	62 416
Other ^b	222 355	265 923	164 354	245 230	289 234
Total	683 623	522 749	657 436	1 067 508	948 920

^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 2003-04. The Commission held 66 public hearings, visited more than 180 people and organisations and received more than 1220 submissions during the year. Trends in these inquiry activities — which are heavily influenced by the nature of the policy issues referred to the Commission — are shown in table B.5. The Commission adapts its consultative processes to suit the variety of research studies commissioned by the Government. Consultative processes used this year in the studies on mutual recognition schemes and rules of origin are outlined in chapter 2.

The measures that the Commission undertook during the year to facilitate access to its processes by people living in regional areas and by participants in its review of the Disability Discrimination Act are also detailed in chapter 2.

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

- organised a roundtable in September 2003, attended by some 30 housing experts and major interest groups, to elicit views and discussion on the key issues for its inquiry on first home ownership.
- convened a modelling workshop in February 2004 to discuss its preliminary quantitative analysis of the size of the economic impacts of broad scale native vegetation clearing restrictions in the shires of Moore Plains in northern NSW and Murweh in south-west Queensland:
- convened a roundtable discussion on the draft report on native vegetation with participants in Geraldton, Western Australia; and
- held a total of nine roundtable discussions with interested parties during the course of the commissioned research studies on the mutual recognition schemes and rules of origin and, for each study, convened roundtables in both Wellington and Auckland (New Zealand) on its draft reports.

Internet technology has greatly increased the accessibility of the Commission's reports and facilitated speedier and easier notification of developments in inquiries and studies. 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. There were more than 35 000 external requests for the index pages of submissions and hearing transcripts for current inquiries and commissioned studies in the year to 30 June 2003.

Quality indicators

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

The six inquiries and two commissioned studies finalised in 2003-04 were completed on or close to schedule, including the provision of interim reports where specified.

The Commission's review of the Disability Discrimination Act was originally scheduled to be completed within 12 months. Following the death of the Associate Commissioner, Dr John Paterson, a new Associate Commissioner, Cate McKenzie, was appointed and the Parliamentary Secretary to the Treasurer extended the inquiry timetable. The new reporting date 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:
 - accepted the Commission's preferred tariff option and broadly endorsed its approach to other post-2005 assistance arrangements for the TCF industry;
 - accepted all of the Commission's recommendations on native vegetation and biodiversity regulation and indicated that it would pursue implementation of them by the States and Territories through COAG processes;
 - confirmed its intentions, previously announced in an interim response, to endorse the majority of the Commission's recommendations on the national access regime, particularly as regards the provision of clearer directions to regulators and greater certainty for investors; and
 - accepted the Commission's recommendation relating to section 2D of the Trade Practices Act relating to local government exemptions.
- Recent research studies specifically commissioned by the Government also appear to have been influential this year. For example, COAG officials have recommended that 25 of the Commission's findings from the Commission's evaluation of the mutual recognition schemes be accepted and that further work

be undertaken on the remainder (Stanhope 2004). In response to the Commission's 2003 study of GP administrative and compliance costs and subsequent consultation through a Red Tape Taskforce, the Government announced administrative changes to the Practice Incentives Program and Enhanced Primary Care Program and a range of other measures to reduce the paperwork burden on general practitioners (Abbott 2004).

- Governments do not always accept the Commission's advice. For example, the Government:
 - supported recommendations in the Commission's report on first home ownership relating to areas of State government responsibility — such as stamp duties, land supply and infrastructure charging — but rejected those relating to reviews of the personal income taxation regime and the housing needs of low income households and changes to the First Home Owner Scheme; and
 - rejected key elements of the Commission's proposed national framework for worker's compensation and occupational health and safety and deferred consideration of recommendations relating to design elements for workers' compensation and occupational health and safety pending advice from a new tripartite body, the Australian Safety and Compensation Council.
- Nevertheless, responses to and decisions on commissioned reports confirm the consistent usefulness of the Commission's work to the Government, Parliament and the broader community. An assessment 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.8, 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.
- 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 64 separate occasions by Members and Senators in the Federal Parliament in 2003-04. The Commission's report on post-2005 assistance arrangements for the TCF industries and the fact that it was undertaking an inquiry on first home ownership accounted for most of these mentions. Reports from previous years were referred to on 63 occasions (principally the reviews of automotive

assistance, the Price Surveillance Act, university resourcing, gambling and international pharmaceutical price differences).

- State and Territory members of parliament referred to Commission inquiries and commissioned research studies on 135 occasions. The Commission's 1999 report on gambling and its first home ownership inquiry each accounted for about a quarter of these mentions, but the inquiries on native vegetation inquiry, the regulation of architects and national frameworks for workers' compensation and OHS also featured prominently.
- 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 13 invitations the Commission received in 2003-04 to present papers on inquiries and commissioned studies to business, community and other groups (table E.1). The Chairman and Commissioners made presentations on five studies (ageing, GP red tape, the Great Barrier Reef, mutual recognition schemes and reform of building regulation) and a number of presentations on the workers' compensation and gas access regime inquiries.
- Other measures of the Commission's usefulness in contributing to public understanding are the use of its website and media coverage of its reports.
 - In the 12 months to June 2004 there were 153 000 external requests for the index pages of inquiries and government-commissioned research studies current in 2003-04. The references of most interest were those on first home ownership (49 600 requests), workers' compensation (21 500 requests) and the Disability Discrimination Act (20 000 requests). The most frequently accessed final report pages on the website during the year were those for the 1999 inquiry report on gambling (15 800 requests) and the March 2004 report on first home ownership (11 800 requests).
 - Inquiries and reports receive extensive media coverage — in 2003-04 there were 62 editorials in major newspapers on Commission inquiries and commissioned research studies. These included 47 editorials mentioning the Commission's first home ownership inquiry — of which 20 related to the Commission's Discussion Draft, four to its final report, two to its issues paper and 21 to the inquiry being underway. Other Commission inquiries mentioned more than once in editorials during the year were gambling, the gas access regime and the Job Network.
 - Commission inquiries on first home ownership, native vegetation and TCF assistance were the most widely reported inquiries during 2003-04, receiving a total of more than 3400 mentions in print and electronic media, of which first home ownership accounted for more than 80 per cent.

Table B.8 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 Pigeat Industries: Safeguard Action Against Imports (November 1999)	The Government concurred with the Commission's findings on safeguard action; eschewing tariff and quota restrictions and opting for adjustment assistance for the industry.
4	Nursing Home Subsidies (January 1999)	The Government accepted a range of Commission recommendations but rejected others. The report continues to be a key reference in Parliament, State and community debate on aged care.
5	Implementation of Ecologically Sustainable Development by Commonwealth Departments and Agencies (May 1999)	The formal government response to the report and a postscript on implementation indicate substantial support for the Commission's proposals for integrating ESD principles in decision making and agency reporting and for improvements in data collection.
6	Progress in Rail Reform (August 1999)	The Australian Government broadly endorsed a number of the Commission's recommendations relating to areas of its responsibility. In other areas, it deferred consideration of Commission recommendations, contingent on progress with reform within existing institutional arrangements.
7	International Telecommunications Market Regulation (August 1999)	The Government endorsed nearly all of the Commission's principal findings.
8	Impact of Competition Policy Reforms on Rural and Regional Australia (September 1999)	The Government cited the evidence of the benefits of national competition policy to rural and regional Australia and endorsed the thrust of the Commission's recommendations. The Commission's findings on the impacts of competition reforms and the wider economic and social drivers of change were used in parliamentary debates, in national competition policy processes and wider community debate on competition policy.
9	International Liner Cargo Shipping (September 1999)	The Government accepted all of the Commission's key recommendations.

10	Australia's Gambling Industries (November 1999)	The report was welcomed by the Prime Minister as the first comprehensive investigation of the social and economic impacts of gambling in Australia; it is being used extensively in policy debates in the States and Territories, with a number of its proposals being adopted; and it is the prime reference source on problem gambling for community groups and the media. Five 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)	The Government endorsed the majority of the Commission's recommendations on the national access regime, in particular the provision of clearer directions to regulators and greater certainty for investors.

(continued next page)

Table B.8 (continued)

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

24	Economic Regulation of Harbour Towing and Related Services (August 2002)	The Government accepted all the Commission's recommendations, with minor modifications relating to the implementation of price monitoring.
25	Review of Automotive Assistance (September 2002)	The Government endorsed the Commission's findings on post-2005 tariff reductions and transitional adjustment assistance for the industry (though with an additional \$1.4 billion, over 10 years, than preferred by the Commission), agreed with many of the Commission's findings on other assistance and industry matters, and announced a further inquiry by the Commission in 2008.
26	<i>Review of TCF Assistance (July 2003)</i>	<i>The Government accepted the Commission's preferred tariff option and quantum of transitional assistance, though with some variations in the components of that support package.</i>
27	<i>National Workers' Compensation and Occupational Health and Safety Frameworks (March 2004)</i>	<i>The Government did not support key elements of the Commission's proposed national framework model and deferred consideration of recommendations relating to design elements for workers' compensation schemes and OHS pending advice from a new tripartite body, the Australian Safety and Compensation Council.</i>
28	<i>First Home Ownership (March 2004)</i>	<i>The Government supported recommendations relating to areas of State responsibility but not those relating to reviews of the personal income taxation regime and the housing needs of low income households nor changes to the First Home Owner Scheme.</i>
29	<i>Impacts of Native Vegetation and Biodiversity Regulations (April 2004)</i>	<i>The Government announced that it supported the Commission's recommendations and would pursue implementation by the States and Territories through the COAG process.</i>

^a Additions or significant changes to the table published in the 2002-03 Annual Report are indicated in italics.

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 Government Service Provision in respect of reporting on the efficiency and effectiveness of government services, and reporting on key indicators of 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 2003-04 were:

- 19.7 staff years; and
- \$3.0 million on an accrual basis.

Activities in 2003-04

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

- *International Benchmarking of Container Stevedoring*, July 2003;
- *Water Rights Arrangements in Australia and Overseas*, October 2003;
- *Overcoming Indigenous Disadvantage: Key Indicators*, (Overview and Main Report) November 2003;
- *Report on Government Services 2004*, 2 volumes (and on CD-ROM with supporting tables), January 2004; and
- *Report on Government Services 2004: Indigenous Compendium*, April 2004.

Review of Government Service Provision

The Review of Commonwealth/State Service Provision was established by the Prime Minister, Premiers and Chief Ministers in July 1993. To accord with the Government's policy on use of the term 'Commonwealth', the name of the Review was changed in 2003 to the Review of Government Service Provision.

The Review's 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 which focus on reforms are published periodically. The aim is to work cooperatively to facilitate and encourage innovation in the delivery of services.

The first edition of *Overcoming Indigenous Disadvantage: Key Indicators* was released by the Review in November 2003. 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)

The report on indigenous disadvantage is to be produced every two years.

Report on Government Services

The ninth Report on Government Services was released in January 2004. The Review's underlying philosophy is one of continuous improvement, with the Steering Committee endeavouring to build on enhancements in the previous year. Improvements in the 2004 Report were made in areas of comparability, timeliness, and quality of existing indicators, the scope of performance reporting, and the quality of contextual information published in the report.

The most notable improvement across nearly all chapters of the 2004 Report was the implementation of a new performance indicator framework. The new approach reflects governments' adoption of accrual accounting and emphasises the Review's focus on outcomes, consistent with demand on governments for outcome orientated performance information. The new framework also accentuates the importance of equity and draws out the distinction between equity and access.

A number of changes were made to improve comparability of data in the 2004 Report.

-
- Nationally comparable primary school learning outcomes for writing for years 3 and 5 were reported for the first time (in addition to those for reading and numeracy). Writing outcomes were reported for indigenous students and students with a language background other than English.
 - Comparability of data on school education was improved by applying the user cost of capital more consistently across jurisdictions. Asset definitions were revised, and data provided by jurisdictions was cross-matched with data from the Ministerial Council for Education, Employment, Training and Youth Affairs.
 - The establishment of a jurisdictional practitioner group and the implementation of recommendations associated with the *ABS Courts Administration Data Collection National Report* on lodgements have improved the comparability of information published on court administration.
 - Comparability of fire services' response times was improved with reporting by geographic remoteness areas, and ambulance patient satisfaction data are now reported for all jurisdictions.

Table B.9 provides an overview of indicators reported on a directly comparable basis across jurisdictions in each service area for the 2004 Report.

The scope of the reporting has expanded considerably in recent years (figure B.3). In particular, improvements were made to the scope of the 2004 Report through:

- the inclusion of new performance indicators in the chapters on police, court administration, public hospitals, aged care services, services for people with a disability and emergency management; and
- broadening the former chapter on general practice to incorporate primary and community health services more generally. Indicators reported for the first time included 'health assessments for older people', 'vaccine preventable hospitalisations' and 'hospitalisations for selected chronic conditions'.

The Review is also continuing to refine performance measures and to improve the quality of descriptive data and contextual information published in the report.

- The Steering Committee agreed to include text boxes on the rationale and interpretation of performance indicators presented in the 2005 Report on Government Services. The indicator interpretation boxes aim to provide a succinct commentary on the rationale for the inclusion of each performance indicator and an explanation of how the indicator is defined, how it should be interpreted, and an overview of conceptual caveats. (Text boxes to introduce indicators were used in the court administration chapter in the 2004 Report.)
- A workshop to examine indicators of quality for Australian public hospitals was held in July 2004. It was organised jointly by the Health Working Group for the Review of Government Service Provision and the Australian Council for

Safety and Quality in Health Care and facilitated by the Commission. The workshop was supported by the Australian Health Ministers' Advisory Council and the National Health Performance Committee. Workshop participants examined a number of options for improving the measurement of hospital quality and identified a number of indicators for further development. A consultant will be engaged in early 2005 to undertake work on these indicators.

Table B.9 Indicators reported on a comparable basis, 2004 Report

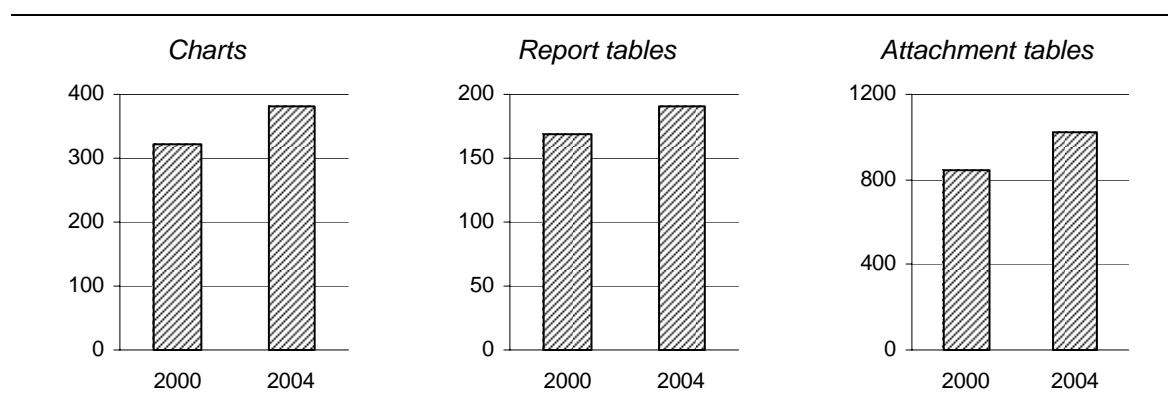
<i>Service area/indicator framework</i>	<i>Total number of indicators with data reported</i>	<i>Indicators with data reported on a comparable basis</i>	<i>Proportion comparable</i>	<i>Increase since 2003 Report in indicators reported on a comparable basis</i>
	no.	no.	per cent	no.
<i>Education</i>				
School education	9	7	78	–
VET	19	14	74	–
<i>Justice</i>				
Police services	29	15	50	–
Court administration ^a	6	3	50	..
Corrective services	11	8	73	–
Emergency management	19	1	5	–
<i>Health</i>				
Public hospitals	15	7	47	–
Maternity services	10	3	30	–
Primary and community health	20	20	100	7
Breast cancer	11	7	64	4
Mental health	9	4	44	–
<i>Community services</i>				
Aged care services	14	12	86	2
Services for people with a disability	12	6	50	–
Children's services	12	2	17	–
Child protection and out-of-home care	25	4	16	–
SAAP ^b	5	14	36	–
<i>Housing</i>				
Public housing	12	12	100	–
Community housing	10	–	–	–
State owned and managed indigenous housing	9	9	100	–
Commonwealth Rent Assistance	11	11	100	–

^a A new set of indicators was introduced for the chapter on court administration for the first time in 2004.

^b Supported Accommodation Assistance Program. .. Not applicable. – Nil or rounded to zero.

Figure B.3 **Increased scope of reporting on government services**

Numbers



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. The Indigenous Compendium to the 2004 Report, which was released in April 2004, provides information that will complement the material in the new report. Improvements in the 2004 Indigenous Compendium included new indicators for school education, vocational education and training, and primary and community health.

Overcoming Indigenous Disadvantage: Key Indicators

The first Indigenous Disadvantage Report was released in November 2003. COAG commissioned the Review to produce this report on a regular basis to allow the monitoring of outcomes and measurement of governments' performance in addressing indigenous disadvantage. The Indigenous Disadvantage Report, which has support from the Australian, State and Territory governments, sets out, for the first time, a strategic framework for action in areas of indigenous disadvantage.

Since the release of the Indigenous Disadvantage Report, the Chairman of the Steering Committee and other members of the Review have commenced a program of ongoing consultations that will be a feature of every reporting cycle to ensure that the Report improves and remains meaningful to all government and indigenous stakeholders. Consultations have been conducted with government officials, indigenous people and organisations, and have included visits to indigenous communities. Consultations will continue in 2004-05. The Review is also in contact with officials coordinating the COAG Indigenous Community Coordination Trials and has visited one of the trial sites, Wadeye (Northern Territory).

The estimated cost to the Commission of assisting governments in the production of the Report on Government Services, the Indigenous Disadvantage Report and related Review activities in 2003-04 was around \$2.6 million (compared to \$2.3 million in 2002-03).

Performance monitoring of government trading enterprises (GTEs)

The Commission undertook work on its annual study of the financial performance of GTEs. Although the report was substantially complete in 2003-04, it was not published until 20 July 2004. The report provided a range of financial indicators for 84 enterprises between 1998-99 and 2002-03. It also included research into aspects of external governance — auditing, reporting and performance monitoring — that promote accountability and play a role in enhancing GTE performance.

International benchmarking

The Commission completed work on two studies of key Australian infrastructure during 2003-04. One project investigated whether the performance of Australian terminals had improved relative to the performance of overseas terminals. To this end, international differences in container terminal handling rates and charges in 2002 were compared with those collected in 1997 for an earlier international benchmarking study undertaken by the Commission. The other benchmarking study published in 2003-04 was undertaken, with strong governmental support, to increase awareness of the similarities and differences in the complex water rights systems operating across Australia and overseas. It 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 October 2003, respectively.

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 Government Service Provision is guided by a Steering Committee. This Steering Committee consists of senior executives from each jurisdiction, chaired by the Chairman of the Productivity Commission, and serviced by a secretariat drawn from the staff of the Commission. The Committee, in turn, is supported by 13 national working groups comprising

representatives from 80 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, Aboriginal and Torres Strait Islander Services and committees established under Ministerial Councils.

The Review consulted extensively during the course of producing the first Indigenous Disadvantage Report and is committed to ongoing consultation, particularly with indigenous organisations and communities.

The Commission's quality assurance processes for its reporting on the financial performance of GTEs includes giving State and Territory Treasury departments the opportunity to review drafts before publication. In order to inform its ongoing research on external governance arrangements for GTEs, the Commission convened a workshop with invited board members, chief executive officers and senior government officials in September 2003 to discuss governance issues and lessons from governance reforms. Major themes were the continuing high levels of ministerial control over GTEs, the unsustainability of current governance arrangements given the lack of clearly defined and non-conflicting objectives, and the erosion of some of the commercial disciplines of Corporatisation Acts through the encroachment of other legislation.

The benchmarking study of container stevedoring charges and handling rates was reviewed by the Bureau of Transport and Regional Economics, three terminal operators and Shipping Australia. Some minor changes to the report were made as a consequence of the comments received.

Factual information in the international benchmarking study of water rights was checked within each of the jurisdictions studied. During the course of the study, the Commission discussed operational issues with catchment and water authorities and irrigation companies and trusts in Barmera, Berri, Deniliquin, Mildura, Shepparton, Bundaberg, Rockhampton and Emerald; made contact with eight overseas agencies; and held a workshop in July 2003 on a draft of its report. Comments on the draft report were generally favourable and only minor changes were made to finalise the report.

Timeliness

The reports on government services and indigenous disadvantage, the indigenous compendium and the container stevedoring benchmarking study were completed on schedule.

The completion of the 2002-03 GTE financial performance monitoring report had to be postponed by several weeks because of staff commitments to other work. The international benchmarking study of water rights arrangements was delayed by 10 months from the original schedule because of the complexity of the arrangements being studied, unanticipated difficulties in obtaining data and information from overseas, and staffing constraints.

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 Government Service Provision

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

- In May 2004 the Commission undertook a survey of users and contributors to the Report on Government Services to obtain feedback on its success in meeting the objectives of the Review of Government Service Provision. Notwithstanding a low response rate, the results provide some indication of respondents' perceptions of the quality of the information in the Report. Over 95 per cent of respondents in total rated the usefulness, credibility and relevance of the Report as 'adequate', 'good' or 'very good'; about 85 per cent similarly rated its timeliness; and around 80 per cent of respondents similarly rated the comparability of data in the Report.
- 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. Results from the May 2004 survey indicated that 92 per cent of central agency respondents considered the Report important for briefing ministers, members of parliament or departmental executives, as did 75 per cent of line agency respondents.
- A variety of performance information sourced to the 2004 (and earlier) government services reports was used in parliamentary proceedings by government and opposition members in parliaments during 2003-04.
 - In the Federal Parliament, data from the Reports were used in relation to hospitals, child protection services and aged care services.

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- In other parliaments, data from the reports were mentioned 61 times and were used in relation to elective surgery waiting times, litigation, education funding, recidivism, student literacy, prison escape rates, prison efficiency, aged care services, respite services, children’s services, emergency management services, police staffing numbers, public confidence in police services, the cost-effectiveness of public hospitals, funding for mental health services, deaths in custody, crime rates, child protection, the performance of courts in progressing from committal to trial finalisation, and satisfaction with ambulance services.
 - 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 articles in such journals as *Trends and Issues in Crime and Criminal Justice*, *Australian Doctor*, *Australian Economic Review*, *Medical Observer Weekly*, and *The Drawing Board: An Australian Review of Public Affairs*; and in conference papers.

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

- Results from the survey on the Report on Government Services indicated that:
 - 92 per cent of central agency respondents considered the Report important for evaluating or formulating government policies, as did 64 per cent of line agency respondents;
 - 100 per cent of respondents from central agencies considered the Report important for evaluating and demonstrating the performance of line agencies in the delivery of services, compared to 73 per cent of line agency respondents; and
 - 79 cent of respondents indicated that the Report had at least some influence in the introduction of performance monitoring and reporting, while 77 per cent of respondents indicated that the Report had some influence on the introduction of performance enhancing projects.
- The Secretariat made a presentation on the Review on Government Services to a Malaysian delegation in February 2004.
- Media coverage of the 2004 Report on Government Services was extensive. There were more than 130 press articles drawing on the Report and more than 560 mentions of it in electronic media in the period to 30 June 2004. More than 1470 bound copies and a further 106 CD-ROMs of the report were distributed by the Commission.
- There were more than 7500 external requests for the index page of the 2004 Report on Government services on the Commission’s website in 2003-04 and more than 1100 requests for the 2004 Indigenous Compendium. The 2003

Report on Government Services continued to be accessed from the website by external parties — around 9250 requests throughout 2003-04. There was a total of around 36 500 external requests for the index pages of Review publications, (including research reports produced under the auspices of the Review but not including the Indigenous Disadvantage Report) in 2003-04.

Overcoming Indigenous Disadvantage: Key Indicators

The purpose of the Indigenous Disadvantage Report is to provide governments with information on key indicators of indigenous disadvantage. Evidence of the usefulness of the report is demonstrated by:

- testimony to the Estimates hearings of the Senate Standing Committee on Legal and Constitutional Affairs that each government ‘will be addressing those aspects of the report that relate directly or indirectly to its programs and activities and use the report as a guide as to ways in which they need to refocus their efforts’ (Vaughan 2003);
- the response to the report by the (then) Australian Torres Strait Islander Commission, congratulating the Steering Committee and its Productivity Commission secretariat for producing this ‘landmark’ report, noting that:

This report transforms the landscape by enabling us to monitor outcomes in a systematic way across jurisdictional and portfolio boundaries. It therefore provides a major step forward in achieving greater transparency and accountability of the performance of all governments. (Quartermaine 2003);
- the response of Reconciliation Australia (2003) that the report:

lays the foundation for a concerted national effort to raise the living standards of Indigenous Australians and provides a benchmark from which to measure progress.

The Report is also stimulating improvements in indigenous data collection, consistency and quality. Examples include:

- the Aboriginal and Torres Strait Islander Social Justice Commissioner’s *Social Justice Report 2003* recommended that the Australian Government take action to improve indigenous data collection and that the ABS respond to suggestions made by the Steering Committee in the Indigenous Disadvantage Report (Jonas 2004). In addition, the Commissioner cited performance information from the Indigenous Disadvantage Report and recommended additional roles for the Commission (page 100); and
- the number of jurisdictions planning to use the indicator framework to develop reporting and monitoring regimes under new initiatives aimed at improving outcomes. Some jurisdictions have commenced work with their agencies to look at improving data collection.

There were 13 mentions of indigenous disadvantage reporting in the Federal Parliament in 2003-04, including use of data on the proportion of indigenous people participating in Community Development Employment Projects. In other parliaments, data on unemployment rates were used.

The Chairman of the Steering Committee and the Convener of the Review's Indigenous Disadvantage Working Group have presented papers on the Indigenous Disadvantage Report at the Pursuing Opportunity and Prosperity Conference in November 2003 and the Northern Territory Council of Social Service Conference in March 2004, respectively.

Media coverage of the Indigenous Disadvantage Report was extensive, particularly by indigenous media organisations. In the period since its release, a total of 42 printed newspaper articles and 26 electronic media articles (radio, television or internet) have referred to the Report. A total of 1823 bound copies of the Report were distributed by the Commission. Copies of the Report and Overview were distributed by request to indigenous organisations and copies of the Overview have also been distributed by the Review as a basis for its ongoing consultation with indigenous people and government agencies. In addition, the indigenous disadvantage report was:

- cited in articles in such journals as *Online Opinion*, *ATSIC News* and *Australian Indigenous Law Reporter*; and
- accessed from the Commission's website, with more than 7000 external requests in the period to June 2004.

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.

- The reports on the financial performance of GTEs attracted media attention through the year and in 2003-04 there were 6600 external requests for the website pages of the 2003 and earlier reports.
- Responses to the External Governance Workshop held in September 2003 indicated that participants found it a valuable exercise and there were requests from representatives of several State and Territory governments for the workshop to be an annual event.
- The international benchmarking of container stevedoring resulted in a review of the Bureau of Transport and Regional Economics' methodology of reporting Australian container terminal rates and charges presented in its *Waterline*

publication. There were 2100 external requests for the website pages of this benchmarking study in 2003-04.

- The Commission's study on water rights arrangements fed into other policy processes. For example, the ACIL–Tasman/Freehills (2004) study on a workable system of water property titles in Australia for the Australian Government Department of Agriculture, Fisheries and Forestry and Land & Water Australia drew on the Commission's analysis. The Secretary of the Department of Agriculture, Fisheries and Forestry was supportive of the findings contained in the Commission's report and noted that it had identified a number of issues that may impact on the success of the water reform process in Australia. The Director General of the Queensland Department of Natural Resources and Mines wrote to commend the Commission on the completion of the report, noting the complexity and magnitude of the task. There were two presentations on the study at conferences after its release and 3400 external requests for the website page of this benchmarking study in 2003-04.

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 2003-04*.

The objective of the Commission's regulation review activities is to promote regulation-making processes that, from an economy-wide and public interest perspective, improve the effectiveness and efficiency of regulatory proposals. The ORR provides advice to the Australian Government and assists approximately 100 Australian Government departments and agencies, Ministerial Councils and national standard-setting bodies develop regulatory proposals through the preparation of Regulation Impact Statements (RISs). The ORR aims to assess 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 2003-04 were:

- 18.2 staff years; and
- \$2.7 million on an accrual basis.

Activities in 2003-04

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

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 regulation impact statements (RISs) prepared by Australian Government departments and agencies;
- provide training and guidance to officials;
- report annually on compliance with the Australian 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.

In 2003-04 the Australian Government introduced 150 Bills, 1538 disallowable instruments and 29 treaties into the Parliament (table B.10). In the same period, the ORR received 845 new RIS queries (compared to 861 queries in 2002-03). Of these, the ORR advised that RISs were required in 174 cases.

Of those proposals reported to have been made or tabled in 2003-04, the ORR identified 114 as triggering the Government's RIS requirements at the decision-making stage. It provided comments on the 109 RISs subsequently prepared.

The ORR provided formal training on RISs and regulatory best practice to an estimated 437 Australian Government, State government and ACT Government officials from a wide range of departments and agencies (compared to 514 officials in 2002-03). For example, the ORR provided such training to: 56 staff from the Australian Securities and Investments Commission; 50 staff from the Australian Building Codes Board; 36 staff from the Department of the Environment and Heritage; 28 staff from the Australian Prudential Regulation Authority; 23 staff from the Australian Communications Authority and 20 staff from the ACT Government.

Table B.10 Australian Government regulatory and RIS activities, 1999-2000 to 2003-04

	1999-00	2000-01	2001-02	2002-03	2003-04
	no.	no.	no.	no.	no.
Regulations introduced					
Bills	159	169	207	174	150
Disallowable instruments	1832	1438	1711	1615	1538
Total introduced	1991	1607	1918	1789	1688
RIS workload					
Total number of new RIS queries received by the ORR	826	740	709	861	845
- of which, the ORR advised a RIS was required	175	132	174
Proposals finalised^a					
Proposals which required a RIS	207	157	145	139	114
RISs prepared	180	133	130	120	109

^a Proposals at the decision-making stage which were tabled or made in the reporting period — for some of these proposals the ORR was contacted in an earlier reporting period. .. Data not available.

In advising Ministerial Councils and national standard-setting bodies on regulation-making, the ORR examined 72 regulatory proposals and provided advice on 36 RISs which were considered by these decision-making bodies in the 12 months ending 31 March 2004 (compared to 61 regulatory proposals and 24 RISs in the 12 months ending 31 March 2003). The ORR also reported to the National Competition Council and the Committee on Regulatory Reform — a senior officials group reporting to COAG — on the setting of national standards and regulatory action by Ministerial Councils and national standard-setting bodies, for the year ended 31 March.

In monitoring and contributing to regulatory reform developments more broadly throughout Australia and internationally during 2003-04, the ORR also:

- provided input into the review by COAG of the *Principles and Guidelines for National Standard Setting and Regulatory Action by Ministerial Councils and Standard-Setting Bodies*;
- worked with the Department of Finance and Administration to implement and harmonise the operation of the Australian Government's RIS (Regulation Impact Statement) and CRIS (Cost Recovery Impact Statement) requirements;
- presented papers on regulatory best practice to the Australian Building Codes Board National Technical Summit in July 2003 and to the National Consumer Conference in March 2004;

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- provided briefing to the Department of Foreign Affairs and Trade on issues arising from Australia's participation in the WTO GATS (General Agreement on Trade in Services) Working Party on Domestic Regulation and assisted the Department in developing Australia's response to the WTO's Third Triennial Review on technical barriers to trade;
 - participated in a steering group chaired by the Office of Small Business — in the Department of Industry, Tourism and Resources — that examined reforms to Australia's regulatory performance indicators initiative;
 - provided advice to a study by the UK Government on the use of sunset clauses in regulation, and to a query concerning bringing sustainable development issues more explicitly into its Regulatory Impact Assessment guidance;
 - participated in the annual meeting of regulation review units, representing all States (except New South Wales), the Territories and New Zealand. This meeting, held in September 2003, provided a forum for exchange of information and explored the scope to enhance cooperation on regulatory issues between jurisdictions;
 - provided advice on Australia's approach to implementing the tools of regulatory governance to the Bertelsmann Foundation in Germany. The Foundation is one of a group of bodies working with the German Ministry for Economy and Labour to introduce regulation review and reform activities (in particular, regulatory impact assessment);
 - met with New Zealand Government officials to discuss developments in regulatory reform including scope to enhance trans-Tasman cooperation in the review and reform of regulations;
 - met with a delegation from the Japanese Ministry of Public Management, Home Affairs, Posts and Telecommunications, to discuss research on RISs;
 - met with officials from the Korean Government to discuss matters related to regulatory reform;
 - met with officials from Chung Hua University, Taiwan, to discuss regulatory best practice and standard setting in Australia; and
 - met with various stakeholder groups who wished to discuss specific RIS issues or the application of the RIS requirements more generally.

In 2003-04 the ORR was invited by the OECD to provide a peer reviewer for the regulatory reform review of Germany, and to speak about regulatory reform at forums in Canada, Taiwan, Thailand and Sydney. These requests were declined due to other commitments.

Regulation and its Review fulfils the Productivity Commission's and the ORR's obligation to report annually on compliance with the Government's regulation review and reform requirements. The report for 2002-03, which was released in November 2003, continued the initiative of reporting in greater detail on compliance by Australian Government departments and agencies. It also canvassed regulatory issues more broadly, emphasising the importance of RIS requirements to good policy process and high quality regulatory outcomes.

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 last surveyed Australian Government officials who were engaged in preparing RISs in 2000-01 regarding the usefulness of the ORR's advice in the development of RISs. In 2004-05 the ORR will commence an ongoing survey to obtain feedback on how departments and agencies view the ORR's work performance and the quality of its service.

As in previous years, the ORR surveyed the 417 Australian Government officials who received training in regulatory best practice in 2003-04 and 268 responses were received — a response rate of 64 per cent. The responses indicated that the ORR training was well received, with 85 per cent rating the training as either 'excellent' or 'good'. No respondents considered RIS training to be 'unsatisfactory'.

In addition, the ORR provided training to 20 staff from the ACT Government. Sixteen staff assessed the quality of ORR training as excellent (80 per cent) and a further three assessed it as good.

The ORR also provided 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 generally well regarded and useful to officials preparing advice on regulatory issues.

Timeliness

The extent to which the ORR's advice is delivered to regulators and decision makers in a timely manner is also a key indicator of 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, in 2003-04 the ORR provided formal feedback (comments on the first draft of the RIS) to departments and agencies, on average, five working days after RISs were received. Moreover, the ORR provided comments on 94 per cent of all (first draft) RISs received within two weeks.

During 2003-04 there were several instances where departments and agencies requested advice on their RISs within a few days and sometimes a few hours. While the ORR was able to meet these urgent requests, such short timeframes make it difficult to give proper consideration to all the issues and raise broader questions about the approach taken to preparing RISs within some departments and agencies.

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 2003-04.

The ORR has also delivered its other outputs in a timely manner. For example, it prepared a report to the National Competition Council on compliance with the *COAG Principles and Guidelines for National Standard Setting and Regulatory Action by Ministerial Councils and Standard-Setting Bodies*. This report, which covered compliance for the 12 months to the end of March 2004, was completed and delivered on time. This ORR report assisted the Council in preparing 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 2003-04.
 - Of the 114 regulatory proposals in 2003-04 that required the preparation of a RIS, 92 per cent complied with the RIS requirements at the decision-making stage. This compares to a RIS compliance rate of 81 per cent in 2002-03.
 - Compliance for the 86 proposals that required a RIS at the tabling stage was 95 per cent — equal to that in the previous year.
 - For significant regulatory issues, the RIS compliance rate in 2003-04 was 94 per cent. This compares favourably with a 46 per cent compliance rate in 2002-03, and is an improvement on the 70 per cent compliance rate for 2001-02.
 - 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 2003-04, resulting in better regulatory practices and outcomes .
- Informal feedback provided by government officials indicates that departments and agencies found the ORR's contributions on these matters to be constructive, timely and positive. For example, in his April 2004 submission to the Commission's study on reform of building regulation the Chairman of the Australian Building Codes Board (ABCB) stated:

Relationships with the ORR are good, with ABCB staff appreciating the constructive approach taken and efficient manner in which draft RISs are handled.
- In 2003-04 RISs for consultation (or similar documents) were prepared for 14 proposals, and submitted to the ORR for input before being released to stakeholders, although this is not a formal requirement under the Australian Government's RIS requirements.
- Of the 114 proposals that required a RIS, in nine cases the preferred option was modified during the policy development process between the first draft of the RIS sighted by the ORR and the RIS considered by the decision maker. This suggests that consultation and transparency, both key elements of the Government's RIS process, are significant factors in achieving better regulatory outcomes.

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- In October 2003 the Environment and Heritage Ministers of the Australian, State and Territory, and New Zealand governments agreed to examine a national mandatory water efficiency labelling scheme covering showerheads, washing machines, dishwashers and toilets. The Ministers agreed that the Australian Government would develop the proposal. A draft RIS was prepared, and released for public comment by the Department of Environment and Heritage from 13 March to 16 April 2004. In light of comments received, the proposal was modified to include the mandatory registration and mandatory labelling for water efficiency for bathroom basin, kitchen sink and laundry taps and for urinals and urinal flushing systems.
 - RISs tabled in the Parliament with explanatory 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, and those appearing before parliamentary committees have referred, favourably and critically, to the content of RISs.
 - In 2003-04 the need for and content of RISs were raised in parliamentary discussions on 34 occasions, primarily in parliamentary committees. Most discussion focused on the analysis contained in the 'impact' and 'consultation' sections of RISs.
 - In a year when a number of treaties that trigger the RIS requirements were tabled, the Joint Standing Committee on Treaties referred on several occasions to information provided in RISs.
 - In its report on the Stockholm Convention, the Committee commended the Department of the Environment and Heritage

for the thorough documentation it provided, especially on the issue of consultation. The RIS and consultations annex provides a list of those consulted and also a summary of those comments. The Committee was pleased by the range of organisations contacted in the negotiations process for this treaty and the manner in which the information was presented.

The Committee hoped that other departments would follow 'the fine example set by the Department of the Environment and Heritage in this case'.

- The RIS process was also mentioned five times in the parliamentary debate on the *Legislative Instruments Bill 2003*. In December 2003 the Government agreed with the recommendation of the Senate Committee report that the operation of the consultation provisions be included in the review of the Act three years after its commencement (Ellison 2003, p. 18632).

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- State and Territory government officials contacted the ORR on two occasions during 2003-04 to confirm that proposals complied with COAG RIS requirements, before proceeding with their legislation.

The Australian Government also showed its support for the RIS process in its response to the Employment, Workplace Relations and Education References Committee's report on *Small Business Employment* (released 6 February 2003). The Committee recommended that the Australian Government amend the RIS guidelines to require that agencies provide quantitative estimates of compliance costs, based on detailed proposals for implementation and administration. It also recommended that the Australian Government commission regular reviews of the accuracy of compliance estimates in the RISs for regulations with a major impact on business.

COAG also re-iterated its support for regulatory governance by re-endorsing on 25 June 2004 the *Principles and Guidelines for National Standard Setting and Regulatory Action by Ministerial Councils and Standard-setting Bodies*. COAG clarified when the requirements apply, strengthened the ORR's role in assessing COAG RISs before consultation and before the decision-making stage, and required COAG RISs to specifically assess the impacts on small business. COAG also decided that the ORR and the New Zealand Regulatory Impact Analysis Unit would cooperate in assessing COAG RISs for consultation where there are New Zealand issues (such as trans-Tasman mutual recognition).

Indicators of the usefulness of the ORR's regulation review activities in promoting public understanding of regulatory best practice issues are also found in the use of its reports both in Australia and internationally.

- Printed copies of *Regulation and its Review 2002-03* were widely distributed, including a copy to each Member of the House of Representatives and Senator.
- Approximately 500 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.
- The Subordinate Legislation Committee of the Scottish Parliament drew extensively on the Staff Working Paper '*Mechanisms for Improving the Quality of Regulation*' (Argy and Johnson 2003) and the paper's 'Checklist for Assessing Regulatory Quality' in developing a consultation paper for its inquiry into the regulatory framework in Scotland.

The ORR component of the Commission's website was significantly upgraded during 2003-04 and now functions as a 'self contained' site, with more direct links to information about the ORR and its work. During the reporting period there were

16 700 external requests for the ORR home page. External requests for the index pages of ORR publications included 3500 for *A Guide to Regulation*, 1990 for *Regulation and its Review 2002-03* and 1100 for *Mechanisms for Improving the Quality of Regulation*. This compares to 9400 requests for the ORR home page, 3300 requests for *A Guide to Regulation* and 1700 requests for *Regulation and its Review 2001-02* in 2002-03.

Output 4: Competitive neutrality complaints activities

The Australian Government Competitive Neutrality Complaints Office (AGCNCO) 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 AGCNCO is to:

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

The AGCNCO 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 2003-04 were:

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

Activities in 2003-04

Complaints activity

The AGCNCO received nine formal complaints during 2003-04 (table B.11). No complaints were carried forward from 2002-03 and, at the end of the financial year, one formal investigation was outstanding. Details of complaints which were investigated and preliminary investigations which did not proceed to report are contained in appendix D.

Table B.11 Formal competitive neutrality complaints, 1998-99 to 2003-04

<i>Activity</i>	<i>1998-98</i>	<i>1999-00</i>	<i>2000-01</i>	<i>2001-02</i>	<i>2002-03</i>	<i>2003-04</i>
Written complaints received	6	7	5	2	1	9
Action:						
New complaints formally investigated	2 ^a	4	5 ^b	1	–	1
Complaints investigated but suspended	–	1	–	–	–	–
Complaints investigated and resolved through negotiation	–	–	1	1	–	1
Complaints not investigated	4	2	–	–	1	6
Reports completed	1	4	–	5 ^b	–	1
Complaints on hand (30 June)	–	–	5 ^b	–	–	1

^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.

Research

No formal research activities were conducted in 2003-04.

Advice on the application and implementation of competitive neutrality

An important part of the AGCNCO's role is to provide formal and informal advice on competitive neutrality matters and to assist agencies in implementing competitive neutrality requirements. During 2003-04 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 *ad hoc* meetings;
- contributed to information sessions for government businesses in relation to the Australian Government's publication *Australian Government Competitive Neutrality Guidelines for Managers*; and
- hosted the annual meeting of competitive neutrality policy and complaint agencies of the Australian, State and Territory governments held in June 2004.

Quality indicators

Competitive neutrality complaint investigations and reporting engage the complainant, the government business in question, the competitive neutrality policy arms of the Australian Government and, as required, the government department

within whose policy purview the business resides. The generally favourable feedback from all these parties on the integrity of the process and the usefulness of its outcomes — given that the AGCNCO's reports assess competing interests — is the strongest evidence as to the quality of the AGCNCO's work.

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

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

Timeliness

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

The complaint regarding the Australian Valuation Office was received in November 2003 and the investigation was finalised on 5 May 2004. With the exception of one ongoing complaint, all other complaints received over the course of 2003-04 were finalised within a 90 day period.

Indicators of usefulness

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

As noted in box B.2, the *Australian Government Competitive Neutrality Guidelines for Managers*, released in February 2004, directed users to two 1998 research papers for specific guidance on cost allocation and rate of return issues (CCNCO 1998a, b); and a range of investigation reports from 1999 to 2001 for information on particular aspects of the implementation of competitive neutrality, such as assessing regulatory neutrality and the existence of competitors. The 1998 research papers were also extensively cited in the work of the Competition Committee of the OECD's Directorate for Financial and Enterprise Affairs during 2004.

The AGCNCO also 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 AGCNCO publications on cost allocation and pricing and rate of return issues in assisting their implementation of competitive neutrality policy. Although released in 1998, these research papers continue to be in demand — for example, with around 800 to 900 external requests to the Commission’s website in 2003-04. In total, there were more than 6700 external requests for the web pages of AGCNCO publications during 2003-04.

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 2003-04 were:

- 38.4 staff years; and
- \$6.3 million on an accrual basis.

Activities in 2003-04

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 2002-03, delivered in December 2003 but not tabled in Parliament until March 2004, which discussed Australia’s productivity

turnaround in the 1990s, external and domestic challenges to sustaining Australian living standards and a broad reform agenda to secure further productivity growth; and

- two companion publications on regulatory developments in 2002-03 and trade and assistance issues, released in November 2003 and January 2004, respectively;
- two supplements to the government-commissioned research report on rules of origin under the Australia – New Zealand Closer Economic Relations Trade Agreement;
- four Commission Research Papers, including a submission in response to the NCC’s draft recommendation on declaration of Sydney airport;
- the Inaugural Richard Snape Lecture, delivered by Professor Max Corden on 30 October 2003;
- a brief commemorative history of ‘the Commission’ to mark the 30th anniversary of the creation of the Industries Assistance Commission;
- four Staff Working Papers; and
- other projects associated with inquiry and research support, technical research memoranda, assistance to other government departments, conference papers and, in particular, papers on productivity issues and updated productivity estimates published on the Commission’s website.

The presentation by Max Corden was the first in a series of lectures in memory of Professor Richard Snape. The former Deputy Chairman of the Commission and Professor of Economics at Monash University died in October 2002. The series has been conceived to elicit contributions on important public policy issues from internationally recognised figures, in a form that is accessible to a wider audience.

As outlined by the Commission in its *Research Program 2003-04*, 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.

As noted in chapter 2, with an increasing number of government-commissioned projects on hand or in prospect, the Commission's supporting research program became increasingly curtailed through 2003-04. Most of the research outputs listed in box B.4 were completed in the first half of the financial year. Research projects underway at the end of the year are shown in box B.5.

The Commission sees value in the public good aspect of its research and promotes dissemination of its work through publications, internet access and presentations. Details of Commission Research Papers and the 67 presentations given by the Chairman, Commissioners and staff in the year are provided in appendix E.

Box B.4 Supporting research and annual reporting publications, 2003-04	
<i>Annual report suite of publications</i>	
Annual report 2002-03	Regulation and its review 2002-03
Trade & assistance review 2002-03	
<i>Supplements to government-commissioned research reports</i>	
Assistance in Australia and New Zealand under the CER Agreement	Restrictiveness index for preferential rules of origin
<i>Commission research papers</i>	
Trends in Australian manufacturing	Social capital: reviewing the concept and its policy implications
Submission in response to the NCC's draft recommendation on declaration of Sydney Airport	Assessing environmental regulatory arrangements for aquaculture
<i>Other Commission papers</i>	
Richard Snape Lecture: 40 million Aussies? The immigration debate revisited (Max Corden)	From industry assistance to productivity: 30 years of 'the Commission'
<i>Staff working papers</i>	
Mechanisms for improving the quality of regulations: Australia in an international context	Restrictions on trade in education services: some basic indexes
A comparison of gross output and value-added methods of productivity estimation	Australia's industry sector productivity performance

Box B.5 Supporting research projects underway at 30 June 2004

ICT use and productivity: a synthesis from studies of Australian firms #	An integrated tariff analysis system #
Modelling water trade in the Southern Murray–Darling Basin #	R&D: changing patterns and implications for growth
Distributional impacts of changes in Australian economic infrastructure in the 1990s	Technological and organisational complementarities in firm-level innovation
Regional impacts of changes in Australian Electricity industries	Modelling for the review of NCP reforms
Assistance to sports and the arts	Assistance to tourism
Australia’s agricultural sector – a changing profile	Incorporating externalities into the pricing of irrigation water
Understanding demand for irrigation water	Labour hire employment: extent and characteristics
The preference for imports – Armington elasticities and terms of trade effects in GE models	Update of the GTAP model data base for Australia to 1996-97
Health policy and socio-economic status in Australia: improving decision support tools (SPIRT Project) *	The evolution of Australian enterprises 1990 to 2007 (ARC Linkage Grant) *
Economic modelling for Australia and the USA (ARC Linkage Grant) *	

Published between July and November 2004. * Collaborative projects. Information on individual research projects is available from the Commission’s website, www.pc.gov.au.

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, *Assessing Environmental Regulatory Arrangements for Aquaculture*, staff consulted with government agencies, industry associations, research institutions and environmental organisations and held a workshop for invited representatives to discuss and provide comment on a draft of the paper.

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. 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.

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

- submit for publication a paper on the sources of Australia's productivity revival to *The Economic Record* (June 2004 issue);
- present papers on the measurement of barriers to services trade to the APEC Capacity-Building Workshop on Quantitative Methods for Assessing NTMs and Trade Facilitation in October 2003;
- participate in the OECD-organised Workshop on Multinational Enterprises and Productivity and the discussion of analytical and statistical development work by the OECD Statistical Working Party to the Industry Committee in November 2003; and
- present papers to the OECD Workshop on Maximising the Benefits of Regulatory Reform for Better Economic Performance and the 5th APEC–OECD Co-operative Initiative on Regulatory Reform in December 2003.

Timeliness

Of the publications listed in box B.4, around half were completed to the schedule set by the Commission. These included the annual report suite of publications, the submissions to the National Competition Council, supplements to the government-commissioned research report on rules of origin and 'other' Commission papers. The remaining supporting research reports 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 development of themes and projects for the Commission's program of supporting research is guided by government statements on policy priorities including potential commissioned projects; 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. Specifically, the paper *Trends in Australian Manufacturing* was undertaken in response to the strong interest expressed by several participants in the Commission's research consultations, and notably by the Department of Industry, Tourism and Resources. Government and non-government bodies identified social capital and environmental regulatory arrangements for aquaculture as important issues for examination.

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.

- The Treasurer (Costello 2003) and the Minister for Victorian Communities (Thwaites 2003) both cited the Commission's paper on social capital and the Commission responded to nine invitations to give seminars on it during 2003-04.
- The contribution the Commission's stream of research on productivity performance is making to community awareness of microeconomic policy issues is demonstrated by widely based reference to it: some 17 mentions in federal parliamentary debate in 2003-04; reference to it by the governments of New South Wales, Victoria, Queensland and Western Australia in their submissions to the Commission's inquiry on national competition policy; by the Secretary to the Australian Government Treasury (Henry 2004); in ongoing work of the OECD Directorate for Science, Technology and Industry; the International Monetary Fund (2004); and economic consultants in analysing labour market policy proposals (Access Economics 2004) and evaluating the return to research (Allen Consulting Group 2003).
- The Primary Industries Ministerial Council reviewed the Commission's research paper on aquaculture at its meeting in May 2004. Ministers noted the significant differences identified in the way the industry is regulated and administered across the States and the Commission's suggestions for

improvements to the unnecessarily complex array of legislation and agencies. The Commission's research was to be used in the following way:

The Productivity Commission report identified the key features of efficient and effective environmental arrangements for aquaculture. Council requested the Marine and Coastal Committee of the NRM Standing Committee develop a 'Best Practice' model for aquaculture regulatory arrangements based on these features by the end of 2004. (PIMC 2004)

In addition, officials congratulated the Commission on the extent of the consultations undertaken throughout this research project.

- The Commission's trade-related research was used extensively during the past year, in particular analysis in the Staff Working Paper on preferential trading arrangements. Commission research on quantifying barriers to services trade — some seven different reports — were used in the work of the OECD's Economics Department and Trade Directorate. In November 2003 Commission staff briefed officials in the Department of Foreign Affairs on the range of modelling approaches that could help inform trade policy decisions. The Commission is also assisting the Department through membership of panels assessing tender applications for economic modelling relating to the Australia–China Free Trade Agreement Feasibility Study, the Australia–Malaysia Free Trade Agreement Scoping Study and the Australia–Japan Joint Study.
- Further evidence of the contribution being made by a range of supporting research outputs is use of them by:
 - parliamentary committees (table B.1);
 - the Parliamentary Library (table B.2); and
 - other review bodies, for example use of Commission reporting on regulatory issues (PC 2003d, and Bickerdyke and Lattimore 1997) in the review of Victorian OHS legislation (Maxwell 2004).

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 2003-04 publications received media coverage upon their release; the paper on trends in Australian manufacturing featured on Radio National in September 2003. Supporting research reports, including speeches by the Commission's Chairman, were the subject of nine editorials in major Australian newspapers during 2003-04.

To 30 June 2004 there were nearly 19 500 external requests for the index pages on the Commission's website for the reports listed in box B.4. In total, there were more than 154 000 requests for all the Commission's supporting research outputs and an additional 30 300 requests for the Chairman's speeches. The most frequently

requested web pages in 2003-04 were those for the 1999 conference volume *Policy Implications of the Ageing of Australia's Population* (7200 requests) and the Commission Research Papers on *Social Capital* (6400 requests) and *Trends in Australian Manufacturing* (3200 requests).



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 2003-04 and previous years. It also reports on commissioned projects received since 30 June 2004.

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 2002-03 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					
11-10-00	Review of the National Access Regime	AR 00-01	Report No. 17 signed 28-9-01	AR 01-02	AR 01-02, page 172
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	AR 02-03	page 171
19-11-02	Review of TCF Assistance	AR 02-03	Report No. 26 signed 31-7-03	page 158	page 159
5-2-03	Review of the <i>Disability Discrimination Act 1992</i>	AR 02-03	Report No. 30 signed 30-4-04	page 166	page 166
13-3-03	National Workers' Compensation and Occupational Health & Safety Frameworks	AR 02-03	Report No. 27 signed 17-3-04	page 164	page 165
14-4-03	Impacts of Native Vegetation and Biodiversity Regulations	AR 02-03	Report No. 29 signed 8-4-04	page 168	page 169
13-6-03	Review of the Gas Access Regime	AR 02-03	Report No. 31 signed 11-6-04	page 167	page 168
4-8-03	First Home Ownership	AR 02-03	Report No. 28 signed 31-3-04	page 163	page 164
23-4-04	Review of National Competition Policy Reforms	page 149	in progress	na	na
23-6-04	Review of Part X of the <i>Trade Practices Act 1974</i> : International Liner Cargo Shipping	page 150	in progress	na	na
31-8-04	Smash Repairs and Insurance	page 152	in progress	na	na
31-8-04	The Australian Pigmeat Industry	page 153	in progress	na	na
31-8-04	Energy Efficiency	page 154	in progress	na	na

Other commissioned projects

8-1-03	Evaluation of the Mutual Recognition Schemes	AR 02-03	Report released 17-10-03	page 157	page 158
28-8-03	Rules of Origin under the Australia–New Zealand Closer Economic Relations Trade Agreement	AR 02-03	Report released 11-6-04	page 162	na
17-2-04	Reform of Building Regulation	page 148	Completed	na	na
24-6-04	Economic Implications of an Ageing Australia	page 150	in progress	na	na
29-6-04	Australian and New Zealand Competition and Consumer Protection Regimes	page 151	in progress	na	na
31-8-04	Medical Technology	page 155	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 2002-03 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 relevant reports.

Reform of building regulation

On 17 February 2004 the Parliamentary Secretary to the Treasurer asked the Commission to undertake a research study examining the contribution that national building regulatory reform, under the auspices of the Australian Building Codes Board, has made to the productivity of the building and construction industry and its impact on economic efficiency in Australia, as well as the potential that such reform has to make further gains.

The Commission has been requested to investigate progress in building regulatory reform since 1994 and to assess the need and scope for further regulatory reform post-2005. Specific issues which it is required to consider include:

- whether the 1994 Inter Government Agreement on building regulation reform is:
 - achieving its objectives;
 - producing gains for the industry and maximising net benefits for the economy; and
 - providing efficiency and cost effectiveness in meeting community expectations for health, safety and amenity in the design, construction and use of buildings through nationally consistent building codes, standards and regulatory systems.
- the need for ongoing national coordination of the Building Code of Australia and related reforms; and
- the effectiveness of the Australian Government's current role in building regulatory reform.

Where the Commission finds that further work is required post-2005, it is required to report on:

- the Australian Government's role in future building regulatory reform;
- whether the objectives of the Inter Government Agreement adequately address the need for further reform; and
- whether the Australian Building Codes Board or alternative models would be more efficient and effective in delivering reforms.

The Commission is required make recommendations on its findings and to report within nine months.

Review of national competition policy reforms

On 23 April 2004 the Treasurer referred national competition policy (NCP) reforms to the Commission for inquiry and report within nine months.

In November 2000 the Council of Australian Governments agreed to a review of NCP arrangements by September 2005. The Australian Government considered it timely to undertake an independent review of the reform benefits date and to inform COAG's assessment of the most worthwhile competition-related reforms that could be achieved in the future, including competition-related reforms beyond current NCP arrangements.

The Commission is to report on:

- the impact of NCP and related reforms undertaken to date by Australian, State and Territory governments on the Australian economy and the Australian community more broadly. To the extent possible, such assessment is to include:
 - impacts on significant economic indicators such as growth and productivity, and to include significant distributional impacts, including on rural and regional Australia; and
 - its contribution to achieving other policy goals.
- at the Australian, State and Territory level, areas offering opportunities for significant gains to the Australian economy from removing impediments to efficiency and enhancing competition, including through a possible further legislation review and reform program, together with the scope and expected impact of these competition-related reforms.

The Commission is to take into account the Government's desire to focus new review and reform activity on areas where there is clear evidence of significant potential gains, in particular where clear gains are possible in Australia's international competitiveness; in the efficiency of domestic markets or for Australian consumers; to ensure possible reform activity considers appropriately the adjustment and distributional implications and its contribution to achieving other policy goals.

Review of Part X of the *Trade Practices Act 1974*: international liner cargo shipping

On 23 June 2004 the Parliamentary Secretary to the Treasurer referred Part X of the Trade Practices Act and associated regulations to the Commission for inquiry and report within six months.

Part X provides for international liner cargo carriers to form conferences, and other associations, and to provide joint liner cargo shipping services to Australian exporters and importers (shippers). For other industries, such cooperative arrangements normally require case-by-case authorisation under Part VII of the Trade Practices Act.

The Commission is to have regard to the Australian Government's analytical requirements for regulation assessment, including those set out in the Competition Principles Agreement. It is required to take account of the following objectives as part of its review:

- legislation/regulation should be retained only if the benefits to the community as a whole outweigh the costs; and if the objectives of the legislation/regulation cannot be achieved more efficiently through other means, including non-legislative approaches;
- regard should be had to the effects on: the access of Australian exporters and importers to competitively priced international liner cargo shipping services that are of adequate frequency and reliability; public welfare and equity; economic and regional development; consumer interests; the competitiveness of business including small business; and efficient resource allocation; and
- the Government's commitment to accelerate and strengthen the microeconomic reform process, including through improving the competitiveness of markets, particularly those which provide infrastructure services, in order to improve Australia's economic performance and living standards.

In addition, the Commission is to have regard to technological and institutional changes in the international liner shipping market since the last review of the industry in 1999 (also undertaken by the Commission).

Economic implications of an ageing Australia

On 24 June 2004 the Treasurer asked the Commission to undertake a research study examining the productivity, labour supply and fiscal implications of likely demographic trends over the next 40 years, to further improve understanding of the challenges and opportunities resulting from an ageing Australia.

The Commission is to report on:

- the likely impact of an ageing population on Australia's overall productivity and economic growth;
- the potential economic implications of future demographic trends for labour supply and retirement age, and the implications for unpaid work such as caring and volunteering; and
- the potential fiscal impact of the above factors on Commonwealth, State and Territory and, to the extent practicable, local governments.

The Commission is required to provide a report within nine months and the report will be provided to the Council of Australian Governments.

Australian and New Zealand competition and consumer protection regimes

On 29 June 2004 the Treasurer asked the Commission to undertake a research study examining the potential for greater cooperation, coordination and integration of the competition and consumer protection regimes in Australia and New Zealand.

As part of its study, the Commission is to:

- assess how the operation, administration and enforcement of Australian and New Zealand competition and consumer protection law affects, impedes or fosters an integrated trans-Tasman business environment;
- identify options for achieving greater cooperation, coordination and integration of Australian and New Zealand competition and consumer protection policy and law, its administration and enforcement, for the purpose of fostering and enhancing a trans-Tasman business environment. Options identified should be practically achievable and should encompass, but not be limited to:
 - further harmonisation of competition and consumer protection laws;
 - greater coordination of authorisation, administrative and enforcement processes;
 - joint decision making on trans-Tasman issues by competition authorities; and
 - combined or coordinated institutional frameworks.
- examine each option to identify whether the expected benefits (including any public benefit) will outweigh the costs (including any public cost) for Australia and for New Zealand.

The terms of reference also emphasise the need to:

- consider the potential implications of each option for existing cooperation, coordination and integration of competition and consumer protection policy and law between the Commonwealth, the States and Territories;
- take account of international best practice and experience in achieving greater cooperation, coordination and integration in competition and consumer protection policy and law;
- not duplicate the work undertaken by the 2001 review of the New Zealand Commerce Act or the 2003 Review of the Competition Provisions of the Trade Practices Act (the Dawson Review); and
- take into account policy changes in Australia which result from the Government's response to the Dawson Review and the Senate Economic References Committee Report, *The effectiveness of the Trade Practices Act 1974 in protecting small business*.

The Commission is required to present its final report to the Treasurer and the New Zealand Minister of Commerce within six months.

The Australian pigmeat industry

On 27 August 2004 the Treasurer referred the competitive situation and outlook for the Australian pigmeat industry, including both production and processing, to the Commission for inquiry. The Commission received the terms of reference on 31 August and is to report within five months.

The Commission is to take into account:

- the structure and regional distribution of the industry;
- key factors influencing the profitability of the industry, and the extent to which these factors are short or long term influences;
- trends and factors influencing demand and supply, including imports and exports;
- the competitiveness of the industry, including competitiveness relative to international competitors, and efforts taken by the domestic industry to enhance competitiveness; and
- the impact and effectiveness of existing and recent government and industry programs.

The Commission is also to report on whether the circumstances are such that government and/or industry measures (including regional measures) are necessary

to enhance the competitiveness of the industry and, if so, what measures would be necessary and appropriate.

Smash repairs and insurance

On 30 August 2004 the Treasurer referred the relationship between the Australian motor vehicle smash repair industry and the motor vehicle insurance industry to the Commission for inquiry. The Commission received the terms of reference on 31 August and is to report within five months.

The Commission is to report on the appropriateness and transparency of criteria used by insurance companies to confer ‘preferred smash repairer’ status on smash repairers, including:

- the transparency with which such status is conferred on (and removed from) individual repairers;
- measures to ensure that market arrangements, including ‘preferred smash repairer’ status, do not compromise quality and safety;
- the scope for nationally agreed criteria to qualify for ‘preferred smash repairer’ status; and
- any measures to ensure that non-preferred repairers are treated in a fair and reasonable manner and which improve overall transparency, competitiveness and consumer protection in the smash repair industry.

The Commission is also to report on the financial relationships between smash repairers and insurance companies including:

- the rates paid by insurance companies for smash repair work;
- the timeframes provided to smash repairers by insurance companies to consider and make an informed decision on contract offers; and
- the time taken by insurance companies to pay smash repairers for completed work.

The Commission has also been requested to report on arrangements for consumers to have reasonable choice in the selection of repairers and the extent, adequacy and independence of dispute resolution systems between the smash repair industry, insurance companies and consumers.

In making assessments in relation to the above matters, the Commission is to have regard to relevant provisions of the *Trade Practices Act 1974* and the

recommendations contained in the September 2003 issues paper prepared on this matter by the ACCC.

Where appropriate, recommendations should be made for improving the relationships between insurance companies, smash repairers and consumers, including possible regulatory approaches that take into consideration the need to keep red tape at a minimum.

Energy efficiency

On 31 August 2004 the Parliamentary Secretary to the Treasurer referred the economic and environmental potential offered by energy efficiency to the Commission for inquiry and report within 12 months.

The Commission is to examine and report on the economic and environmental potential offered by energy efficiency improvements which are cost-effective for individual producers and consumers, including through consideration of:

- the economic and environmental costs and benefits arising from energy efficiency improvements, including, but not limited to, research undertaken in the context of the National Framework for Energy Efficiency and international studies;
- existing and recent Australian and state government energy efficiency programs, including consideration of the level of coordination between these programs and comparison with international experiences;
- barriers and impediments to improved energy efficiency, including, but not limited to, information asymmetries and implementation costs;
- the potential for energy efficiency improvements which are cost effective for individual producers and consumers arising from actions including:
 - energy market reform to facilitate improved demand and supply management, including, but not limited to, more efficient cost-reflective price signalling in the market, particularly at peak times;
 - improved financial information on energy efficiency, including, but not limited to, provision of additional financial information on energy efficiency to firms' internal and external investors and decision makers;
 - improved energy efficiency information, including, but not limited to, provision of additional energy efficiency information in relation to plant and equipment, appliances, vehicles and fuels, and residential and non-residential buildings;

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- minimum energy efficiency standards, including, but not limited to, minimum standards for plant and equipment, appliances, vehicles and fuels, and residential and non-residential buildings;
 - new and improved technologies and equipment, including, but not limited to, improved technologies in relation to plant and equipment, appliances, vehicles and fuels, and residential and non-residential buildings;
 - financial incentives for improving energy efficiency, including, but not limited to subsidies, private sector rebates or discounts and levies on energy use; and
 - improved operational practices at the level of consumers and households, governments, and the industrial and commercial sectors.
- policy options for energy efficiency improvements which are cost effective for individual producers and consumers, including:
 - improving industrial and commercial energy efficiency, including, but not limited to, energy efficiency agreements, and increased disclosure through public energy efficiency reporting;
 - improving consumer and household energy efficiency;
 - improving the efficiency of government energy use;
 - improving transport related energy efficiency, including, but not limited to, urban planning, congestion pricing, intelligent transport systems, travel demand management, and increased efficiencies in the business and freight sectors (including opportunities for better matching of transport choices with transport tasks undertaken); and
 - introducing a national energy efficiency target, including, but not limited to, the establishment of an annual requirement for major users of stationary energy to generate, or otherwise acquire, a target level of efficiency related energy savings.

Medical technology

On 31 August 2004 the Parliamentary Secretary to the Treasurer asked the Commission to undertake a research study on the impact of advances in medical technology on public and private healthcare expenditure, and the associated costs and benefits for the Australian community. The Commission is to report within 12 months.

Technology is defined in broad terms, encompassing physical equipment, instruments and pharmaceuticals, clinical procedures, knowledge and support systems within which healthcare is provided.

In undertaking the study the Commission is to:

- identify the key drivers of medical technology demand;
- identify the net impact of advances in medical technology on healthcare expenditure over the past 10 years;
- as far as practicable, identify the likely impact of advances in medical technology on healthcare expenditure over the next five to 10 years, and identify the areas of significant potential growth;
- identify existing mechanisms and processes for ensuring cost-effectiveness in the use of medical technology, and any gaps in these processes;
- examine the impact of changes in medical technology on the distribution of costs and financial incentives across different parts of the health system, including whether advances in one technology area result in reduced costs in others; and
- investigate the net impact of advances in overall and individual health technologies on:
 - economic, social and health outcomes, including exploring which demographic groups are benefiting from advances in health technology; and
 - the overall cost effectiveness of healthcare delivery.

The Commission is to have regard to:

- recent substantive studies undertaken elsewhere;
- international experience in ensuring cost effectiveness of healthcare;
- the established economic, social, health and environmental objectives of the Government; and
- community expectations of appropriate healthcare provision

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 30 November 2004. It includes terms of reference for those projects commenced and completed in that period and, where available, government responses.

Evaluation of the mutual recognition schemes

Commissioned research report released, 17 October 2003.

The Commission concluded that while data were limited, there were indications that the Mutual Recognition Agreement (MRA) and the Trans-Tasman Mutual Recognition Arrangement (TTMRA) had been effective overall in achieving their objectives of assisting the integration of the Australian and New Zealand economies and promoting competitiveness. As such, they should be continued.

Many of the permanent exemptions and exclusions should remain, as mutual recognition would otherwise erode justified regulatory differences. However, some modifications to coverage, scope, administrative practices and review mechanisms were warranted.

Improvements likely to yield net benefits included:

- 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 MRA and TTMRA to introduce or change standards;
- making it easier to appeal decisions and review provisions of the MRA and the TTMRA;
- integrating product safety bans with the temporary exemption mechanism; and
- increasing the attention given to mutual recognition obligations by policy makers effecting new or revised regulation.

Consideration should be given 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.

The Commission also found that significant further progress in relation to the TTMRA special exemptions would require greater cooperation across agencies and jurisdictions to address inconsistent and cumbersome regulatory practices within Australia. Better focused cooperation programs would assist reaching agreement across jurisdictions.

Moreover, 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.

Government response

Council of Australian Government officials have recommended that 25 of the Commission's findings be accepted and have suggested that further work be undertaken on the remaining findings (Stanhope 2004).

Review of TCF assistance

Inquiry Report No. 26 signed 31 July 2003, released 26 November 2003.

The Commission found that major structural change had occurred in the Australian textile, clothing, footwear and leather (TCF) industries, mainly in response to global competitive pressures affecting producers in all developed countries. More adjustment and job losses were inevitable, regardless of future assistance arrangements.

Even so, some Australian TCF producers were internationally competitive. Others had the capacity to become so, particularly if impediments and weaknesses that reduce viability could be addressed. Improving workplace outcomes was a priority.

But large labour cost disadvantages meant that many firms producing standardised clothing and footwear would not survive. This in turn posed threats to some of their suppliers. Workers displaced by change in the sector would need assistance.

The current tariff pause and transitional budgetary support had helped some firms to improve their international competitiveness and long-term viability. However, this special assistance treatment was costly for others in the community and could not continue indefinitely.

Further reductions in tariffs after 2005 would reduce the prices of TCF products for consumers, reinforce incentives for improved performance in the sector and signal Australia's continuing commitment to the APEC trade liberalisation process.

The Commission's preferred tariff option was to maintain all TCF tariffs at the new legislated 2005 levels until 2010, then reduce most of them to 5 per cent. However, tariffs on apparel and certain finished textiles, which are significantly higher than those on other TCF products, would not be reduced to 5 per cent until 2015.

To facilitate adjustment to these tariff reductions, the Commission proposed that transitional budgetary support be extended for a further eight years from 2005, but with funding levels reducing over time. Such support should be delivered using a modified version of the current Strategic Investment Program.

Given the inevitability of more firm closures, the characteristics of the sector's workforce and the importance of TCF activity in some regions, special labour adjustment support was warranted during the tariff transition period. The Commission proposed that such support should be provided through an augmentation to Job Network services when large scale, or regionally significant, retrenchments had occurred or been announced.

Voluntary approaches based on cooperation between the parties were likely to achieve better compliance with pay and condition requirements for outworkers than would more regulation, or heavy handed attempts to enforce existing regulation.

Finally, continuing microeconomic reform and government efforts to improve access to overseas markets would help TCF firms to become more internationally competitive. However, there was little that could or should be done to stop further adjustment out of labour intensive, standardised TCF production in Australia. Rather, the policy focus should be on facilitating and supporting the adjustment process.

Government response

Following the tabling of the report in November 2003, the Government announced a detailed package of future assistance arrangements for the TCF industry (Macfarlane 2003). In general, the Government noted the Commission's analysis as to the future of the industry and, in particular, that many firms would not survive irrespective of the assistance regime in place.

More specifically, the Government accepted the Commission's preferred tariff option and endorsed its approach to post-2005 assistance. However, while the quantum of assistance in the Government's package was in line with the Commission's findings, the duration of the assistance and some of the types of expenditure to be provided assistance differed from the Commission's findings. The Government endorsed the Commission's finding that there be no further review of TCF industry assistance.

Tariffs

In its response to the report the Government accepted the Commission's preferred tariff option. The Government is to maintain tariff levels at the legislated 2005 level until 2010 when most would be reduced to 5 per cent. In line with the Commission's preferred option, the Government also announced that it would maintain tariffs on apparel and certain finished textiles, which have significantly higher tariff levels than other TCF products, at 10 per cent from 2010 to 2015 when they would also be reduced to 5 per cent.

Budgetary support

The Government endorsed the Commission's findings that there was a need for transitional support to accompany the tariff reductions and that such support should be time limited.

The Government has announced a \$747 million assistance package for the TCF industry. The bulk of this package is the \$600 million extension of the Strategic Investment Program (SIP) with \$500 million for 2005 to 2010 and a further \$100 million limited to the clothing and finished textile sector for 2010 to 2015. The Commission's finding was that transitional support should cease in 2013. Also, the Commission's finding was that funding should be in two four year periods rather than in five year periods and in the first four year period funding should be equivalent to total payments over the last four years and then halved in the second four year period. However, while the Government's time frame for the transitional assistance differed to that preferred by the Commission, the total quantum of funding provided in the assistance package is roughly equivalent to that proposed by the Commission.

SIP

The Government announced a modest redirection of funding in the 2005–2010 SIP funding towards clothing and finished textiles which face the greatest tariff adjustment. This redirection was not specifically part of the Commission's findings. However, expanding the range of eligible activities to include brand support of up to \$3 million a year was in line with the Commission's findings. The provision of \$25 million under SIP for grants to small business also reflected the Commission's finding that there was merit in introducing an initiative to assist small businesses access transitional assistance under SIP.

Other specific initiatives to expand SIP included in the package, such as allowing clothing and finished textile firms to include expenditure on IT of up to \$2 million a

year were not explicitly part of the Commission's findings. Also, the Commission's finding that SIP should subsidise expenditure on state-of the art second hand equipment was not included in the package.

The Commission's finding that the assistance for value added should be discontinued was accepted by the Government to allow more funds to be directed for investment and innovation as part of the Government's post 2005 SIP package.

Import credit scheme

The Government has announced an import credit scheme worth \$50 million. This was not part of the Commission's findings.

Structural adjustment fund

The Government is to establish a \$50 million structural adjustment fund to assist workers displaced by large plant closures on a case-by case basis. This reflects the Commission's finding that specific adjustment measures could assist in reducing disruptive adjustment resulting from large scale, or regionally significant, job shedding. The Government announced that these funds could be used to contract local Job Network members or other qualified organisations to provide short-term initiatives to address particular needs of displaced workers. Such assistance would be additional to the existing Job Network.

Supply chain program

A \$20 million package based on competitive grants to support major capital investments to strengthen the local supply chain will operate from 2010 to 2015. This was not included in the Commission's findings.

EOAP

The Government announced an extension of the Expanded Overseas Assembly Program until 2010. The Commission's view was that the EOAP should continue past 2005.

Other issues

The Government noted the Commission's analysis in regard to workplace arrangements, industrial relations and skilling, but did not endorse an independent review of workers entitlements stating the General Employee Entitlements

Redundancy Scheme was adequate to deal with the issue. Similarly, the Commission's analysis on outworkers was noted, but no response was put forward to the findings.

In regard to the 3 per cent revenue duty, the Government agreed in principle that it should be removed and would remove it at an appropriate time when fiscal strategies and competing priorities are 'right'.

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

Commissioned research report released, 11 June 2004.

The Commission recommended that the basic form of the current rules of origin arrangements under the Australia–New Zealand Closer Economic Relations Trade Agreement (CER) should remain unchanged. Shortcomings with the current arrangements were recognised, such as the absence of a standard definition of manufacturing and inconsistencies in the valuation and coverage of eligible costs. Many of these problems were attributable to the inability of the current arrangements to keep pace with changes in technology and the organisation of production which had occurred since the CER entered into force in 1983. Nevertheless, given the maturity of the CER agreement and significant limitations of alternative models, the current agreement was found to operate in a relatively 'clean' and simple manner.

The report found that the most fruitful approach to addressing problems with CER origin rules would be:

- to implement, as soon as practicable, some relatively minor changes to reduce operational problems; and
- to liberalise the current rules by applying a waiver to provide duty free entry for CER goods manufactured in Australia or New Zealand which face trans-Tasman tariff differences of 5 percentage points or less.

It was also recommended that consideration be given, before 2010, to:

- elimination of the CER content threshold, with only a 'principal firm' manufacturing test to be applied; and
- alignment of remaining non-zero Most Favoured Nation rates within the Australian and New Zealand tariff schedules, so that ultimately merchandise from all sources entered both jurisdictions on a common basis.

First home ownership

Inquiry Report No. 28 signed 31 March 2004, released 23 June 2004.

The Commission found that while fluctuations in prices and ‘affordability’ are inherent features of the housing market, the upswing in prices since the mid-1990s had been bigger and more widespread than in previous cycles. Notwithstanding lower interest rates, housing ‘affordability’ had therefore declined considerably in the past two to three years.

Rising house prices indicated that demand had been outstripping supply. Much of this increase in demand was due to cheaper, more accessible housing finance and buoyant economic growth through the 1990s. In turn, this had led to higher prices because of inherent limitations on the responsiveness of housing supply to surges in demand, particularly as much of the demand came from existing home owners seeking to ‘upgrade’ in established areas.

The Commission also found that in the last couple of years, house prices had surpassed levels that were explicable on this basis, with some additional investment seemingly predicated on unrealistic expectations (in a ‘supportive’ tax environment) of ongoing capital gains. Interactions between negative gearing, ‘capital works’ deductions, post-1999 capital gains provisions and marginal income tax rates had lent impetus to the housing boom. However, these influences were not confined to housing and selective ‘fixes’ could have ramifications across the economy. Potential reforms therefore need to be assessed through a broader review, with a focus on capital gains provisions.

The Commission argued that governments should reduce reliance on stamp duty revenue, which would help first home buyers and improve the efficiency of housing markets over time. While constraints on land releases and increased infrastructure charges were not seen as major contributors to the recent price boom, the Commission saw a need for improvements in both.

It also recommended that, if the First Home Owner Scheme continues, assistance should be targeted to the housing needs of lower income households by restricting eligibility to homes below (regionally differentiated) price ceilings, and there should be a commensurate increase in the average size of the grant.

In the course of the inquiry, the Commission heard that many low income households in rental markets, or in public (or community) housing, face significant problems in getting access to affordable or adequate housing. Accordingly, a national public inquiry was recommended to examine the housing needs of low income households across Australia, including in indigenous communities, and the nature and extent of assistance to help meet those needs.

Government response

In its response the Government accepted the Commission's assessment of the key determinants of housing market outcomes (Costello 2004b). It endorsed the Commission's findings and recommendation on stamp duties and the need to improve policies and processes affecting the supply of land and infrastructure costs.

However, noting the importance of surety for investment decisions, it indicated that it would not conduct a review of taxation arrangements. It also remained committed to the First Home Owners Scheme in its current form. In declining to initiate a review of the housing needs of Australians, it referred to work underway under the auspices of the Housing Ministers Conference, as well as noting the extent of current assistance arrangements.

National workers' compensation and occupational health and safety frameworks

Inquiry Report No. 27 signed 17 March 2004, released 24 June 2004.

The Commission's proposals were targeted at reducing the compliance burdens, costs and inefficiencies created for multi-state employers and their workers from differing regulatory requirements imposed by the Australian and State and Territory governments for occupational health and safety (OHS) and workers' compensation. These employers provide jobs for over 25 per cent of the workforce. In recognition of the differing scope and regulatory structures for OHS and workers' compensation, and the markedly differing progress already made towards national coordination, the Commission proposed separate national frameworks for each.

For OHS, the Commission recommended the jurisdictions adopt the goal of achieving national uniformity as a matter of priority and the strengthening of existing coordination procedures among jurisdictions to achieve this. It recommended the existing National Occupational Health and Safety Commission be refocused on having the expertise and skills to develop and review OHS legislation and regulation that would have national application. A key proposal was that jurisdictions agree to adopt nationally developed standards without modification. This is a regulatory model for providing national frameworks that has been used successfully by the jurisdictions in the food standards and road transport areas.

For workers' compensation, individual schemes involve a package of interrelated measures and there are significant differences across jurisdictions. To coordinate strategies, the Commission recommended the formation of a new national body to facilitate more formal national consultative mechanisms to address common issues

and promote greater national consistency in scheme elements. The national body, appointed by the Australian Government Minister for Employment and Workplace Relations, with the approval of the Workplace Relations Ministers' Council, was to be charged with developing reform proposals for consideration by the Council.

In parallel, and to directly address the compliance burden and costs of multi-state employers, the Commission recommended that the Australian Government, as a first step, allow qualifying employers to self-insure under the Comcare scheme. It was recommended that the Australian Government's OHS regime be extended to cover such employers. It also recommended that, as a second step, the Government commence the development of an alternative national self-insurance scheme for employers who meet appropriate standards of prudential requirements and claims management. As a final step, the Commission recommended that the Government develop a national workers' compensation scheme to provide privately underwritten insurance as well as self-insurance for all employers, together with coverage under the proposed national OHS scheme as an alternative choice to the existing state and territory schemes.

Government response

In a joint statement by the Treasurer and Minister for Employment and Workplace Relations (Costello and Andrews 2004), the Government supported, in principle, the broad direction of recommendations to work towards nationally consistent arrangements for workers' compensation and OHS. It did not, however, support the key elements of the Commission's proposed national framework model.

In place of the recommended national frameworks, the Government proposed a new tripartite advisory body, the Australian Safety and Compensation Council, to replace the National Occupational Health and Safety Commission and cover both workers' compensation and OHS. It will seek advice from the new Council before responding to Commission recommendations relating to design elements for workers' compensation schemes and OHS.

The Government accepted the recommendations that the Minister for Employment and Workplace Relations consider applications for self-insurance from companies in competition with current, or former, Australian Government business enterprises on their merits and that, if successful, the Australian Government's OHS regime be extended to such employers. Whereas the Commission had recommended that the extension of the Australian Government's OHS regime to such employers be optional, the government decision was to make it a requirement of national self-insurance.

Review of the *Disability Discrimination Act 1992*

Inquiry Report No. 30 signed 30 April 2004, released 14 July 2004.

The inquiry found that the *Disability Discrimination Act 1992* (DDA) has been reasonably effective in reducing discrimination against Australians with disabilities. Nevertheless, the Act had a mixed record and there was some way to go before its objectives were achieved. Room for improvement was noted in areas such as the provision of employment opportunities for people with disabilities.

The Commission also found that the DDA meets the Competition Principles Agreement legislation review requirements in that it is likely to have provided net benefits to the Australian community. While many benefits were intangible, but widespread, costs of compliance were likely to be quite small for many organisations and the Act's in-built safeguards appear to have helped to ensure a net benefit to the Australian community. Moreover, the Act's impact on competition appears to have been limited and no satisfactory alternatives for achieving its objectives exist.

However, the Commission recommended a number of modifications to the design and implementation of the DDA. These included:

- care be exercised in the way the DDA is implemented through disability standards if it is to continue to produce net benefits. While the DDA should be amended to allow standards to be developed for all areas of the Act, they should not be able to alter the fundamental scope of the Act;
- the unjustifiable hardship defence should be strengthened and extended to all areas of the Act. It should also apply to all standards;
- an explicit duty to make 'reasonable adjustments' should be included in the DDA and cover all areas of the Act. The duty would exclude adjustments that would cause unjustifiable hardship. Its costs should be shared between affected organisations and government; and
- amendments to the Act to clarify definitions and refine the scope of exemptions would make the DDA more effective. Improvements in effectiveness could also be achieved through changes to complaints processes to require parties to bear their own costs (in most cases) and through allowing organisations to initiate complaints in their own right.

Government response

In releasing the report, the Government noted that while there had been significant achievements in the 10 years the legislation has been in operation, the

Commission's comprehensive report highlighted that there was still more to be done.

The Government is currently working through each of the Commission's recommendations to provide a considered response in due course as the report raised complex issues which require thorough consideration (Costello and Ruddock 2004).

Review of the gas access regime

Inquiry Report No. 31 signed 11 June 2004, released 10 August 2004.

The Commission found that Australia's natural gas sector had experienced major reforms, structural change and growth over the past decade and although competition was emerging, a gas access regime was still warranted.

However, the Commission concluded that the existing gas access regime, in effect, was a form of cost-based price regulation which, while generating benefits, also involved significant costs including the potential to distort investment. A key recommendation was the addition of a less costly, monitoring option.

The choice between price regulation and monitoring for each covered pipeline would be based on which option was assessed as generating the greater net economic benefits. Price regulation would only apply when the net benefits would be markedly greater than those of the monitoring option.

Other recommendations included:

- sharpening the specification of the objectives of the regime by inserting an overarching objects clause with a focus on promoting efficiency and by removing inappropriate and conflicting objectives scattered through the regime;
- changing the test for coverage;
- replacing the current guidelines for approving reference tariffs with a clear set of pricing principles; and
- including scope to use non-building block approaches to setting reference tariffs.

To make the regime conform with the above recommendations, the Commission recommended streamlining of the detailed guidance for determining access arrangements and reference tariffs and for dispute resolution.

To reduce the potential chilling effect of the regulation on greenfield investments, the Commission proposed that the gas access regime should include scope for a

binding ruling of ‘no coverage’ for 15 years on a case-by-case basis. In all, the Commission concluded that implementing these recommendations would enable the benefits of access regulation to be achieved at a lower cost to the economy.

Government response

On its release, the Government noted that the report provided an informative discussion of key issues in gas regulation and contained recommendations covering a range of important gas access issues. The formal response to the Commission’s recommendations is being developed by the Ministerial Council on Energy (Costello 2004c).

Impacts of native vegetation and biodiversity regulation

Inquiry Report No. 29 signed 8 April 2004, released 10 August 2004.

The Commission concluded that the current heavy reliance on regulating the clearance of native vegetation on private rural land, typically without compensating landholders, has imposed substantial costs on many landholders who have retained native vegetation on their properties. Nor had regulation been particularly effective in achieving environmental goals — in some situations, it seemed to have been counterproductive.

The effectiveness of restrictions on clearing of native vegetation had been compromised by a lack of clearly specified objectives, disincentives for landholders to retain and care for native vegetation and the inflexible application of targets and guidelines across regions with differing characteristics such that perverse environmental outcomes often result.

Many landholders were being prevented from developing their properties, switching to more profitable land use and from introducing cost-saving innovations. Arbitrary reclassification of regrowth vegetation as remnant and restriction on clearing woodland thickening in some jurisdictions were reducing yields and areas that could be used for agricultural production.

Some costs could be reduced and effectiveness improved if regulatory regimes followed good regulatory practices that promoted transparency and accountability. However, more fundamental change was required to promote better targeting of policies to achieve clearly-specified environmental outcomes as efficiently as possible.

The Commission recommended a process for greater devolution of responsibility to the regional level, formalised within State/Territory guidelines. Under these arrangements, landholders individually or as a group would bear the costs of actions that directly contributed to sustainable resource use and, hence, the long-term viability of their operations. The wider community would pay for the extra costs of providing ‘public good’ environmental services, such as biodiversity conservation, that it apparently demanded.

The Commission’s view was that not only would this approach be more equitable but, by encouraging and rewarding the ongoing cooperation and effort of landholders, it would be more efficient and effective in achieving desired environmental outcomes. Landholders would have positive incentives to retain and manage native vegetation and to deliver specified environmental outcomes in flexible, cost-effective and innovative ways while payments to landholders for public-good conservation would facilitate increased scrutiny of the costs and benefits of policy intervention.

Government response

In releasing the report, the Government endorsed the Commission’s recommendations and noted that the report offered valuable insight and identified where existing approaches could be improved to reduce negative impacts on landholders while still achieving native vegetation and biodiversity objectives (Costello et al. 2004).

The Government agreed with all the recommendations proposed by the Commission in its report as set out below:

- Before introducing new or amending existing native vegetation and biodiversity policy, a comprehensive regulation impact statement or its equivalent should be prepared that includes an assessment of the problem being targeted, expected costs and benefits of the proposed policy, and an assessment of alternative instruments. This assessment should be made public.
- All native vegetation and biodiversity policies should be subject to ongoing monitoring and regular independent reviews of all costs and benefits in the light of articulated objectives. Reviews of performance should be published.
- Ongoing efforts are required to improve the quality of data and science on which native vegetation and biodiversity policy decisions are based, particularly ‘on-the-ground’ assessments to test the accuracy of vegetation mapping based on satellite imagery.

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- Current regulatory approaches should comply with good regulatory practice, including:
 - clear specification of objectives of the legislation so that guidelines and decisions link back to these objectives, and performance of the regimes can be monitored and assessed;
 - minimisation of duplication and inconsistency by amalgamating and simplifying regulations and permit requirements, for example, by rationalising legislation and regulation within each State and Territory and/or by coordination between agencies;
 - assistance to, and education of, landholders to meet and to understand their responsibilities by providing accessible information about those responsibilities, and how they relate to sustainable land management practices and environmental problems;
 - statutory time-frames for assessing permit applications;
 - consideration of economic and social factors where applications to clear otherwise would be rejected on environmental grounds (a ‘triple bottom line’ approach), with reasons for decisions to be given and reported; and
 - provision of accessible, timely and impartial appeals and dispute-resolution mechanisms.
 - Greater flexibility should be introduced in regulatory regimes to allow variation in requirements at a local level. To this end:
 - greater use should be made of the extensive knowledge of landholders and local communities;
 - regional committees and bodies should be given greater autonomy (and support) to develop appropriate requirements; and
 - some across-the-board rules, particularly those currently applying to native vegetation regrowth, could be relaxed and replaced with requirements that meet environmental objectives but which reflect regional environmental characteristics and agricultural practices.
 - As a matter of priority, governments should seek to remove impediments to, and facilitate, increased private provision of environmental services. Actions could include:
 - removal of tax distortions or lease conditions that discourage conservation activity relative to other activities;
 - removal of impediments to efficient farm rationalisation and/or management and operation;

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- research into, and facilitation of, sustainable commercial uses of native vegetation and biodiversity; and
 - enhanced provision of education and extension services to demonstrate to landholders the private benefits of sustainable practices.
 - Landholders, individually or as a group, should bear the costs of actions that directly contribute to sustainable resource use (including, for example, land and water quality) and hence, the long-term viability of agriculture and other land-based operations. Redistributive mechanisms may be appropriate in some instances to share costs among landholders and regional communities.
 - Over and above agreed landholder responsibilities, additional conservation apparently demanded by society (for example, to achieve biodiversity, threatened species and greenhouse objectives), should be purchased from landholders where intervention is deemed necessary and cost-effective.
 - Regional institutions should be further developed and charged with addressing regional and inter-regional resource sustainability issues within broad parameters determined at national, State and Territory levels. Regional bodies should provide for genuine regional consultation, representation and decision making and be granted sufficient flexibility, authority and resources to implement their decisions.
 - Public-good native vegetation and biodiversity objectives ideally should be fed through regional institutions to promote coordination and consistency of approaches, and therefore, least-cost ‘joint’ solutions.

The Government will pursue the implementation of the Commission’s recommendations through the Council of Australian Government process and intends to put this on the agenda of the next Council meeting (Costello et al. 2004).

Government responses to Commission reports from previous years

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

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

Following consultation with the States and Territories, the Government announced its response in December 2003.

It accepted the Commission’s recommendation that section 2D be repealed and replaced with a section stating explicitly that Part IV of the Act only applies to the

business activities of local government. This is consistent with the exemption currently provided to Commonwealth, State and Territory governments.

The Government will finalise, in accordance with the 1995 Intergovernmental Conduct Code Agreement, its consultation with the States and Territories to amend the legislation (Cameron 2003).

Review of the national access regime

Inquiry Report No. 17 signed 28 September 2001, released 17 September 2002.

The Government released an interim response on 17 September 2002 which endorsed the thrust of the majority of the Commission's recommendations (described in detail in PC (2002)). In particular, broad agreement was apparent about the need to introduce changes to the national access regime to clarify its scope and objectives, provide potential investors with greater certainty, encourage commercial negotiations and improve the regulatory process.

The Government indicated that a final response to the Commission's report would be released following consultation with State and Territory governments. This consultation was deemed to be necessary given that some of the changes suggested by the Commission required alterations to clause 6 of the Competition Principles Agreement, to which all State and Territory governments are participants.

The final response by the Government, released on 20 February 2004, contained no significant changes to that provided by the interim response (Costello 2004a). Key points of agreement between the Government's interim and final responses and the Commission's report included:

- the inclusion of a clear objects clause and statutory pricing principles into Part IIIA to provide greater certainty for infrastructure owners, access seekers, investors and other interested parties;
- there is a need to strengthen the declaration criteria to avoid the possibility of inappropriate declarations;
- the ACCC, when arbitrating a dispute for a declared service, or assessing a proposed undertaking, should justify the introduction of non-efficiency considerations;
- Part IIIA should be amended to make it explicit that the ACCC cannot accept an undertaking for a service covered by a certified regime;
- there is an in-principle case for aligning clause 6 of the CPA and Part IIIA, particularly in regard to pricing principles;

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- there should be provision for full merit review of ACCC decisions on undertaking applications;
 - there should be non-binding time limits for various steps in the Part IIIA processes and post-arbitration reports;
 - provision of immunity from Part IIIA should be possible for government sponsored infrastructure projects awarded by a competitive tender;
 - legislative provision should be provided for public input on declaration, certification and undertaking applications;
 - the NCC should report annually on the operation and effects of the revised Part IIIA arrangements; and
 - an independent review of the revised Part IIIA arrangements should be conducted five years after the first group of changes is introduced.

The Government has also reaffirmed its intention within its final response to modify or augment the detail of the Commission's specific recommendations. For example, the Government has made amendments and additions in respect of the Part IIIA objects clause and the 'substantiality test' in the first of the declaration criteria. In relation to the part IIIA pricing principles, the Government agreed in the broad, but made a number of modifications.

The Government has indicated that it will now introduce into Parliament the legislative changes required to give effect to the final response. It has also committed to a further process of consultation with States and Territories in relation to changes to Clause 6 of the Competition Principles Agreement.

Finally, while acknowledging that changes to Part IIIA are required to encourage efficient investment in essential infrastructure, the Government indicated that it would defer an assessment of the practicality and/or implementation of binding rulings, and mechanisms such as access holidays and truncation premiums, pending the Commission's final report on the Review of the Gas Access Regime

D Competitive neutrality complaints

The Productivity Commission Act and the Government's Competitive Neutrality Policy Statement require the Commission to report annually on the number of complaints it receives about the competitive neutrality of government businesses and business activities and the outcomes of its investigations into those complaints. The Australian Government Competitive Neutrality Complaints Office (AGCNCO) received nine formal complaints in 2003-04. Details of the action taken in relation to these complaints are summarised in this appendix.

Complaints formally investigated

Australian Valuation Office

The Australian Valuation Office (AVO) is a business unit operated by the Australian Taxation Office (ATO). It provides a range of valuation services, on a fee for service basis, to government departments and agencies and the private sector.

In November 2003, Herron Todd White Pty Ltd — a private firm that provides valuation services — wrote to the AGCNCO alleging that the AVO was not complying with competitive neutrality policy. Specifically, the complainant alleged that the pricing regime used by the AVO in tendering situations *systematically* failed to adequately reflect the full costs of service provision. Herron Todd White claimed that the AVO's pricing failed to adjust for a number of key cost advantages accruing from its position within the ATO, including diminished search and compliance costs in relation to professional indemnity insurance, given AVO's 'government' status.

During the course of its investigation, the AGCNCO found that:

- the AVO operated as a stand-alone business and did not receive a competitive advantage through access to ATO resources at non-commercial rates;
- the AVO appeared to gain no material advantages in the areas of taxation, regulation or debt financing, as a result of it being government owned; and that it

met competitive neutrality obligations in relation to payments for insurance costs in the areas of public liability, property loss and fraud, fidelity, workers compensation and third party motor vehicle coverage; and

- in the last five years, the AVO generated a rate of return, based on current levels of expenditure, that was consistent with competitive neutrality principles.

However, in the area of professional indemnity insurance, it was found that an increase was required, on competitive neutrality grounds, in the current professional indemnity insurance premium paid by the AVO. As such, the AGCNCO recommended that the Department of Treasury and the Department of Finance and Administration institute a process, drawing as appropriate on information obtained from the AVO and other key stakeholders (for example, Centrelink), to determine the extent of the increase required.

Complaint resolved through negotiation

Advertising decision of the Australian Sports Commission

In January 2004 the AGCNCO received a complaint from SportsMind, a privately owned coaching and sports motivation business. The complaint alleged that a decision by the Australian Sports Commission to refuse advertising space to SportsMind within its quarterly publication, *Sports Coach*, represented a breach of competitive neutrality policy.

Following preliminary discussions with both parties the matter was resolved in March 2004. The AGCNCO understands that the Australian Sports Commission agreed to accept advertising from SportsMind. As a result, the AGCNCO did not investigate the matter further.

Complaints not subject to formal investigation

CSS, PSS and ComSuper

The AGCNCO received a formal complaint in July 2003 from Civic Financial Planning against the CSS Board, the PSS Board and ComSuper. The complaint alleged that ComSuper was promoting the investment and financial planning services of State Super Financial Services (SSFS), a NSW-based company in which the Boards have a 15 per cent share, directly to CSS and PSS members, and that such promotion ran counter to the policy of competitive neutrality.

Following discussions with the complainant and ComSuper, the AGCNCO found that the complaint did not meet the criteria for formal investigation. This finding was based on several key points. First, ComSuper, the PSS and CSS are not classified as businesses for the purposes of the business test as specified within the Government's Competitive Neutrality Policy Statement. Second, the AGCNCO noted that promoting the activities of a partially owned business was common commercial practice, and that, were PSS and CSS to be deemed to be businesses for the purposes of the business test, promotion of the services of SSFS would not, of itself, constitute an advantage of government ownership.

Nevertheless, during consultations ComSuper indicated that it wished to avoid any perception among its members or competitors that the CSS and PSS stakes in SSFS provided it with a de facto government endorsement. Comsuper advised that it would modify its promotional material by removing direct endorsements of SSFS in material sent to its members.

Copyright restrictions and the Therapeutic Goods Administration

In September 2003 Anstat Pty Ltd lodged a complaint concerning the copyright restrictions placed upon, and pricing of, the Standard for the Uniform Scheduling of Drugs and Poisons by the Therapeutic Goods Administration (TGA). Anstat alleged that it had unsuccessfully sought a licensing arrangement with the TGA to reproduce copies of the schedule, on a non-exclusive basis, and that refusal to grant such a licence represented a breach of competitive neutrality principles.

The AGCNCO considered that the sale of the poisons schedule represented cost recovery for the TGA's regulatory activity, rather than the carrying out of a significant business activity, and therefore did not investigate the complaint.

Exemption of Australia Post from traffic regulations

The AGCNCO received a complaint in November 2003 from Commercial Post Pty Ltd, a private mail delivery firm operating in Queensland. The complaint concerned the exemption of Australia Post from the Queensland traffic regulations that prevent the operation of motor cycles on footpaths. The complainant suggested that its failure to gain a similar exemption disadvantaged it when competing with Australia Post.

As this matter involved State and Territory rather than Commonwealth laws, the AGCNCO did not investigate the complaint. The matter was referred to Queensland Treasury for further consideration.

Appointment of accredited road condition trainers in Queensland

In January 2004 the AGCNCO received a written complaint from Pavement Management Services Pty Ltd (PMS). The complaint concerned the selection process followed by the executive board of the Roads Management Alliance (Queensland) in choosing accredited trainers to provide road condition evaluation courses. Specifically, the complainant alleged that the selection of accredited trainers did not occur via a competitive tender process. PMS further asserted that a competitor, the Australian Road Research Board (AARB), had been selected as an accredited trainer partly on the basis of its previous status as a government business, and that the selection of the AARB as an accredited trainer disadvantaged PMS both financially and in terms of its reputation.

The AGCNCO did not consider that it had the jurisdiction to undertake a competitive neutrality investigation into the main allegations made by PMS. While the AARB may have derived a competitive advantage from these arrangements, and is partially owned by the Australian Government, PMS's allegations did not concern actions by the AARB itself. Rather, the activities which were the subject of the complaint were undertaken by the Roads Management Alliance (Queensland), a state-based body administered by Queensland Main Roads and the Queensland Local Government Association. The complaint was therefore forwarded to Queensland Treasury in January 2004 for further consideration.

Funding and regulation of GP accreditation

Quality Practice Accreditation Pty Ltd (QPA) is a privately owned company which specialises in GP accreditation. It has developed its own system of accreditation procedures which it has used to accredit around 700 general practices across Australia. This system is subject to ongoing monitoring by JASANZ (Joint Accreditation System of Australia and New Zealand), the peak accreditation organisation for certification bodies in Australia and New Zealand.

The resulting accreditation process provides an alternative to that provided by QPA's major competitor, and market leader, Australian General Practice Accreditation Limited (AGPAL). The latter organisation was established in 1997, and is owned by six general practice organisations, including the Australian Medical Association and the Royal Australian College of General Practitioners (RACGP). While not government owned, AGPAL has nevertheless been the recipient of considerable government funding, including an initial grant of \$405 000 from the Australian Government in 1997 to assist its establishment, together with a further grant of \$1.9 million in 2001.

In February 2004 the AGCNCO received a formal complaint from QPA which alleged that current arrangements in relation to the funding and regulation of GP accreditation breached competitive neutrality policy. The complaint alleged that AGPAL was not subject to the same stringent regulatory framework which QPA faced; and that it was engaging in ‘predatory conduct’ which threatened the viability of QPA’s operations.

The AGCNCO did not investigate this complaint on the basis that AGPAL was not a government-owned business and, as such, was not subject to competitive neutrality policy.

Customs treatment of Australia Post

In February 2000 the Conference of Asia Pacific Express Couriers lodged a complaint against Australia Post. The Conference argued that Australia Post enjoyed a competitive advantage in competing for business with express couriers by virtue of differences in the regulatory arrangements for postal and non-postal items through:

- higher dollar thresholds for incoming and outgoing postal items before formal Customs screening requirements took effect; and
- exemption for postal items from recently introduced reporting and cost recovery charges for ‘high volume, low value’ consignments.

In a report finalised in June 2000 (Investigation Report No. 5), the CCNCO found that aspects of the Customs arrangements did breach competitive neutrality principles, and recommended that:

- the value thresholds for formal screening by the Australian Customs Service of incoming and outgoing postal and non-postal items be aligned;
- the Government give further consideration to imposing cost recovery charges for informal Customs screening of incoming postal items, provided that Australia Post can pass those charges on to postal authorities in other countries; and
- the concerns of express couriers about the high volume/low value charging scheme be addressed as part of the Government’s consideration of the cost recovery issue (CCNCO 2000).

In the time that has elapsed since the Conference’s initial complaint, the dollar thresholds for outgoing postal and couriered items have been aligned through the *Customs Legislation Amendment and Repeal (International Trade Modernisation) Act 2001*. However, while the Minister for Justice has indicated an intention to align import thresholds, no decision has been announced as to the level, or the timetable for implementation. Costing arrangements in relation to ‘high volume/low value’

cargo such as bulk consignments of documents and consolidated mail orders also remain unchanged.

In May 2004 the Conference wrote to the AGCNCO requesting a follow-up investigation of these matters. The Commission did not undertake a further investigation because substantive issues have not materially altered since the AGCNCO's investigation. However, the AGCNCO has written to the Parliamentary Secretary to the Treasurer advising him of CAPEC's continuing concerns.

Complaint subject to ongoing investigation

Australia Post mail house services

The AGCNCO is currently investigating a complaint against Australia Post lodged in April 2004 by Chandler Enterprises Pty Ltd, a private firm which operates mail house services. The complaint alleges that the pricing of Australia Post's mail house services does not comply with competitive neutrality principles and that Australia Post derives an advantage over its competitors through access to information about competitors' clients.

E Supporting research and related activities

The Commission's supporting research program encompasses a range of activities. Supporting research is undertaken in response to emerging needs for policy relevant information and to enhance analytic frameworks, for building the Commission's capacity to respond to the Government's policy priorities and to promote community awareness and understanding of productivity and regulatory issuers. This appendix provides brief summaries of Commission research papers and lists the presentations given by the Chairman, Commissioners and staff to parliamentary committees, conferences, industry and community groups and international delegations in 2003-04. Appendix F lists all publications.

Commission research papers

Social capital: reviewing the concept and its policy implications

July 2003

The literature on social capital has expanded rapidly in recent years. Although the concept remains somewhat abstract and unsettled, a variety of studies suggest that its effects can be pervasive and, potentially, important for public policy. Feedback from the Commission's research consultations with government and non-government bodies identified social capital as an important topic for formal investigation

The Commission considers social effects along with economic and environmental effects in many of its studies. Matters specifically related to social capital have already arisen in several Commission reports, including inquiries into gambling, competition policy and the Job Network. Social capital considerations may also have wider relevance for the Commission's work, to the extent that it affects the environment in which policy reforms are implemented.

To help inform public discussion on these matters, this paper reviewed social capital theories and concepts, and related empirical work, and discussed some of the possible ramifications for public policy. Key points of the paper were:

- Social capital is an evolving concept. It relates to the social norms, networks and trust that facilitate cooperation within or between groups.
- Social capital can generate benefits to society by reducing transaction costs, promoting cooperative behaviour, diffusing knowledge and innovations, and through enhancements to personal well-being and associated spill-overs.
- Some aspects of social capital can have adverse effects, such as when strong internal group cohesion is associated with intolerance of others.
- Governments already undertake many functions that implicitly aim to support or enhance social capital. However, some government programs and regulations risk inadvertently eroding social capital.
- Whereas devising policies to create social capital generally is problematic, governments should at least consider the scope for modifying policies that are found to damage social capital, and ways of harnessing existing social capital to deliver programs more effectively.
- At present, there is limited understanding of social capital and how different policies interact with it, and measurement is difficult. Further research, coupled with small-scale policy experimentation, may be warranted to provide better knowledge and tools for incorporating social capital considerations in policy analysis where appropriate.

Trends in Australian manufacturing

August 2003

The role of the manufacturing sector in the Australian economy has changed fundamentally over the past half century. The changes have been viewed with alarm by some and as a benign corollary to the expansion of the services sector by others. This report examined key developments and trends in manufacturing in Australia, probing the causes of the changes and their implications. Key points were:

- Manufacturing output has quadrupled since the mid-1950s. The fastest growing activities have been those with links to Australia's natural endowments and products that are more differentiated, with higher skill levels and R&D intensities.
- Manufacturing growth, while strong, has not matched that of the services sector.

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- Manufacturing accounted for one in four dollars of national output in the 1960s, but only one in eight by the turn of the century; and
 - The relative decline in manufacturing is a common feature of richer countries.
 - In contrast to the output story, manufacturing employment has declined somewhat both in relative *and* absolute terms over the long term, although stabilising since the early 1990s.
 - The *relative* decline in manufacturing has several causes and implications:
 - on the output side, the relative decline mainly reflects Australians’ preference for more services as incomes rise. Import competition from lower-wage developing economies has only been a small contributor;
 - on the employment side, the decline is testimony to strong labour productivity growth, including from (high tech) capital investment;
 - some service activities once categorised as part of manufacturing have been outsourced, though this effect is relatively modest;
 - the impacts of structural change on unemployment have generally been moderate, though the effects have been bigger for some less competitive industries and regions; and
 - regional dependence on manufacturing has fallen.
 - While productivity growth rates have been high compared with other sectors over the long term, manufacturing missed out on the (multifactor) productivity surge apparent for the market sector as a whole in the mid-1990s. However, productivity growth has been more vigorous in the last two years.
 - Manufacturing is increasingly globally oriented:
 - exports increased from just over 15 per cent of manufacturing output in 1989-90 to around 24 per cent in 1999-2000, with import shares also rising.
 - Continuing rises in ‘intra-industry trade’ — exports and imports of similar products — suggest that Australian manufacturing can develop capabilities within most areas, even those where competitiveness has generally declined.

Productivity Commission submission in response to the NCC’s Draft recommendation on declaration of Sydney Airport

August 2003

The Commission completed a 12 month inquiry into price regulation of airport services in early 2002. As a result of that inquiry, the Australian Government

replaced price caps and other price controls at major airports with a price monitoring regime. This submission drew on research and analysis undertaken during the Commission's inquiry to highlight some issues germane to the NCC's draft recommendation for the declaration of airside services at Sydney Airport under Part IIIA of the Trade Practices Act.

Despite several events which had affected aviation and airport markets significantly since its 2002 report, the Commission could see no fundamental changes in airport behaviour that would require alteration of its conclusions or recommendations. The Commission argued that:

- There appeared to be no evidence that Sydney Airport was exercising market power to the detriment of competition or efficiency, and the commercial and regulatory pressures which were constraining its behaviour could be expected to operate in the foreseeable future.
- Taken together with Sydney Airport's incentives, under prevailing excess capacity, to differentiate prices and conditions according to the responsiveness of demand, it was difficult to envisage any significant benefit from declaration under Part IIIA relative to the newly commenced light-handed regulatory framework.
- Against this, the costs of declaration in terms of compliance costs, and particularly the scope for regulatory error and consequent impacts on investment and re-investment, were potentially more substantial.
- More broadly, there was a question as to whether the public interest could be served by cutting short a new and innovative approach to airport regulation, developed following an independent public inquiry — at least, without good reason. In the Commission's judgement, no sufficient reason had been or could be demonstrated.

Assessing environmental regulatory arrangements for aquaculture

February 2004

This study assessed the appropriateness, efficiency, and effectiveness of planning and environmental regulatory arrangements covering marine and land-based aquaculture production in Australia. It also considered the potential for alternative regulatory and non-regulatory approaches to complement or, in some cases, replace existing arrangements. Key points were:

- The aquaculture industry is diverse and each sector has different potential environmental impacts of varying degrees of significance.

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- Aquaculture production is subject to an unnecessarily complex array of legislation and agencies — covering marine and coastal management, environmental management, land use planning, land tenure, and quarantine and translocation.
 - The States' aquaculture and/or fisheries legislation have multiple objectives and these are not always clearly defined. The objectives may overlap or conflict, and there is often a lack of guidance as to the relative weights to be placed on each objective.
 - State government departments primarily responsible for aquaculture regulatory arrangements often have potentially conflicting functions of policy development, implementation of regulation, industry promotion and development, and research.
 - New South Wales, Queensland and Western Australia had made limited progress with marine aquaculture planning. This may constrain marine aquaculture, or result in ad hoc approvals for individual sites, and conflicts over resource use.
 - In most jurisdictions, there are complex approval processes. Obtaining required approvals can take significant time. There appeared to be scope to rationalise the number of approvals, coordinate approval processes, and incorporate statutory timeframes for assessing approvals.
 - Increased efficiency and effectiveness of regulatory arrangements for aquaculture could be obtained from greater use of environmental risk assessment based on species, production system, management practices, site location and the condition of the environment.
 - There is potential for greater use of innovative policy instruments to complement (or in some cases replace) existing regulatory and administrative controls. For example, auctions could be used to allocate leases of public land or water, and tradeable permits could be used to manage pollution discharges.

Table E.1 Speeches and presentations by the Chairman, Commissioners and staff, 2003-04

<i>Organisation/event</i>	<i>Topic</i>	<i>Date</i>
Gary Banks, Chairman:		
Senate Legal and Constitutional References Committee hearing on progress towards national reconciliation. Canberra (with Robyn Sheen)	Reporting on Overcoming Indigenous Disadvantage	July 2003
Forum on Post-Graduate Economics, ANU, Canberra	Australia's economic 'miracle'	Aug 2003
25 th Annual Joint Meeting Australia-Korea Business Council & Korea-Australia Business Council, Gold Coast	The transformation of the Australian economy	Sept 2003
32 nd Conference of Economists Business Symposium, Canberra	The good, the bad and the ugly: economic perspectives on regulation in Australia	Oct 2003
Melbourne Institute/The Australian Pursuing Opportunity and Prosperity Conference, Melbourne	Indigenous disadvantage: assessing policy impacts	Nov 2003
Australian Agricultural and Resource Economics Society 48 th Annual Conference, Melbourne	Report on Overcoming Indigenous Disadvantage	Feb 2004
South Australian Centre for Economic Studies Economic Briefing, Adelaide	An ageing Australia: small beer or big bucks?	April 2004
Ministerial Council for Aboriginal and Torres Strait Islander Affairs, Sydney (with Robert Fitzgerald & Robyn Sheen)	Overcoming Indigenous Disadvantage	May 2004
International CEO Forum, Melbourne	Economic reform and industry performance	June 2004
Economic Sustainable Development Committee of the Victorian Cabinet, Melbourne	Productivity and sustainability	June 2004

Commissioners:

Briefing to GPs and the GP Red Tape Taskforce Steering Committee, Canberra (Helen Owens)	Productivity Commission's general practice administrative and compliance costs study	July 2003
University of Sydney Economics Seminar, Sydney (Neil Byron)	Productivity Commission's report on the Great Barrier Reef	Aug 2003
Commonwealth Executive Forum Annual Conference 2003, Melbourne (Helen Owens)	Productivity Commission inquiries: reconciling competing values	Aug 2003
Henley College Seminar – MBA Executive Program, Melbourne (David Robertson)	Australia: economic reform and productivity	Sept 2003
ACPSA National Conference, Gold Coast (Tony Hinton)	Productivity Commission's evaluation of mutual recognition schemes	Sept 2003
UK-Australia Bilateral Meeting on Health Policy, Canberra (Helen Owens)	The role of private health care in Australia: where to from here?	Sept 2003
ANZ Institute of Insurance and Finance Annual Claims Conference, Sydney (Judith Sloan)	Australian claims handling: the Productivity Commission's report on public liability claims management	Sept 2003
Energy Users Association of Australia Annual Conference, Sydney (Tony Hinton)	Productivity Commission's inquiry on the gas access regime	Sept 2003
IBC Conference, Construction Beyond Cole Conference, Melbourne (Mike Woods)	Productivity Commission's Interim Report on national workers' compensation and occupational health and safety frameworks	Oct 2003
Combined Colleges' State Health Congress, Hobart (Mike Woods)	Challenges for the health system	Nov 2003
Melbourne Institute/The Australian Pursuing Opportunity and Prosperity Conference, Melbourne (Neil Byron)	Water rights arrangements	Nov 2003
Economic Society (ACT) Annual General Meeting, Canberra (Judith Sloan)	Tales of a female economist	Nov 2003

(continued next page)

Table E.1 **continued**

<i>Organisation/event</i>	<i>Topic</i>	<i>Date</i>
National Workers' Compensation Summit, Sydney (Mike Woods)	Outlining developments in the quest for a framework of national consistency for workers' compensation	Feb 2004
Committee for Economic Development of Australia, Sydney (Tony Hinton)	Productivity Commission's review of the gas access regime	Feb 2004
NSW Parliamentary Standing Committee on Natural Resources, Sydney (Neil Byron)	Productivity Commission's recent work on the environment and natural resources	Feb 2004
Committee for Economic Development of Australia, Melbourne (Tony Hinton)	Productivity Commission's review of the gas access regime	Feb 2004
Utility Regulators Forum, Melbourne (Tony Hinton)	Productivity Commission's review of the gas access regime	Feb 2004
Northern Territory Council of Social Services Conference, Darwin (Robert Fitzgerald)	Capacity building for communities and organisations	Mar 2004
2 nd A-Z of Australian Water Trading Conference, Melbourne (Neil Byron)	Comparison of water rights arrangements within Australia and overseas	Mar 2004
National Injury Management and Prevention Summit, Canberra (Mike Woods)	Productivity Commission's inquiry on national workers' compensation and OH&S frameworks	Mar 2004
Enviro 2004, Sydney (Neil Byron)	Competition policy, the environment and sustainability	Mar 2004
Research School of Social Sciences Seminar, ANU, Canberra (Mike Woods)	Social capital	May 2004
Australian Building Codes Board Meeting, Melbourne (Tony Hinton)	Productivity Commission's evaluation of reform of building regulation	May 2004
Western Australian Council of Social Services Conference, Perth (Robert Fitzgerald)	Bring on the change: new directions in the community sector	June 2004

Staff:

Social Inclusion Measurement Forum, Brisbane (Robyn Sheen)	Reporting on Overcoming Indigenous Disadvantage	July 2003
Australian Building Codes Board National Technical Summit, Canberra (Stephen Rimmer)	Regulatory principles	July 2003
14 th East Asian Seminar on Economics, Taiwan (Philippa Dee & Jyothi Gali)	Trade and investment effects of preferential trading arrangements	Sept 2003
Assessing economic and budgetary risks on environmental degradation forum, Melbourne (Deborah Peterson)	Options for addressing emerging issues in biodiversity and salinity	Sept 2003
International Comparative Analysis of Enterprise Data Conference, London (Paul Gretton)	Effects of ICT use on the performance of Australian firms: evidence from a business longitudinal data set	Sept 2003
Master of Management (Industry Strategy) Seminar, ANU, Canberra (Stephen Rimmer)	Principles and practice of regulation impact analysis	Sept 2003
Australasian Courts and Tribunal Administration Conference, Melbourne (Hugh Macintosh)	Dealing with 'noisy' data	Oct 2003
APEC Capacity-Building Workshop on Quantitative Methods for Assessing NTMs and Trade Facilitation, Bangkok (Philippa Dee)	Measuring and modelling barriers to services trade: Australia's experience	Oct 2003
APEC Capacity-Building Workshop on Quantitative Methods for Assessing NTMs and Trade Facilitation, Bangkok (Duc Nguyen-Hong)	Techniques for estimating services barriers	Oct 2003
Communications Research Forum, Canberra (Dean Parham)	Accounting for ICT in productivity estimates – Discussant	Oct 2003
Treasury Seminar, Canberra (Dean Parham)	ICTs: a story of technological, organisational and policy influences on Australia's productivity growth	Oct 2003
Centre of Policy Studies Seminar, Monash University (Paul Gretton)	An imperfect transformates approach to modelling export supply in the Monash model	Oct 2003

(continued next page)

Table E.1 continued

<i>Organisation/event</i>	<i>Topic</i>	<i>Date</i>
Treasury Seminar, Canberra (Tom Nankivell)	Social capital	Nov 2003
PhD Conference in Economics and Finance, Perth (Jonathan Pincus)	Discussant on public finance paper	Nov 2003
Victoria University (School of Applied Economics), (Tom Nankivell)	Social capital	Nov 2003
Victorian Department of Treasury and Finance, Melbourne (Tom Nankivell)	Social capital	Nov 2003
Victorian Department of Premier and Cabinet, Melbourne (Tom Nankivell)	Social capital	Nov 2003
Department for Victorian Communities Seminar, Melbourne (Tom Nankivell)	Social capital: the Commission's findings	Nov 2003
APEC-OECD Co-operative Initiative on Regulatory Reform 5 th Workshop, Paris (Ralph Lattimore)	Competitive neutrality policy in Australia	Dec 2003
OECD Workshop on Maximising the Benefits of Regulatory Reform for Better Economic Performance, Paris (Ralph Lattimore)	The impacts of microeconomic reform in Australia	Dec 2003
DOTARS Seminar, Melbourne (Tom Nankivell)	Social capital	Dec 2003
DOCITA Seminar, Canberra (Tom Nankivell)	Social capital	Dec 2003
Australian Agricultural and Resource Economics Society 48 th Annual Conference, Melbourne (Deborah Peterson)	Opening remarks to the AARES Workshop on Water: The New Agenda	Feb 2004
Australian Agricultural and Resource Economics Society 48 th Annual Conference, Melbourne (Deborah Peterson)	Managing irrigation externalities through water charges	Feb 2004
Australian Agricultural and Resource Economics Society 48 th Annual Conference, Melbourne (Michael Schuele)	Innovative approaches for managing environmental impacts from aquaculture	Feb 2004

Australian Agricultural and Resource Economics Society 48 th Annual Conference, Melbourne (Phil Hughes)	Environmental regulatory arrangements and aquaculture production	Feb 2004
Association of Independent Schools Victoria, Melbourne (Tom Nankivell)	Social capital	Mar 2004
Consumer, Business and Government National Consumer Congress, Melbourne (Stephen Rimmer)	Best practice regulation and the role of licensing	Mar 2004
Centre for Corporate Public Affairs, Canberra (Robert Kerr)	Forthcoming year's agenda and priorities	Mar 2004
Business Statistics Planning and Review Workshop, Canberra (Garth Pitkethly)	Issues in determining future directions	May 2004
Economic Statistics Users Group, Canberra (Dean Parham)	The Australian contribution to an OECD study on ICT and firm performance	May 2004
Economic and Environment Network Seminar, ANU, Canberra (Deborah Peterson)	Managing externalities from irrigation water	May 2004
Services Industry Research Centre (ANU) & Network Economics Consulting Group conference, Canberra (Owen Gabbitas)	Market structure, alliances and performance in the airline industry – Discussant	June 2004

Table E.2 Visits from international organisations and foreign delegations 2003-04

<i>Organisation/delegation</i>	<i>Purpose of visit to the Commission</i>	<i>Date and location</i>
The World Bank Private Sector Advisory Services	Commission research	July 2003 (C)
NZ Treasury	NZ productivity trends	July 2003 (C & M)
US Congressional Staff delegation	Trade liberalisation issues	Aug 2003 (M)
Taiwan Ministry of Economic Affairs	Regulatory best practice and standard setting in Australia	Sept 2003 (C)
Japanese delegation (various ministries)	Policy evaluation issues	Nov 2003 (C)
NZ Minister of Labour	The Commission's role and activities and productivity research	Nov 2003 (M)
Philippine Tariff Commission staff	Role and functions of the Commission	Nov 2003 (C)
All Party Committee on the Constitution, Irish parliamentary delegation	Australia's disability legislation and the Commission's inquiry	Nov 2003 (C)
Korean Prime Minister's Office	Regulation impact statement processes and regulatory best practice	Dec 2003 (C)
Indonesian delegation	Role and activities of the Commission	Dec 2003 (M)
Korean Development Institute	Competition policy and regulatory reforms	Dec 2003 (C)
UK Civil Aviation Authority	Role of the Commission and its report on price regulation of airport services	Feb 2004 (M)
UK parliamentary committee delegation	Gambling policy issues	Feb 2004 (M)
NZ Ministry of Economic Development	Trans-Tasman trade issues	Feb 2004 (C)
Malaysian delegation	Performance monitoring of government services	Mar 2004 (M)

NZ Commerce Commission	Role and activities of the Commission	Mar 2004 (M)
Japanese delegation	Research on regulation impact statement processes	Mar 2004 (C)
NZ Ministry of Economic Development	Commission activities and productivity research	Mar 2004 (C)
NZ Delegation	Role and functions of the Commission	May 2004 (C)
NZ Ministry of Economic Development	Forthcoming trans-Tasman study on competition and consumer protection regimes	May 2004 (C)
UK delegation	The Commission's report on the Job Network	May 2004 (C)
OECD/EDRC Mission	Microeconomic reform issues	May 2004 (C)
Singaporean delegation (various ministries)	Gambling research	June 2004 (C & M)
NZ Commerce Commission	The Commission's research directions and activities	June 2004 (M)
2004 IMF Mission	Structural reform	June 2004 (M)

(C) Canberra (M) Melbourne

F Publications

This appendix provides a list of Commission reports, papers and submissions to other review bodies completed in 2003-04. It also lists staff working papers and research memoranda, the views of which do not necessarily reflect those of the Commission. The Commission has a comprehensive website providing public access to nearly all of its publications. The availability of printed copies is detailed on its website.

Government-commissioned projects

Inquiries and commissioned studies — draft and interim reports

Draft and interim reports can be obtained from the Commission during the course of an inquiry and from the Commission's website. The dates listed are release dates.

- National Workers' Compensation and Occupational Health and Safety Frameworks, Interim Report, 21 October 2003
- Review of the Disability Discrimination Act 1992, Draft Report, 31 October 2003
- Impacts of Native Vegetation and Biodiversity Regulations, Draft Report, 4 December 2003
- Review of the Gas Access Regime, Draft Report, 15 December 2003
- First Home Ownership, Discussion Draft, 18 December 2003
- Rules of Origin under the Australia–New Zealand Closer Economic Relations Trade Agreement, Interim Research Report, 22 December 2003

Inquiries and commissioned studies — final reports

Upon release by the Australian Government, copies of final reports can be obtained from the Commission's publications agent, Pirion/J.S. McMillan and the Commission's website. The dates listed are signing dates. Publications marked with an asterisk (*) were completed in 2003-04 but released after 30 June 2004.

-
- *Review of TCF Assistance*, Inquiry Report No. 26, 31 July 2003
 - *Evaluation of the Mutual Recognition Schemes*, Research Report, 8 October 2003
 - *National Workers' Compensation and Occupational Health and Safety Frameworks*, Inquiry Report No. 27, 16 March 2004
 - *First Home Ownership*, Inquiry Report No. 28, 31 March 2004
 - *Rules of Origin under the Australia-New Zealand Closer Economic Relations Trade Agreement*, Research Report, 28 May 2004
 - *Impacts of Native Vegetation and Biodiversity Regulations*, Inquiry Report No. 29, 8 April 2004*
 - *Review of the Disability Discrimination Act 1992*, Report No. 30, 30 April 2004*
 - *Review of the Gas Access Regime*, Report No. 31, 11 June 2004*

Performance reporting

Steering Committee for the Review of Government Service Provision

The Commission acts as the Secretariat for the COAG Steering Committee. Except where indicated, copies of these publications are available from the Commission's publication agent, Pirion/J.S. McMillan, and from the Commission's website. Publications produced in 2003-04 and many previous Secretariat reports are also available on compact disk.

- *Overcoming Indigenous Disadvantage: Key Indicators 2003*, Overview (November 2004)
- *Overcoming Indigenous Disadvantage: Key Indicators 2003*, Main Report (November 2004)
- *Report on Government Services 2004*, Volume 1: Education, Justice, Emergency Management (January 2004)
- *Report on Government Services 2004*, Volume 2: Health, Community Services, Housing (January 2004)
- *Report on Government Services 2004*, Indigenous Compendium (April 2004) (website only)

Other performance reporting and benchmarking

- *International Benchmarking of Container Stevedoring* (July 2003)
- *Water Rights Arrangements in Australia and Overseas* (October 2003)

Competitive neutrality complaints

Copies of reports are available from the Commission and the websites of the Australian Government Competitive Neutrality Complaints Office (AGCNCO) and the Commission.

- *Australian Valuation Office*, AGCNCO Report No. 11, 5 May 2004

Supporting research and annual reporting

Unless otherwise indicated, copies of reports are available from the Commission's publication agent, Pirion/J.S. McMillan, and from the Commission's website. Requests for printed copies of publications marked with an asterisk (*) should be directed to the Commission.

Annual reports

- *Annual Report 2002-03* (November 2003)
- *Regulation and its Review 2002-03* (November 2003)
- *Trade & Assistance Review 2002-03* (December 2003)

Supplements to government-commissioned research reports

- *Assistance in Australia and New Zealand under the CER Agreement* (June 2004)
- *Restrictiveness Index for Preferential Rules of Origin* (June 2004)

Commission research papers

- *Social Capital: Reviewing the Concept and its Policy Implications* (July 2003)
- *Trends in Australian Manufacturing* (August 2003)
- *Productivity Commission Submission in Response to the NCC's Draft Recommendation on Declaration of Sydney Airport* (August 2003)*
- *Assessing Environmental Regulatory Arrangements for Aquaculture* (February 2004)

30th anniversary commemorative report

- *From Industry Assistance to Productivity: 30 Years of 'the Commission'* (December 2003)*

Chairman's speeches

Copies of the Chairman's speeches are available from the Commission's website.

- *Australia's Economic 'Miracle'*, 1 August 2003
- *The Good, the Bad and the Ugly: Economic Perspectives on Regulation in Australia*, 2 October 2003
- *Indigenous Disadvantage: Assessing Policy Impacts*, 13 November 2003
- *An Ageing Australia: Small Beer or Big Bucks?*, 29 April 2004

Richard Snape Lecture

The inaugural Richard Snape Lecture was held on 30 October 2003. Lectures reflect the views of the authors and not necessarily those of the Commission.

- Max Corden, *40 Million Aussies? The Immigration Debate Revisited*, (October 2003)*

Staff working papers and research memoranda

Copies of these staff working papers and research memoranda are available from the Commission's website. These papers reflect the views of the authors and not necessarily those of the Commission.

- *Mechanisms for Improving the Quality of Regulations: Australia in an International Context*, Steven Argy and Matthew Johnson (July 2003)
- *Restrictions on Trade in Education Services: Some Basic Indexes*, Duc Nguyen-Hong and Robert Wells (October 2003)
- *Australia's Industry Sector Productivity Performance*, Trevor Cobbold and Anthony Kulys (November 2003)
- *A Comparison of Gross Output and Value-Added Methods of Productivity Estimation*, Trevor Cobbold (November 2003)

Other publications

Copies of these publications are available from the Commission or its website.

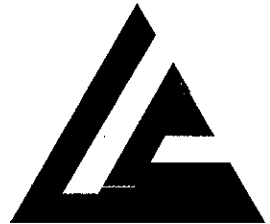
- *The Productivity Commission: A Quick Guide*
- *Supporting Research Program 2003-04* (August 2003)
- *pc update*, a quarterly newsletter on Productivity Commission activities, covers key events on the work program, major activities, publications released, and website and other news (Issue 22, September 2003; Issue 23, January 2004; Issue 24, March/April 2004; Issue 25, July 2004)



G Financial statements

This appendix presents the audited financial statements for the Productivity Commission for 2003-04. The statements have been prepared on an accrual accounting basis.

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Statement of financial position	204
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Schedule of contingencies	207
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**Australian National
Audit Office**

INDEPENDENT AUDIT REPORT

To the Treasurer

Matters relating to the Electronic Presentation of the Audited Financial Statements

This audit report relates to the financial statements published in both the annual report and on the website of the Productivity Commission for the year ended 30 June 2004. The Productivity Commission's Chairman is responsible for the integrity of both the annual report and its web site.

The audit report refers only to the financial statements, schedules and notes named below. It does not provide an opinion on any other information which may have been hyperlinked to/from the audited financial statements.

If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial statements in the Productivity Commission's annual report.

Scope

The financial statements comprise:

- Statement by the Chairman and Chief Financial Officer;
- Statements of Financial Performance, Financial Position and Cash Flows;
- Schedules of Commitments and Contingencies; and
- Notes to and forming part of the Financial Statements

of the Productivity Commission for the year ended 30 June 2004.

The Productivity Commission's Chairman is responsible for the preparation and true and fair presentation of the financial statements in accordance with the Finance Minister's Orders. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial statements.

Audit approach

I have conducted an independent audit of the financial statements in order to express an opinion on them to you. My audit has been conducted in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing and Assurance Standards, in order to provide reasonable assurance as to whether the financial statements are free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive, rather than conclusive, evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

While the effectiveness of management's internal controls over financial reporting was considered when determining the nature and extent of audit procedures, the audit was not designed to provide assurance on internal controls.

I performed procedures to assess whether, in all material respects, the financial statements present fairly, in accordance with the Finance Minister's Orders made under the *Financial Management and Accountability Act 1997*, Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with my understanding of the Productivity Commission's financial position, and of its performance as represented by the statements of financial performance and cash flows.

The audit opinion is formed on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial statements; and
- assessing the appropriateness of the accounting policies and disclosures used, and the reasonableness of significant accounting estimates made by the Chairman and management.

Independence

In conducting the audit, I have followed the independence requirements of the Australian National Audit Office, which incorporate Australian professional ethical pronouncements.

Audit Opinion

In my opinion, the financial statements:

- (i) have been prepared in accordance with the Finance Minister's Orders made under the *Financial Management and Accountability Act 1997* and applicable Accounting Standards; and
- (ii) give a true and fair view, of the matters required by applicable Accounting Standards and other mandatory professional reporting requirements in Australia, and the Finance Minister's Orders, of the financial position of the Productivity Commission as at 30 June 2004, and of its performance and cash flows for the year then ended.

Australian National Audit Office



Allan M Thompson
Executive Director

Delegate of the Auditor-General

Canberra
23 August 2004

Statement by the Chairman and Chief Finance Officer

Certification

In our opinion, the attached financial statements for the year ended 30 June 2004 are based on properly maintained financial records and give a true and fair view of the matters required by the Finance Minister's Orders made under the *Financial Management and Accountability Act 1997*.



Gary Banks
Chairman

12 August 2004



Harry Tys
Chief Finance Officer

12 August 2004

Productivity Commission
STATEMENT OF FINANCIAL PERFORMANCE

for the year ended 30 June 2004

	Note	2003-04 \$'000	2002-03 \$'000
Revenues from ordinary activities			
Revenues from government		24,346	23,014
Interest	5A	–	131
Sales of goods and services	5A	231	199
Revenue from sale of assets	5B	12	9
Resources received free of charge		<u>33</u>	<u>34</u>
Total revenues from ordinary activities		<u>24,622</u>	<u>23,387</u>
Expenses from ordinary activities			
Employees	6A	19,135	18,200
Suppliers	6B	5,756	5,203
Depreciation and amortisation	6C	775	965
Write-off of assets	6D	8	–
Value of assets sold	5C	<u>15</u>	<u>28</u>
Total expenses from ordinary activities		<u>25,689</u>	<u>24,396</u>
Net operating surplus (deficit) from ordinary activities		<u>(1,067)</u>	<u>(1,009)</u>
Net surplus (deficit)		<u>(1,067)</u>	<u>(1,009)</u>
<i>Net credit to asset revaluation reserve</i>		<u>1,076</u>	–
Total valuation adjustment recognised directly in equity		<u>1,076</u>	<u>–</u>
Total changes in equity other than resulting from transactions with the Australian Government as owner	10	<u>9</u>	<u>(1,009)</u>

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

Productivity Commission
STATEMENT OF FINANCIAL POSITION

as at 30 June 2004

	Note	2003-04 \$'000	2002-03 \$'000
ASSETS			
Financial assets			
Cash		958	534
Receivables	7	<u>3,498</u>	<u>3,476</u>
Total financial assets		<u>4,456</u>	<u>4,010</u>
Non-financial assets			
Infrastructure, plant and equipment	8	1,920	1,340
Intangibles	8	49	36
Prepayments		<u>296</u>	<u>277</u>
Total non-financial assets		<u>2,265</u>	<u>1,653</u>
Total Assets		<u>6,721</u>	<u>5,663</u>
LIABILITIES			
Provisions			
Employees	9A	<u>7,186</u>	<u>6,574</u>
Total provisions		<u>7,186</u>	<u>6,574</u>
Payables			
Suppliers	9B	724	302
Other		–	10
Total payables		<u>724</u>	<u>312</u>
Total Liabilities		<u>7,910</u>	<u>6,886</u>
Net Assets		<u>(1,189)</u>	<u>(1,223)</u>
EQUITY			
Contributed equity	10	1,711	1,686
Reserves	10	1,172	96
(Accumulated deficits)	10	<u>(4,072)</u>	<u>(3,005)</u>
Total Equity		<u>(1,189)</u>	<u>(1,223)</u>
Current liabilities		4,386	3,747
Non-current liabilities		3,524	3,139
Current assets		4,752	4,287
Non-current assets		1,969	1,376

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

Productivity Commission
STATEMENT OF CASH FLOWS

for the year ended 30 June 2004

	Note	2003-04 \$'000	2002-03 \$'000
OPERATING ACTIVITIES			
Cash received			
Appropriations		24,346	23,014
Interest		–	135
Sale of goods and services		231	199
Other – GST received from ATO		<u>455</u>	<u>443</u>
Total cash received		<u>25,032</u>	<u>23,791</u>
Cash used			
Employees		18,523	18,093
Suppliers		5,296	5,172
Cash transferred to the OPA		–	3,400
Other – GST paid		<u>486</u>	<u>470</u>
Total cash used		<u>24,305</u>	<u>27,135</u>
Net cash from (used by) operating activities	11	<u>727</u>	<u>(3,344)</u>
INVESTING ACTIVITIES			
Cash received			
Proceeds from investments		–	4,100
Proceeds from property, plant and equipment		<u>12</u>	<u>9</u>
Total cash received		<u>12</u>	<u>4,109</u>
Cash Used			
Purchase of property, plant and equipment		<u>315</u>	<u>271</u>
Total cash used		<u>315</u>	<u>271</u>
Net cash from (used by) investing activities		<u>(303)</u>	<u>3,838</u>
FINANCING ACTIVITIES			
Cash used			
Other		<u>–</u>	<u>24</u>
Total cash used		<u>–</u>	<u>(24)</u>
Net cash from (used by) financing activities		<u>–</u>	<u>(24)</u>
Net increase (decrease) in cash held		424	470
Cash at the beginning of the reporting period		<u>534</u>	<u>64</u>
Cash at the end of the reporting period	11	<u>958</u>	<u>534</u>

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

Productivity Commission
SCHEDULE OF COMMITMENTS

as at 30 June 2004

	Note	2003-04 \$'000	2002-03 \$'000
COMMITMENTS			
Operating leases		4,537	5,128
Other commitments		<u>195</u>	<u>398</u>
Total commitments		4,732	5,526
Commitments receivable		<u>(649)</u>	<u>(908)</u>
Net commitments		<u>4,083</u>	<u>4,618</u>
BY MATURITY			
All commitments			
One year or less		2,517	2,690
From one to five years		2,215	2,836
Over five years		<u>—</u>	<u>—</u>
Total commitments		<u>4,732</u>	<u>5,526</u>
Operating lease commitments			
One year or less		2,322	2,446
From one to five years		2,215	2,682
Over five years		<u>—</u>	<u>—</u>
Total operating lease commitments		<u>4,537</u>	<u>5,128</u>
Commitments receivable			
One year or less		(448)	(431)
From one to five years		<u>(201)</u>	<u>(477)</u>
Total commitments receivable		<u>(649)</u>	<u>(908)</u>
Net Commitments by maturity		<u>4,083</u>	<u>4,618</u>

Prior year comparatives have been amended to reflect the impacts of GST.

Nature of Lease

Leases for office accommodation

Agreements for the provision of motor vehicles to Senior Executive Officers

General description of leasing arrangement

Lease payments are subject to fixed annual increase in accordance with the lease agreement.

Lease payments are fixed at the commencement of each vehicle lease. Vehicles are returned on lease expiry.

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

Productivity Commission
SCHEDULE OF CONTINGENCIES

as at 30 June 2004

	Note	2003-04 \$'000	2002-03 \$'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 2004

Note	Description
1	Objectives of the Productivity Commission
2	Summary of Significant Accounting Policies
3	Adoption of AASB Equivalents to International Financial Reporting Standards from 2005-2006
4	Events Occurring after Balance Date
5	Operating Revenues
6	Operating Expenses
7	Financial Assets
8	Non-financial Assets
9	Provisions and Payables
10	Equity
11	Cash Flow Reconciliation
12	Appropriations
13	Reporting of Outcome
14	Remuneration of Executives
15	Remuneration of Auditors
16	Contingencies
17	Act of Grace Payments and Waivers
18	Average Staffing
19	Financial Instruments
20	Special Accounts

Note 1 Objectives of the Productivity Commission

The Productivity Commission is the Australian 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 2004;
- Australian Accounting Standards and Accounting Interpretations issued by the Australian Accounting Standards 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. However, assets and liabilities arising under agreements equally proportionately unperformed are not recognised unless required by an Accounting Standard. Liabilities and assets that are unrecognised are reported in the Schedule of Commitments and the Schedule of Contingencies (other than unquantifiable or remote contingencies, which are reported at Note 15).

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 of Australia, which is ultimately responsible for all the agency's debts. 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.

2.2 Changes in Accounting Policy

The accounting policies used in the preparation of these financial statements are consistent with those used in 2002-03.

Property plant and equipment assets are being revalued progressively as explained in Note 2.11. Revaluations up to 30 June 2002 were done on a 'deprival' basis; since that date, revaluations have been done on a fair value basis. Revaluation increments and decrements in each year of transition to fair value that would otherwise be accounted for as revenue or expenses are taken directly to accumulated results in accordance with transitional provisions of AASB 1041 *Revaluation of Non-current Assets*.

In 2003-04, the impairment test provisions of the FMOs have been extended to cover non-current assets carried at deprival values. There were no indications of impairment for these assets.

2.3 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 2003-04.

(b) Interest

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets. In accordance with the outcome of the Budget Estimates and Framework Review conducted by the Department of Finance and Administration during 2002-03, no interest was received in 2003-04.

(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.

2.4 Transactions with the Government as Owner

Equity injections

Amounts appropriated which are designated as ‘equity injections’ for a year (less any savings offered up in Portfolio Additional Estimates Statements) are recognised directly in Contributed Equity in that year.

2.5 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.

All other employee benefit liabilities 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 2004.

Superannuation

Staff of the Commission are members of the Commonwealth Superannuation Scheme and the Public Sector Superannuation Scheme. The liability for their superannuation benefits is recognised in the financial statements of the Australian Government and is settled by the Australian Government in due course.

The Commission makes employer contributions to the Australian Government at rates determined by an actuary to be sufficient to meet the cost to the Government of the superannuation entitlements of the Commission's employees.

The liability for superannuation recognised as at 30 June represents outstanding contributions for the final fortnight of the year.

2.6 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.

2.7 Cash

Cash means notes and coins held and any deposits held at call with a bank or financial institution. Cash is recognised at its nominal amount.

2.8 Other Financial Instruments

Trade Creditors

Trade 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).

2.9 Acquisition of Assets

Assets are recorded at cost on acquisition except as stated below. The cost of acquisition includes the fair value of assets transferred in exchange and liabilities undertaken.

2.10 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 up to 30 June 2002 were undertaken on a deprival basis; revaluations since that date are at fair value. This change in accounting policy is required by Australian Accounting Standard AASB 1041 *Revaluation of Non-Current Assets*. Valuations undertaken in any year are as at 30 June.

The financial effect of this change in policy relates to those assets recognised at fair value for the first time in the current period where the measurement basis for fair value is different to that previously used for deprival value. The financial effect of the change is given by the difference between the fair values obtained for these assets in the current period and the deprival-based values recognised at the end of the previous period. The financial effect by class is as follows:

Asset class	Increment/(decrement) to asset class	Contra Account
Leasehold improvements	\$1,076,000	Asset Revaluation Reserve

The Commission's revaluation policy and frequency of revaluations is in accordance with the Finance Minister's Orders.

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. The Commission has assessed the carrying amounts of assets and is 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:

	2003-04	2002-03
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.

2.11 Taxation

The Commission is exempt from all forms of taxation except fringe benefits tax and the goods and services tax (GST).

2.12 Insurance

The Commission has insured for risks through the Government's insurable risk managed fund, Comcover. Workers compensation is insured through Comcare Australia.

2.13 Comparative Figures

Comparative figures have been adjusted to conform to changes in presentation in these financial statements where required.

2.14 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 Adoption of AASB Equivalents to International Financial Reporting Standards from 2005-2006

The Australian Accounting Standards Board has issued replacement Australian Accounting Standards to apply from 2005-06. The new standards are the AASB Equivalents to International Financial Reporting Standards (IFRSs) which are issued by the International Accounting Standards Board. The new standards cannot be adopted early. The standards being replaced are to be withdrawn with effect from 2005-06, but continue to apply in the meantime.

The purpose of issuing AASB Equivalents to IFRSs is to enable Australian entities reporting under the *Corporations Act 2001* to be able to more readily access overseas capital markets by preparing their financial reports according to accounting standards more widely used overseas.

For-profit entities complying fully with the AASB Equivalents will be able to make an explicit and unreserved statement of compliance with IFRSs as well as with the AASB Equivalents.

It is expected that the Finance Minister will continue to require compliance with the Accounting Standards issued by the AASB, including the AASB Equivalents to IFRSs, in his Orders for the Preparation of Agency financial statements for 2005-06 and beyond.

The AASB Equivalents contain certain additional provisions which will apply to not-for-profit entities, including Australian Government Agencies. Some of these provisions are in conflict with the IFRSs and therefore the Commission will only be able to assert compliance with the AASB Equivalents to IFRSs.

Existing AASB standards that have no IFRS equivalent will continue to apply, in particular AAS 29 *Financial Reporting by Government Departments*.

Accounting Standards AASB 1047 *Disclosing the Impacts of Adopting Australian Equivalents to International Financial Reporting Standards* requires that the financial statements for 2003-04 disclose:

- An explanation of how the transition to the AASB Equivalents is being managed; and
- A narrative explanation of the key differences in accounting policies arising from the transition.

The purpose of the Note is to make these disclosures.

Management of the transition to AASB Equivalents to IFRSs

The Commission's Audit Committee is tasked with the oversight of the transition to and implementation of the AASB Equivalents to IFRSs. The Chief Finance Officer is formally

responsible for the project and is in the process of developing a plan for the transition, which will be presented to the Audit Committee on completion.

Major changes in accounting policy

Changes in accounting policies under AASB Equivalents are applied retrospectively i.e. as if the new policy had always applied. This rule means that a balance sheet prepared under the AASB Equivalents must be made as at 1 July 2004, except as permitted in particular circumstances by AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*. This will enable the 2005-06 financial statements to report comparatives under the AASB Equivalents also.

Changes to major accounting policies are discussed in the following paragraphs.

Infrastructure, Plant & Equipment

It is expected that the Finance Minister's Orders will require infrastructure, plant and equipment assets carried at valuation in 2003-04 to be measured at up-to-date fair value from 2005-06. This differs from the accounting policies currently in place for these assets which, up to and including 2003-04, have been revalued progressively over a 3-year cycle and which currently include assets at cost (for purchases since the commencement of a cycle) and at deprival value (which will differ from the fair value to the extent that they have been measured at depreciated replacement cost when a relevant market selling price is available).

However, it is important to note that the Finance Minister requires these assets to be measured at up-to-date fair values as at 30 June 2005. Further, the transitional provisions in AASB 1 will mean that the values at which assets are carried as at 30 June 2004 under existing standards will stand in the transitional balance sheet as at 1 July 2004.

Impairment of Non-Current Assets

The Commission's policy on impairment of non-current assets is at note 2.10.

Under the new AASB Equivalent Standard, these assets will be subject to assessment for impairment and, if there are indications of impairment, measurement of any impairment. (Impairment measurement must also be done, irrespective of any indications of impairment, for intangible assets not yet available for use). The impairment test is that the carrying amount of an asset must not exceed the greater of (a) its fair value less costs to sell and (b) its value in use. 'Value in use' is the depreciated replacement cost for not-for-profit assets which would be replaced if the Commission were deprived of them.

Employee Benefits

The provision for long service leave is measured at the present value of estimated future cash outflows using market yields at the reporting date on national government bonds.

Under the new AASB Equivalent standard, the same discount rate will be used unless there is a deep market in high quality corporate bonds, in which case the market yield on such bonds must be used.

Note 4 Events Occurring after Balance Date

No significant events requiring disclosure in, or adjustment to, these financial statements have occurred subsequent to balance date.

Note 5 Operating Revenues

Note 5A – Sales of goods and services / Other revenue

	2003-04	2002-03
	\$'000	\$'000
Sales of goods and services		
- to related entities	14	11
- to external entities	217	188
Interest on investments	<u>–</u>	<u>131</u>
Total	<u>231</u>	<u>330</u>

Note 5B – Net gains (losses) from sales of assets

	2003-04	2002-03
	\$'000	\$'000
Infrastructure, plant and equipment		
Proceeds from sales	12	9
Net book value at sale	<u>15</u>	<u>28</u>
Net loss on disposal	<u>(3)</u>	<u>(19)</u>

Note 6 Operating Expenses

Note 6A – Employee expenses

	2003-04	2002-03
	\$'000	\$'000
Wages and salary	14,956	14,869
Superannuation	2,668	2,240
Leave and other entitlements	498	(17)
Separation and redundancies	409	495
Other	546	562
Total employee benefits expense	<u>19,077</u>	<u>18,149</u>
Worker compensation premiums	58	51
Total employee expenses	<u>19,135</u>	<u>18,200</u>

Note 6B – Suppliers expenses

	2003-04	2002-03
	\$'000	\$'000
Supply of goods and services		
– from related entities	376	344
– from external entities	3,254	3,254
Operating lease rentals	<u>2,126</u>	<u>1,605</u>
Total	<u>5,756</u>	<u>5,203</u>

Note 6C – Depreciation and amortisation

	2003-04	2002-03
	\$'000	\$'000
Depreciation and amortisation of infrastructure, plant & equipment	755	870
Amortisation of intangibles	<u>20</u>	<u>95</u>
Total	<u>775</u>	<u>965</u>

Note 6D – Write-off of assets

	2003-04	2002-03
	\$'000	\$'000
Non-financial assets		
Plant & equipment – write-off on disposal	<u>8</u>	<u>—</u>
Total	<u>8</u>	<u>—</u>

Note 7 Financial Assets

Receivables

	2003-04	2002-03
	\$'000	\$'000
Cash transferred to the Official Public Account	3,425	3,400
Goods and services	2	3
GST receivable	<u>71</u>	<u>73</u>
Total	<u>3,498</u>	<u>3,476</u>
Receivables (gross) which are overdue are aged as follows:		
Not overdue	3,498	3,476

In accordance with the outcome of the Budget Estimates and Framework Review conducted in 2002-03 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.

As the recovery of these receivables is not in question, the Commission has determined that a provision for doubtful debts is not required.

Note 8 Non-financial Assets

Infrastructure, Plant and Equipment, and Intangibles

Table A Summary of fixed assets

	2003-04	2002-03
	\$'000	\$'000
Leasehold improvements		
Leasehold at cost	<u>–</u>	687
Accumulated amortisation	<u>–</u>	<u>(410)</u>
	<u>–</u>	<u>277</u>
Leasehold improvements – at 1999-2002 valuation (deprival)	–	3,199
Accumulated amortisation	<u>–</u>	<u>(2,910)</u>
	<u>–</u>	<u>289</u>
Leasehold improvements – at 2004 valuation (fair value)	1,269	–
Accumulated amortisation	<u>–</u>	<u>–</u>
	<u>1,269</u>	<u>–</u>
Total Leasehold improvements	<u>1,269</u>	<u>566</u>
Plant and equipment		
Plant and equipment at cost	1,849	1,795
Accumulated depreciation	<u>(1,216)</u>	<u>(1,064)</u>
	<u>633</u>	<u>731</u>
Plant and equipment – at 1998-2001 valuation (deprival)	626	782
Accumulated depreciation	<u>(608)</u>	<u>(739)</u>
	<u>18</u>	<u>43</u>
Total Plant and equipment	<u>651</u>	<u>774</u>
Total Infrastructure, plant and equipment	<u>1,920</u>	<u>1,340</u>
Intangibles		
Computer software at cost	559	539
Accumulated amortisation	<u>(510)</u>	<u>(503)</u>
Total Intangibles	<u>49</u>	<u>36</u>
Total Infrastructure, plant and equipment, and intangibles	<u>1,969</u>	<u>1,376</u>

Table B Analysis of property, plant and equipment, and intangibles.
Movement summary 2003-2004 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 2003	3,886	2,577	6,463	539	7,002
Revaluation increment	(2,617)	–	(2,617)	–	(2,617)
Additions	–	282	282	33	315
Disposals	–	(232)	(232)	–	(232)
Write-offs	–	(152)	(152)	(13)	(165)
As at 30 June 2004	<u>1,269</u>	<u>2,475</u>	<u>3,744</u>	<u>559</u>	<u>4,303</u>
Accumulated depreciation/amortisation					
As at 1 July 2003	3,320	1,803	5,123	503	5,626
Revaluation decrement	(3,693)	–	(3,693)	–	(3,693)
Charge for additions	–	46	46	4	50
Charge for assets held 1 July 2003	373	336	709	16	725
Disposals	–	(217)	(217)	–	(217)
Write-offs	–	(144)	(144)	(14)	(157)
As at 30 June 2004	<u>–</u>	<u>1,824</u>	<u>1,824</u>	<u>510</u>	<u>2,334</u>
Net book value as at 30 June 2004	<u>1,269</u>	<u>651</u>	<u>1,920</u>	<u>49</u>	<u>1,969</u>
Net book value as at 1 July 2003	566	774	1,340	36	1,376

All revaluations are independent and are conducted in accordance with the revaluation policy stated in Note 2.11. In 2003-04, the revaluations were conducted by independent valuers M Lancellotte AAPI and R Rixon AAPI, ASIA of the Australian Valuation Office.

Table C Summary of valuation adjustments as at 30 June 2004

	2003-04 \$'000	2002-03 \$'000
Valuation		
Cost adjustment	(2,617)	–
Depreciation adjustment	<u>3,693</u>	–
Net increment (decrement) on revaluation	<u>1,076</u>	–

Note 9 Provisions and Payables

Note 9A – Employee provisions

	2003-04	2002-03
	\$'000	\$'000
Salaries and wages	692	612
Annual leave	2,367	2,254
Long service leave	4,024	3,639
Superannuation	<u>103</u>	<u>69</u>
Total	<u>7,186</u>	<u>6,574</u>
Current	3,662	3,435
Non-Current	3,524	3,139

Note 9B – Suppliers

	2003-04	2002-03
	\$'000	\$'000
Trade creditors	<u>724</u>	<u>302</u>
	<u>724</u>	<u>302</u>

Note 10 Equity

	Accumulated Results	Asset Revaluation Reserve	Capital	Total Equity	
	2003-04	2003-04	2003-04	2003-04	2002-03
	\$'000	\$'000	\$'000	\$'000	\$'000
Balance 1 July	(3,005)	96	1,686	(1,223)	(190)
Net surplus (deficit)	(1,067)	–	–	(1,067)	(1,009)
Net revaluation increment	–	1,076	–	1,076	–
Appropriations (equity injection)	–	–	25	25	–
Interest clawback	–	–	–	–	(24)
Balance at 30 June	<u>(4,072)</u>	<u>1,172</u>	<u>1,711</u>	<u>(1,189)</u>	<u>(1,223)</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 11 Cash Flow Reconciliation

	2003-04	2002-03
	\$'000	\$'000
Reconciliation of cash per Statement of Financial Position to Statement of Cash Flows		
Cash at year end per Statement of Cash Flows	<u>958</u>	<u>534</u>
Statement of Financial Position items comprising above cash: 'Financial Asset – Cash'	<u>958</u>	<u>534</u>
Reconciliation of operating surplus to net cash provided by operating activities:		
Operating surplus (deficit)	(1,067)	(1,009)
Depreciation/Amortisation	775	965
Loss (profit) on sale of non-current assets	3	19
Write off of assets	8	–
Decrease (increase) in receivables	(22)	(3,369)
Decrease (increase) in prepayments	(19)	80
Increase (decrease) in employee liabilities	612	206
Increase (decrease) in suppliers liability	422	(113)
Increase (decrease) in other liabilities	(10)	(123)
Increase (decrease) in contributed equity	<u>25</u>	<u>–</u>
Net cash provided (used) by operating activities	<u>727</u>	<u>(3,344)</u>

Note 12 Appropriations

Note 12A - Acquittal of Authority to Draw Cash from the Consolidated Revenue Fund (Appropriations) from Acts 1 and 3

	2003-04	2002-03
	\$'000	\$'000
Balance available at 1 July	3,934	4,164
Add: Appropriation Act (No 1) – basic appropriation	24,203	23,014
Appropriation Act (No 3) 2003-04 – basic appropriation	143	–
Add: FMA Act appropriations		
s30A appropriations (GST recoverable)	455	443
s31 appropriations	<u>243</u>	<u>343</u>
Total appropriations available for year	28,978	27,964
Cash outflows during the year (excluding transfers to the OPA)	<u>24,620</u>	<u>24,030</u>
Balance of appropriations held for future cash outputs at 30 June	4,358	3,934
<i>Represented by:</i>		
Cash at Bank	958	534
Appropriations not drawn from the OPA	<u>3,400</u>	<u>3,400</u>
Total	<u>4,358</u>	<u>3,934</u>

Note 12B - Acquittal of Authority to Draw Cash from the Consolidated Revenue Fund (Appropriations) from Acts 2 and 4

	2003-04	2002-03
	\$'000	\$'000
Balance available at 1 July	-	-
Add: Appropriation Act (No 4) 2003-04 – equity injection	25	-
Total appropriations available for year	25	-
Cash outflows during the year (excluding transfers to the OPA)	<u>-</u>	<u>-</u>
Balance of appropriations held for future cash outputs at 30 June	25	-

Note 13 Reporting of Outcome

Note 13A – Net cost of outcome delivery

	2003-04	2002-03
	\$'000	\$'000
Operating expenses	<u>25,689</u>	<u>24,396</u>
External revenues		
Interest	-	131
Sale of goods and services	231	199
Sale of assets	<u>15</u>	<u>9</u>
Total external revenues	<u>246</u>	<u>339</u>
Net cost of outcome	25,443	24,057

Note 13B – Major revenues and expenses by output

	Output 1		Output 2		Output 3	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Operating revenues						
Revenues from government	12,787	9,942	2,877	3,572	2,508	2,285
Sales of goods and services	122	86	27	31	23	20
Other non-taxation revenues	<u>23</u>	<u>75</u>	<u>6</u>	<u>27</u>	<u>5</u>	<u>17</u>
Total operating revenues	<u>12,932</u>	<u>10,103</u>	<u>2,910</u>	<u>3,630</u>	<u>2,536</u>	<u>2,322</u>
Operating expenses						
Employees	9,971	7,579	2,229	2,821	2,085	1,912
Suppliers	3,104	2,548	714	813	473	405
Depreciation and amortisation	404	402	90	150	84	101
Other	<u>12</u>	<u>12</u>	<u>3</u>	<u>4</u>	<u>3</u>	<u>3</u>
Total operating expenses	<u>13,491</u>	<u>10,541</u>	<u>3,036</u>	<u>3,788</u>	<u>2,645</u>	<u>2,421</u>

	Output 4		Output 5		Total	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Operating revenues						
Revenues from government	163	241	6,011	6,974	24,346	23,014
Sales of goods and services	2	3	57	59	231	199
Other non-taxation revenues	<u>–</u>	<u>2</u>	<u>11</u>	<u>53</u>	<u>45</u>	<u>174</u>
Total operating revenues	<u>165</u>	<u>246</u>	<u>6,079</u>	<u>7,086</u>	<u>24,622</u>	<u>23,387</u>
Operating expenses						
Employees	135	204	4,715	5,684	19,135	18,200
Suppliers	32	40	1,433	1,397	5,756	5,203
Depreciation and amortisation	6	11	191	301	775	965
Other	<u>–</u>	<u>–</u>	<u>5</u>	<u>9</u>	<u>23</u>	<u>28</u>
Total operating expenses	<u>173</u>	<u>255</u>	<u>6,344</u>	<u>7,391</u>	<u>25,689</u>	<u>24,396</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 14 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.

	2003-04	2002-03
Total remuneration	No.	No.
\$100,000 to \$110,000	2	1
\$110,000 to \$120,000	1	–
\$120,000 to \$130,000	–	2
\$140,000 to \$150,000	–	4
\$150,000 to \$160,000	5	3
\$160,000 to \$170,000	2	7
\$170,000 to \$180,000	6	2
\$180,000 to \$190,000	4	–
\$210,000 to \$220,000	–	2
\$220,000 to \$230,000	1	–
\$230,000 to \$240,000	1	4
\$240,000 to \$250,000	1	–
\$250,000 to \$260,000	2	–
\$260,000 to \$270,000	–	–
\$280,000 to \$290,000	–	1
\$290,000 to \$300,000	1	–
	26	26
Aggregate amount of total remuneration of executives shown above	\$4,717,084	\$4,549,468
Aggregate amount of performance pay during the year to executives shown above	\$ 253,321	\$ 270,171 ¹
Aggregate amount of separation and redundancy payments during the year to executives shown above	\$14,491	-

¹ Included in total remuneration

Note 15 Remuneration of Auditors

	2003-04	2002-03
Financial statement audit services are provided free of charge to the Commission. The value of the services provided was:	32,500	34,000

No other services were provided by the Auditor-General.

Note 16 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 17 Act of Grace Payments and Waivers

Note 17A – Act of grace payments

No act of grace payments were made during the reporting period.

Note 17B – 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 18 Average Staffing

The average staffing level is in respect of all employees of the Commission, including Holders of Public Office.

	2003-04 No.	2002-03 No.
Average staffing level	190	202

Further information on staffing levels is provided in appendix A of the Annual Report.

Note 19 Financial Instruments

Note 19A – Interest rate risk

2003-2004

Financial Instrument	Floating Interest Rate 2003-04 \$'000	Fixed Interest Rate 2003-04 \$'000	Non-Interest Bearing 2003-04 \$'000	Total 2003-04 \$'000	Weighted Average Effective Interest Rate 2003-04 (%)
Financial assets					
Cash at bank	–	–	958	958	n/a
Receivables	–	–	<u>3,498</u>	<u>3,498</u>	n/a
Total Financial assets	–	–	<u>4,456</u>	<u>4,456</u>	
Total Assets	–	–	<u>6,721</u>	<u>6,721</u>	
Financial liabilities					
Suppliers	–	–	724	724	n/a
Other	–	–	–	–	
Total Financial liabilities	–	–	<u>724</u>	<u>724</u>	
Total Liabilities	–	–	<u>7,910</u>	<u>7,910</u>	

2002-2003

Financial Instrument	Floating Interest Rate	Fixed Interest Rate	Non-Interest Bearing	Total	Weighted Average Effective Interest Rate
	2002-03 \$'000	2002-03 \$'000	2002-03 \$'000	2002-03 \$'000	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>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>	

Note 19B – Net fair values of financial assets and liabilities

The net fair values of cash and non-interest-bearing monetary financial assets, approximate their carrying amounts.

The net fair values for trade creditors are approximated by their carrying amounts.

Note 19C – 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 any concentrations of credit risk.

Note 20 Special Accounts

The Commission has an Other Trust Monies Special Account and a Services for other Governments and Non-Agency Bodies Account. Both accounts were established under section 20 of the *Financial Management and Accountability Act 1997*. For the years ended 30 June 2000-2004 the accounts had nil balances and there were no transactions debited or credited to them.

The purpose of the *Other Trust Monies Special Account* is for expenditure of monies temporarily held on trust or otherwise for the benefit of a person other than the Commonwealth. Any money held is thus special public money under section 16 of the FMA Act 1997.

The purpose of the *Services for other Governments & Non Agency Bodies Special Account* is for expenditure in connection with services performed on behalf of other Governments and bodies that are not Agencies under the *Financial Management and Accountability Act 1997*.

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