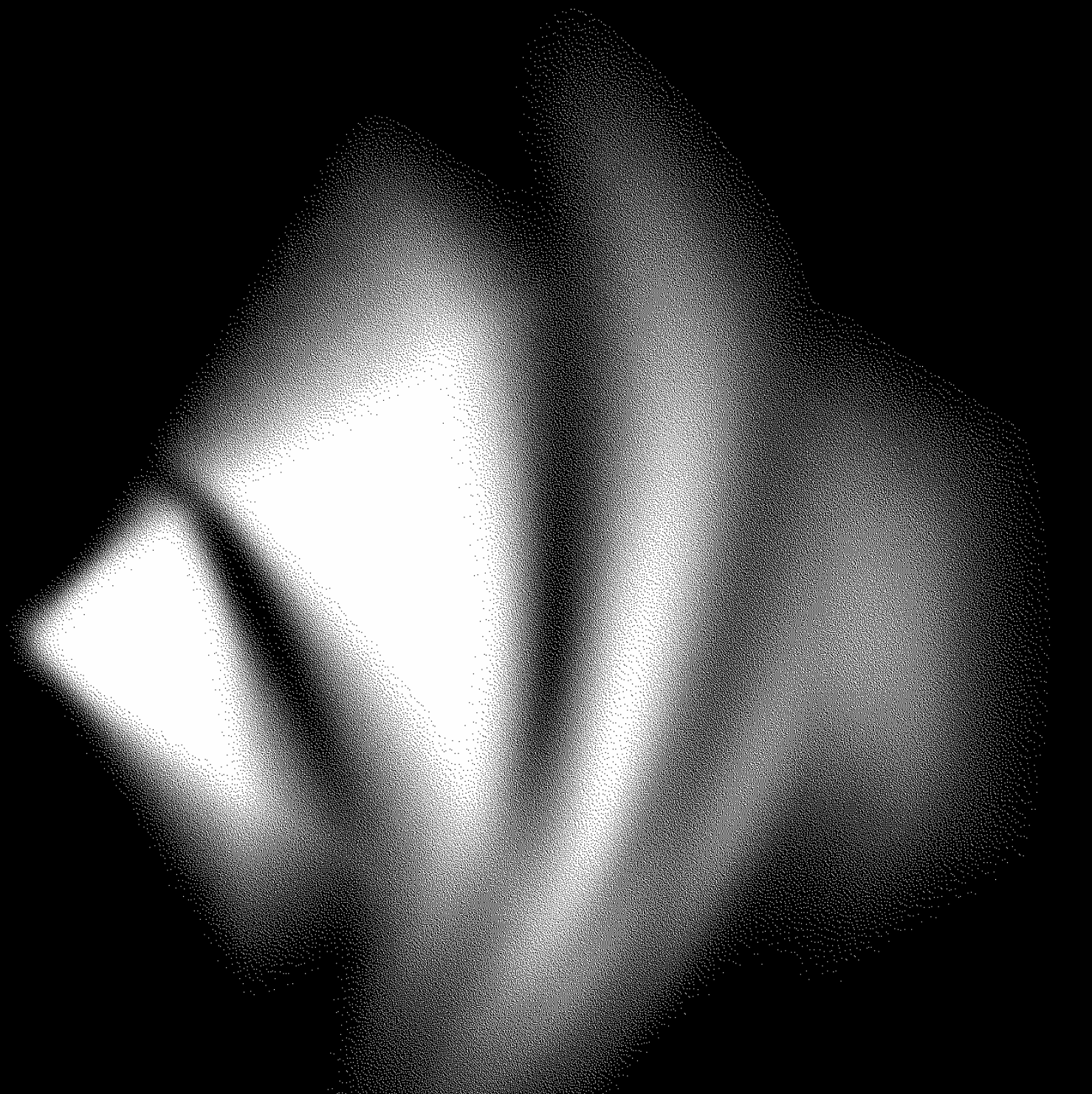




Australian Government
Productivity Commission

Annual Report 2004-05

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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 September 2005

The Treasurer
Parliament House
CANBERRA ACT 2600

Dear Treasurer

We submit to you the Productivity Commission's annual report for 2004-05. 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

Judith Sloan
Commissioner

Robert Fitzgerald
Commissioner

Philip Weickhardt
Commissioner

Tony Hinton
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

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

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Abbreviations

ABARE	Australian Bureau of Agriculture and Resource Economics
ABS	Australian Bureau of Statistics
ACCC	Australian Competition and Consumer Commission
AGCNCO	Australian Government Competitive Neutrality Complaints Office
ANU	Australian National University
ANZ	Australia and New Zealand
APEC	Asia Pacific Economic Cooperation (forum)
APS	Australian Public Service
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
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 Productive reform in a federal system

Increasingly, the Commission is finding through its inquiries and other work that the capacity to build a more productive and sustainable Australia is linked to how well our federal system of government operates. A variety of ideas about better ways of running the federation have been advanced as part of the policy debate in this area over the last year or so. By and large, the competitive dimension of federalism, which provides in-built incentives for governments to perform better across a variety of areas, is operating well. However, the importance of the cooperative dimension of our federation is set to assume greater significance because of the growing interjurisdictional content of the reform task facing Australia.

What is a federation?

Federations are a common form of governance. About 25 of the world's 193 countries have federal systems of governance, accounting for up to 40 per cent of the world's population and about 50 per cent of global GDP (box 1.1).

Box 1.1 Australia's federation is in good company

Australia has the distinction of being one of the oldest continuing federations after the United States (1789), Switzerland (1848) and Canada (1867). Other federations include Argentina, Austria, Belgium, Bosnia and Herzegovina, Brazil, Comoros, Ethiopia, Germany, India, Malaysia, Mexico, Micronesia, Nigeria, Pakistan, Russia, St. Kitts and Nevis, Serbia and Montenegro, South Africa, Spain, United Arab Emirates and Venezuela. A number of unitary states — for example, the UK and Italy — have incorporated some federal design features into their governance structures. Beyond these countries, the European Union is a special case involving a mix of federal and unitary hybrid institutions — effectively a 'quasi-federal' association of countries.

Source: Griffiths and Nerenberg (2002).

Federal systems of governance have three defining features, namely:

- the existence of at least two sovereign levels of government — a national or central government and sub-national or state governments;
- provision for independent or autonomous actions by each level of government; and
- an allocation or assignment of powers and functions to each level of government.

Essentially, federalism is a system of governance which provides for action by a national or central government for certain common functions together with independent actions by sub-national units of government, with each level of government accountable to its own electorate. In this way, a citizen of a federation is a member of two sovereign polities simultaneously.

Federal systems have advantages and disadvantages

Federal arrangements offer their citizens some important potential advantages compared with unitary states. These include:

- dispersing power across multiple jurisdictions, to encourage more responsive government;
- allowing for diversity in the provision of sub-national goods and services in response to voter preferences, while facilitating the provision of common — national type — goods and services by a central government;
- enhancing the competitive pressure on governments to respond to the preferences of citizens in their jurisdictions; and
- creating opportunities for interjurisdictional learning from different policy approaches.

However, these advantages need not translate into net benefits to the community, because federal systems also have a number of potential disadvantages, including:

- higher transaction costs from diversity and fragmentation in rules and regulations;
- scope for ‘destructive’ interjurisdictional competition; and
- inefficiencies that arise when functions are not well allocated or where governance arrangements relating to them are poorly designed.

Who should do what?

The scope to capture the potential benefits of a federal system while minimising the potential costs is heavily dependent on the assignment of functions between governments (including the possibility of realignments over time) and the effectiveness with which governance arrangements (relating to intergovernmental coordination and cooperation) are able to adapt to changing conditions.

The subsidiarity principle

The subsidiarity principle provides some guidance as to the appropriate level of government for a particular function. Under this principle, responsibility for a particular function should, where practicable, reside with the *lowest* level of government (see, for example, CEPR 1993; Kasper 1995, 1996). This rests on four main considerations:

- sub-national governments are likely to have greater knowledge about the needs of the citizens and businesses affected by their policies;
- decentralisation of responsibility and decision making makes it easier to constrain the ability of elected representatives to pursue their own agendas to the disadvantage of citizens they represent;
- intra-national mobility of individuals and businesses exposes sub-national governments to a reasonable degree of intergovernmental competition; and
- initial emphasis on the lowest level of government encourages careful consideration or testing of the case for allocating a function to a higher or national government and thereby guards against excessive centralisation.

A key issue in applying the subsidiarity principle is to establish the meaning of ‘where practicable’. Although the public finance literature provides some guidance, there is considerable scope for differences of view in relation to the appropriate assignment of many expenditure, tax and regulatory functions.

That said, there is broad support for assigning responsibility for a function to the *highest* level of government — the national government — where:

- there are significant interjurisdictional spillovers associated with the provision of a good or service at the sub-national level (for example, interstate transport systems);
- there are readily identifiable areas of shared or common interest or sizeable economies of scale and scope arising from central provision or organisation (for example, defence, international or external affairs and social welfare support);

-
- a diversity in rules or regulations is likely to give rise to high transaction costs with insufficient offsetting benefits (for example, regulation of companies, transport, the financial sector and trading provisions covering weights and measures); and
 - there is scope for mobility of capital and people across jurisdictions to undermine the fiscal strength of the sub-national level of government (for example, as arises with the income, capital gains and corporate tax bases; or with welfare entitlements).

Fiscal considerations

A further consideration in the assignment of functions is the principle of fiscal equivalence. Strictly applied, this principle requires that each level of government should finance its assigned functions with funds that it raises itself (Kasper 1995). Related to this, Brennan and Buchanan (1983) have argued for decentralised powers in relation to taxes and expenditure. Specifically, where the subsidiarity principle supports the allocation of a function to a lower level of government, they argue that both the necessary expenditure and taxing powers should also be delegated to that level of government. Such an assignment promotes accountability by placing a constraint on the extent to which the political agenda can deviate from the preferences of citizens.

Even so, a wide range of considerations impinge on the desirable allocation of expenditure and taxing functions between governments and the implied extent and nature of any intergovernmental transfers to address any resulting *vertical fiscal imbalance*. Vertical fiscal imbalance refers to situations where the revenue raising powers of one level of government are insufficient to meet their expenditure responsibilities and, for the other level, excessive, thus requiring a system of intergovernmental transfers or grants to correct the imbalance.

The existence of vertical fiscal imbalance does not, of itself, necessarily reflect a problem in the design of the fiscal arrangements for a federation. However, specific aspects of the intergovernmental transfer arrangements used to address vertical fiscal imbalance in various federations, including Australia's, have given rise to a variety of concerns (see below).

No single best model

There is no single 'best' model for assigning functions between governments (see, for example, OECD 1997 and Joumard and Kongsrud 2003). Moreover, changing circumstances may make it desirable to realign functions over time. Furthermore,

however carefully functions are allocated, substantial interaction and cooperation among governments are likely to be necessary to ensure the effective funding and delivery of services. There is, of course, considerable scope for variations in the design and operation of governance arrangements for this purpose.

Reflecting all this, there is considerable diversity in the observed assignment and governance arrangements of federations. They display varying degrees of exclusivity or overlap in the assignment of functions, as well as of decentralisation or integration of coordination tasks. Further, these structures are not fixed by initial constitutional frameworks — they evolve over time in response to various factors, including the dynamics of the political process and judicial reviews. Consequently, the assignment of functions between different levels of government needs to be reviewed from time to time to determine whether realignments are warranted in response to changing economic and social conditions.

Australia's federation is distinctive

Australia's federation comprises three tiers of government — the Australian Government, with designated and delegated powers; six State governments, with residual powers, and two Territory governments, with State-type powers; and local government authorities with delegated powers and responsibilities. The following discussion focuses on the first two tiers of government.

The roles and responsibilities of the Australian Government and the six State governments are defined by the Australian Constitution and the Constitutions of each of the States (box 1.2).

Australia's federal model has a number of distinctive features.

- A relatively high degree of shared functions between governments giving rise to a diverse set of intergovernmental arrangements to handle the associated coordination challenges (see, for example, Galligan 1995; Painter 1998).
- A strong centralising trend over time (aided, in part, by High Court decisions which have interpreted the powers of the Australian Government in a broad manner) has seen the emergence of a relatively high degree of centralisation (see, for example, Keating and Wanna 2000).
- A relatively high degree of vertical fiscal imbalance and of transfers directed at fiscal equalisation (see, for example, National Commission of Audit 1996).

Box 1.2 The division of powers between the Australian and State governments

The division of powers under the Australian Constitution provides the Australian Government with:

- a small number of *exclusive* powers — mainly in respect of customs and excise duties, the coining of money and holding of referendums for constitutional change; and
- a large number of areas under Section 51 where it can exercise powers *concurrently* with the States. However, to the extent that State laws are inconsistent with those of the Australian Government in these areas, the laws of the latter prevail (Section 109).

State governments have retained responsibility for all other matters.

While the list of legislative powers for the Australian Government does not mention a number of specific functions (such as education, the environment and roads), this does not preclude action by the Australian Government in these areas. For example, while the Australian Government has no specific power in relation to the environment, it can legislate in this area under its external affairs power in support of any international agreement covering the environment.

Further, the Australian Government can influence State policies and programs by granting financial assistance on terms and conditions that it specifies (Section 96).

- Innovative initiatives in cooperative federalism — notably in areas of competition policy and the environment. Beyond these, there have been some new forms of collaborative leadership/sponsorship institutions (such as the Special Premiers' Conferences and the Council of Australian Governments) to adapt public policies to emerging domestic and international challenges (see, for example, Galligan 1995; Gyngell and Wesley 2000; and Wanna and Withers 2000).

The performance of Australia's federal system has come under increased scrutiny in recent years, as the need to lift the performance of the economy has raised policy issues extending beyond the responsibility of individual jurisdictions. Reflecting this, a variety of ideas to make the federation work better have been put forward (box 1.3).

Box 1.3 Perspectives on Australia's federal system

- Looking across the federal system, we find areas where our Federation works well, areas where the case for rationalisation is strong, and areas where a more incremental approach is the best way to proceed. (*John Howard, Reflections on Australian Federalism, 11 April 2005, p. 5*)
- We must address the increasingly untenable co-existence of multiple State industrial systems in conjunction with the federal system. ... If a national system of corporate and taxation regulation is desirable and achievable, then there is no reason why a unitary or national system is not just as appropriate to govern how these corporations employ their staff. (*Kevin Andrews, Where do we want workplace relations to be in five years time?, 25 February 2005, pp. 17–18*)
- We should be thinking about untangling this mess, creating simpler lines of responsibility in our federal system. ... And that means a serious debate about the tertiary education sector, the possibility of the states transferring their legislative responsibilities for universities holus-bolus to the Commonwealth, or about a hospital system or disability services being better managed by just a single level of government without all the perverse incentives for cost-shifting and finger-pointing that exist today. (*Bob Carr, Productivity Growth and Micro-Economic Reform, 27 February 2004, p. 6*)
- Going forward, it will be important for the Australian Government and the States to clarify roles and responsibilities in order to improve productivity in the provision of services to the public while sustaining government finances. Clarification of roles will require consideration of national strategic priorities and judgements as to the tier of government that is likely to discharge those priorities most effectively. (*Costello and Minchin, Budget Strategy and Outlook 2005-06, Budget Paper No. 1, p. 4-18*)
- The State level of government is generally best placed to respond to meeting particular needs, being closer to local communities, with the Commonwealth having a role in national aspects. The issue is therefore not whether the Commonwealth and States should both remain involved in the core social programs in health and education, but how. ... New arrangements are needed to lock in true collaboration among Australian governments. (*Allen Consulting Group, Governments Working Together: A better future for all Australians, May 2004, p. xiii and p. xvii*)
- Australia's federation needs new life breathed into it to the benefit of the community and business. In just about every major policy area our current approach to intergovernmental relations presents barriers and obstacles to getting sensible outcomes. ... The time has come to take a more holistic approach to our system of intergovernmental relations so that our federation works for us rather than against us. (*Australian Industry Group, Media Release, 1 June 2005*)
- Getting better results out of areas where Federal-State activities intersect is vital. Inconsistencies, duplication and additional costs associated with poorly coordinated or conflicting State-Federal (and local) Government policies and regulations affect virtually every area of reform highlighted by the BCA and others. (*The Speed Limit 2005-2025, Access Economics for the Business Council of Australia, May 2005, p. 26*)

In response to this debate and in recognition of the importance of the associated issues, the Productivity Commission's Annual Conference for 2005 is devoted to examining the challenges of securing *Productive Reform in a Federal System*. While it is clear that federalism is embedded in our Constitution, a fundamental issue relates to how we can secure the best possible outcomes from our federal system. In the Commission's view, a useful way of thinking about this challenge is in terms of exploiting opportunities for both 'competitive' and 'cooperative' federalism, while minimising the risks of destructive competition and coordination failure.

Competitive federalism in action in Australia

Democracies are distinguished by electoral competition — a government must submit itself to the will of the people in competition with other political parties. By dispersing power across governments, federalism adds another dimension to electoral competition, providing more opportunities for this discipline to be exercised by citizens over time.

Federal systems offer two additional forms of competitive discipline on governments — vertical and horizontal competition (box 1.4).

Box 1.4 What are 'vertical' and 'horizontal' competition?

The citizens of a State within a federation of the Australian kind get to vote for two sovereign governments, both of which operate over the same area. Any Australian can, accordingly, stay put in one State, yet seek responses from two governments, the State and the Australian, both with sovereign powers of taxing, spending and regulation over him or her.

Vertical competition arises where either the national or state governments enter a specific area in direct competition with the other level of government. While not without costs, it can give rise to improved service delivery, or provide a basis for testing new approaches to service delivery.

Horizontal competition refers to the discipline imposed on governments by the possibility of citizens (and businesses) exercising their right to relocate from one State or country to another ('voting with their feet') in response to fiscal and regulatory differences.

The option of migration opens up the possibility of horizontal competition between the States of Australia, or between Australian States and other countries, whether or not those States or countries are formed into a federation. However, federal systems make this form of competition stronger, since it is normally much easier to move within a country than between countries.

Vertical competition

Vertical competition is unique to federations. The simultaneous involvement of more than one government in a single area is often undervalued, being primarily seen in terms of wasteful overlap and duplication. However, some overlap may be beneficial if it expands choices or promotes improvements to service delivery over time such that the benefits outweigh the associated costs. Mechanistic responses to apparent overlap and duplication run the risk of forfeiting the potential benefits that vertical competition can bring.

Two distinct forms of vertical competition are considered here:

- national regulatory regimes operating in parallel with existing State schemes; and
- direct competition through the actions of either a national government or State government in a specific area.

An opt-out alternative

The first form of vertical competition involves the creation by the national government of an opt-out alternative to State-based regulatory regimes, where the case for a single national regime is yet to be demonstrated or the operation of such a regime is not feasible.

A useful illustration of some of the issues which arise with the development of an opt-out alternative is provided in the Commission's inquiry report on *National Workers' Compensation and Occupational Health and Safety Frameworks* (PC 2004a). The Commission's proposals were targeted at reducing the compliance burdens, costs and inefficiencies created for multistate employers and their employees from the differing regulatory requirements imposed by State and Territory governments for occupational health and safety and workers' compensation.

To coordinate strategies across jurisdictions and thereby improve the regulatory framework for workers' compensation, the Commission recommended the formation of a new national body to facilitate improved consultative mechanisms to address common issues and to promote greater national consistency in scheme elements. In parallel with this, and to address directly the compliance burdens and costs of multistate employers, the Commission recommended that the Australian Government progressively expand a scheme offering alternative national coverage for all employers which would operate alongside the existing State and Territory schemes.

Beyond this, the Commission recommended that all jurisdictions collectively pursue improvements to workers' compensation schemes by establishing a formal review mechanism similar to that already in place for occupational health and safety. This should lead to an increasing level of national consistency (and perhaps for some scheme elements, national uniformity) over time. While supporting a number of the Commission's recommendations, the Australian Government indicated that it did not support key elements of the national framework model. This included the opt-out alternative, apart from some limited access for some firms to self-insurance under the Comcare scheme (Costello and Andrews 2004).

Direct competition

A topical example of vertical competition arising from the actions of the Australian Government is the Australian Technical Colleges initiative. This involves the creation of 24 colleges in regions across Australia to provide academic and vocational education for up to 7200 students each year (Nelson and Hardgrave 2005). The aim is to strengthen Australia's vocational education and training system by adopting a new approach to attracting and training young people in specific trades.

Commencing in 2006, the colleges will be located in regions suffering skills shortages and high rates of youth unemployment, and which are supported by a significant industry base. Their principals will be appointed by a College Governing Council and have considerable autonomy, including being able to engage teachers on a performance pay basis. It is also envisaged that local industry and community representatives will have a role in the governance of the colleges.

State governments have also entered some areas in direct competition with Australian Government programs, often with the aim of addressing perceived gaps in services or to broaden access to programs. For example, notwithstanding federal action to assist older people in making the transition from hospital to home or other long-term care settings, some State governments have introduced their own transitional care arrangements to expand the service options available to the elderly. These State initiatives have also sought to reduce the extent to which some hospital beds are tied up for extended periods providing 'aged care' services.

Victoria, for example, funds a number of initiatives, including a targeted Interim Care Program which provides temporary support for older people in hospital who are waiting for placement in a residential care facility. An integral part of this program is the provision of funding for hospital managers to lease beds from residential aged care providers. In some cases, hospitals have taken advantage of spare bed capacity in aged care facilities that were due to close as a result of the bed

licences being transferred to other areas (DHS 2001). Elsewhere, it has meant negotiating sub-contract agreements with residential care facilities to provide off-site interim care services for elderly hospital patients until a permanent place becomes available (Southern Health 2004).

Horizontal competition

A key beneficial element of horizontal competition between States relates to getting the so-called ‘economic fundamentals’ right. Beyond this, scope exists to extend horizontally-based competitive disciplines through the use of yardstick competition. Intergovernmental fiscal transfers can dilute the ‘incentives’ created by horizontal competition for State governments to improve their performance. Sometimes, it is desirable for governments to take collective action to preclude or limit destructive forms of horizontal competition.

Getting the ‘economic fundamentals’ right

There are various areas in which State government decisions affect the attractiveness of their State as a place for doing business as well as the living standards of their residents.

- States are responsible for much of Australia’s public infrastructure. Often they are directly involved in the provision of essential services — energy, transport, water — or have responsibility for regulating private suppliers.
- States have responsibility for many areas of regulation, including business, social and environmental.
- States raise a significant proportion of their revenue requirements through taxes and charges which affect the competitiveness of businesses and the disposable incomes of households.
- States are primarily responsible for the delivery of a wide range of services including health and aged care, family and community services, primary and secondary education and vocational training.
- States also provide a variety of general government services to firms and individuals in their jurisdictions.

Collectively, these areas can be seen as constituting the ‘economic fundamentals’ of a State. Within each area, there is scope for horizontal competition to encourage good outcomes. For example, if some States charge excessive prices for essential services, or allow the reliability of their electricity and transport networks to deteriorate, or levy excessive payroll taxes or allow access to important health and

community services to worsen, then better performing jurisdictions are likely to find some firms and households migrating their way. This in turn provides an incentive for governments to improve their performance — to attain a better balance between the burden of taxation and the benefits of public spending; and similarly for regulation. Hence, competition between States on the ‘economic fundamentals’ is an important benefit of a federal system.

Another dimension of such competition arises from the demonstration and learning effects associated with policy innovations by governments. Across Australia’s States and Territories, there are various examples of such innovations and associated demonstration effects.

- During the early to mid-1980s, South Australia, Tasmania and Victoria were pioneers in establishing mechanisms for the review of business regulations — setting up one-stop review mechanisms ahead of the Australian Government and other States.
- The development of broadly-based commercialisation and corporatisation initiatives to improve the performance of government business enterprises was facilitated by important initial reform efforts in New South Wales and Victoria during the late 1980s and early 1990s.
- The Northern Territory was a first mover in a number of areas of education and training, including the introduction of flexible delivery strategies to improve access to education and training from the late 1980s, introducing competency-based training into apprenticeships and traineeships and the use of skills-based rather than time-based recognition of on the job training.
- Casemix funding of public hospitals has now been widely adopted following the lead provided by Victoria in 1993.
- In the industrial relations area, some major reforms occurred in State jurisdictions well ahead of reforms introduced at the national level. In Queensland, formal provision for individual agreements was introduced in 1987, while the first comprehensive reform of industrial relations processes and practices occurred in New South Wales as a result of the introduction of the *Industrial Relations Act 1991* (Wooden 2000).

Yardstick competition

Assessing the performance of governments in delivering services for which there is (or can be) no competitive market, and where criteria such as access and equity loom large, is no simple matter. Individually, governments can set objectives and collect and compare information on their individual performance over time, but how do they know what is potentially achievable or best practice?

Federations provide their governments and citizens with an important opportunity for addressing these questions by comparing performance and learning from what other jurisdictions are doing and how they are doing it. Such intranational performance comparisons are facilitated by commonalities in institutional and governance arrangements, as well as in community expectations, the lack of which often bedevils international comparisons. Further, the basis for these comparisons is strengthened by them having emerged from decentralised sovereign political processes.

The Review of Government Service Provision, initiated by Australian governments in July 1993, created a framework for comparing the performance of government service providers. While Australian Government as well as State service providers are included in the review, State-based providers dominate and hence it is appropriately viewed as a manifestation of horizontal competition.

The Review embraces a diverse range of services, including education, health, justice, emergency management, public housing and community services spanning child care to aged care. Together, these services involved expenditure of almost \$85 billion, or around 60 per cent of government recurrent expenditure in 2003-04. This is equivalent to about 10.4 per cent of Australia's GDP (SCRGSP 2005).

These services are vital to the community's wellbeing. Improving them can result in major social and economic benefits. Performance information can assist governments to improve their service delivery through yardstick competition — by facilitating comparisons with programs with similar objectives within the same jurisdiction, across jurisdictions, or between modes of service delivery.

The performance data contained in the annual review:

- allow agencies to identify peer agencies that are delivering better or more cost effective services from which they can learn;
- generate additional incentives for agencies to address substandard performance; and
- allow governments to verify good performance and indicate whether agencies are getting it right.

As a result, performance comparisons can be a catalyst for improving the effectiveness and efficiency of government activities that are not normally subject to direct competitive pressures.

A performance monitoring framework was established for government trading enterprises in July 1991 which, like the government services framework referred to above, has involved regular reporting of performance indicators for these

enterprises to promote yardstick competition (see, for example, SCNPMGTE 1994; PC 2005c).

The fiscal federalism dimension to competition

As noted earlier, the vertical fiscal imbalance created by the assignment of expenditure and taxation powers between governments within Australia requires an extensive system of intergovernmental transfers to redress the imbalance. The design and operation of these arrangements (which also embody a significant degree of horizontal fiscal equalisation between the States) has given rise to a number of concerns. These concerns include, for example, the potential for distortions to the process of horizontal competition arising from the dilution of incentives for expenditure and tax reform, and the scope for gaming under the equalisation process used by the Commonwealth Grants Commission to determine grants to the States.

The sources of the efficiency-related distortions (including their extent and implications), together with the perceived inequities of the equalisation system and its complexity, have been subject to longstanding debate (see, for example, Commonwealth Grants Commission 2004; Garnaut and Fitzgerald 2002; IC 1993; National Commission of Audit 1996; New South Wales Tax Task Force 1988; New South Wales Treasury 2005; Nicholas 2002; Peloquin 2003; Petchey 2001; Victorian Government 2005). Reflecting differences of view about the policy significance of these concerns, reforms to the equalisation process to date have largely been confined to trying to lessen its complexity and improve its transparency.

Competition can also be destructive

Horizontal competition can give rise to favourable outcomes by providing incentives for the development of an appropriate level and mix of State government expenditures and taxes, as well as efficiency in the provision of services. However, there is also scope for some perverse outcomes through what is commonly referred to as destructive competition. Two prime examples are interstate bidding wars to attract major projects, and some forms of tax competition.

State governments 'bid' for major projects because of the perceived gain to them in terms of increased income and employment. However, this form of rivalry between States for development at best shuffles jobs between regions, and at worst reduces overall economic activity in Australia (Banks 2002; IC 1996; PC 2005a). In general, firms' locational choices in relation to new investments are best guided by the underlying economic strengths of a State rather than selective inducements. A selective (or firm specific) reduction in, say, payroll taxes or utility charges, is

likely to be inferior to a general but smaller reduction in tax rates or charges allied to ‘efficient government’. Consequently, bidding for major projects is likely to have little or no positive effect on the welfare of residents of the initiating States, and even less for Australians generally.

Even so, States find it difficult to avoid such competitive bidding because of the perceived costs of withdrawal, both economic and political. Avoiding or substantially lessening this problem requires collective action.

All State and Territory governments except Queensland recently signed an agreement to restrict the use of selective assistance to attract investment. This has been a significant initiative. That said, as the Commission observed in its *Review of National Competition Policy Reforms*, there are some deficiencies in the current agreement that could usefully be addressed (PC 2005a). In particular, there are no formal mechanisms for policing the agreement and no sanctions for non-compliance. Also, Queensland and the Australian Government are not signatories.

Generally, when a tax base is highly mobile between States, differences in tax base definitions and rates create incentives for the tax base (that is, businesses or workers) to relocate. In these circumstances, destructive tax competition between States can occur, especially if competition is by way of special exemptions and concessions. Tax competition between States is unlikely to yield sustainable benefits in such cases and can result in a deterioration in the overall performance of the tax systems of the States concerned.

Australia’s experience with death duties is often cited as an example of this phenomenon. Effectively, the migration of more affluent elderly people to Queensland, following the abolition of death duties by that State, induced other States to do the same. Consequently, all States lost access to a source of revenue, with knock-on effects of higher rates of other taxes and charges or a reduced capacity to provide government services (see, for example, New South Wales Tax Task Force 1988). Whether this was constructive or destructive tax competition is arguable — some economists assert that death duties should be included in an efficient mix of tax bases. But death duties certainly proved politically unpopular, and the Australian Government did not fill the gap.

Cooperative federalism in action in Australia

Far from operating as independent sovereignties, governments in many federations, including Australia, have developed an extensive and varied array of inter-governmental cooperative arrangements. They include mutual recognition regimes, harmonisation of regulation, the adoption of national standards, reassigning roles

and responsibilities between governments, developing better governance arrangements to promote effective coordination in areas of shared responsibility, and the use of integrated interjurisdictional frameworks to develop and oversee the implementation of various reform measures.

These arrangements recognise important interdependencies and shared objectives between governments (as servants of the people). Such arrangements have long been recognised as essential to secure good policy outcomes. Indeed, from the early 1990s, new cooperative arrangements, linked to the work of the Special Premiers' Conferences and the Council of Australian Governments (COAG) have facilitated a fundamental reshaping of economic policy making in several key areas (PC 2005a).

It is useful to look at these arrangements from the perspective of what motivates governments to cooperate. Three broad motivations can be identified: to deal with interjurisdictional spillovers or externalities; to lessen domestic impediments which increase costs and restrict the internal movement of goods and people (that is, to promote the development of national markets); and to secure effective policy outcomes in areas that are perceived to have national significance.

Interjurisdictional spillovers

Where significant interjurisdictional spillovers occur, an individual State may overproduce or underproduce a good or service because, from its narrow perspective alone, it may overlook costs or benefits which affect other jurisdictions.¹

Many natural resource and environmental systems are characterised by cross-border spillovers or externalities. Reflecting this, a wide range of intergovernmental strategies and programs have been developed over the years to secure better outcomes than would otherwise occur.² One such example is the Murray-Darling Basin Natural Resource Management Strategy, the background to which is briefly outlined in box 1.5.

¹ Negative fiscal spillovers — especially the 'exportation' of tax burdens — motivated the 1901 Constitutional assignment of customs duties and excises.

² Examples include: the National Strategy for the Conservation of Australia's Biological Diversity; the National Greenhouse Response Strategy; the National Water Quality Management Strategy; the National Action Plan for Salinity and Water Quality; the Murray-Darling Basin Natural Resources Management Strategy; the National Forest Policy Statement; the National Strategy for Conservation of Australian Species and Ecological Communities Threatened with Extinction; the National Weeds Strategy; the National Strategy for Ecologically Sustainable Development; the National Framework for the Management and Monitoring of Australia's Native Vegetation; and the National Framework for Energy Efficiency.

As outlined earlier, there is also scope within federations for jurisdictions to engage in activities which give rise to destructive competition and associated negative cross-border spillover effects. Examples include competitive bidding by jurisdictions for major projects and some forms of tax competition which result in the erosion or loss of otherwise effective tax bases. Collective action by jurisdictions in the form of, say, intergovernmental agreements can limit wasteful rivalry in these areas.

Box 1.5 The Murray-Darling Basin Natural Resource Management Strategy (MDBNRMS)

The MDBNRMS provides an intergovernmental framework for integrated catchment management within the Murray-Darling Basin. The strategy is one of the largest management initiatives of its type in the world, covering an area of over one million square kilometres.

The strategy and related agreement brings together the Australian, New South Wales, Victorian, South Australian and Queensland governments, in equal partnership, to address issues of common concern within the catchment. The Australian Capital Territory Government has observer status.

The MDBNRMS aims to address some of the key environmental and resource allocation problems facing the Murray-Darling Basin. According to the Murray-Darling Basin Ministerial Council (1990) these include: rising saline water tables; dryland salinity; loss of riparian and riverine biodiversity; reduction in water quality; and excessive water diversion and over-allocation of water licences within the basin.

Source: Derived from PC (1999, p. 214).

Promoting national markets

A significant part of the microeconomic reform agenda of Australian governments since the late 1980s has been directed at removing cross-border regulatory impediments to the efficient operation of the economy. Much of this agenda has been fashioned in response to pressures to improve the international competitiveness of the economy, including by removing domestically-based cost-increasing impediments and restrictions on productivity improvement exposed by the removal of protection against import competition.

As the process of reform gathered pace, it became clear that aspects of Australia's competition policy framework were impeding performance across the economy and constraining the scope to create national markets for infrastructure and other services. Hence, in April 1995, the Australian and State and Territory governments committed to the implementation of a wide-ranging National Competition Policy

(NCP) that included general as well as sector-specific reforms (box 1.6). The associated policy framework drew heavily on a blueprint established by an earlier independent inquiry, generally referred to as the Hilmer Inquiry (Hilmer et al. 1993).

NCP has been a landmark achievement in nationally coordinated economic reform (PC 2005a). At the June 2005 meeting of COAG, Heads of Government stated:

A collaborative national approach was the cornerstone of successful implementation of the NCP reform agenda. It drew together the reform priorities of the Commonwealth, States and Territories to improve Australia's overall competitiveness and raise living standards ... (COAG 2005, p. 4)

Securing effective policy outcomes in areas of national significance

As noted earlier, a distinctive feature of Australia's federation is that many functions are shared, rather than being exclusive to one level of government. This has made it essential for governments to collaborate and cooperate in a wide range of areas to secure effective policy outcomes.

In practice, the funding and delivery of a number of significant services (including transport, housing, health, aged care, disability services, education and child care) are organised through various intergovernmental arrangements. Other areas with service interfaces between governments include environmental management, workers' compensation, occupational health and safety, industrial relations and indigenous affairs.

The design of intergovernmental arrangements for each of these areas has important implications for the cost-effective provision of services. Inefficiencies arise where there is unhelpful duplication of effort, opportunities for perverse forms of cost or risk shifting, and ineffective management of different parts of the overall service package. Such inefficiencies are not necessarily the result of shared functions as such. Rather, they usually arise because of ambiguity about the responsibilities of different levels of government and other weaknesses in related governance arrangements.

For some, the solution to the perceived problems involves renegotiating the assignment of functions and responsibilities between governments, to cede responsibility to one level of government and thereby secure clearer lines of accountability and responsibility. The National Commission of Audit (1996), for example, took this view in several areas and made recommendations for realignments of responsibilities between the national and State governments.

Box 1.6 An overview of the NCP reforms

General reforms

- Extension of the anti-competitive conduct provisions in the Trade Practices Act to unincorporated enterprises and government businesses.
- Reforms to public monopolies and other government businesses:
 - structural reforms — including separating regulatory from commercial functions; and reviewing the merits of separating natural monopoly from potentially contestable service elements; and/or separating contestable elements into smaller independent businesses; and
 - competitive neutrality requirements involving the adoption of corporatised governance structures for significant government enterprises; the imposition of similar commercial and regulatory obligations to those faced by competing private businesses; and the establishment of independent mechanisms for handling complaints that these requirements have been breached.
- The creation of independent authorities to set, administer or oversee prices for monopoly service providers.
- The introduction of a national regime to provide third-party access on reasonable terms and conditions to essential infrastructure services with natural monopoly characteristics.
- The introduction of a Legislation Review Program to assess whether regulatory restrictions on competition are in the public interest and, if not, what changes are required. The legislation covered by the program spans a wide range of areas, including: the professions and occupations; statutory marketing of agricultural products; fishing and forestry; retail trading; transport; communications; insurance and superannuation; child care; gambling; and planning and development services.

Sector-specific reforms

- *Electricity*: Various structural, governance, regulatory and pricing reforms to introduce greater competition into electricity generation and retailing and to establish a National Electricity Market in the eastern states.
- *Gas*: A similar suite of reforms to facilitate more competitive supply arrangements and to promote greater competition at the retail level.
- *Road transport*: Implementation of heavy vehicle charges and a uniform approach to regulating heavy vehicles to improve the efficiency of the road freight sector, enhance road safety and reduce the transaction costs of regulation.
- *Water*: Various reforms to achieve a more efficient and sustainable water sector including institutional, pricing and investment measures, and the implementation of arrangements that allow for the permanent trading of water allocations.

Source: PC (2005a, p. xv).

Such realignments also raise funding issues, given the marked differences in the revenue raising and expenditure positions of the national government compared with the States. For example, the Australian Government currently redirects revenue to the States which accounts for about half of their expenditures. The redirection of this revenue and the process of horizontal fiscal equalisation and specific purpose payments add another layer of interaction between Australia's governments. The associated processes also influence the behaviour of the participants.

An alternative solution lies in governments cooperating to develop better governance arrangements since, for many areas of shared responsibility, it is neither practical or appropriate to cede responsibility entirely to one level of government. This approach recognises that shared responsibility was a deliberate design feature of Australia's Constitution rather than a design flaw (see, for example, Galligan 1995 and Walsh 1991). However, this inevitably gives rise to tensions about the appropriate form of these arrangements, including mechanisms for establishing clear policy strategies and setting priorities and the associated allocation of resources, assigning responsibility for policy implementation, resolving funding issues, and ensuring that effective performance monitoring arrangements are in place.

Looking to the future

The competitive and cooperative dimensions of our federal system will each continue to have a role to play in helping Australia successfully tackle some significant challenges that face it and, in the process, enable the nation to continue to improve its living standards.

The challenges ahead

Australia faces significant challenges in the years ahead associated with increasing globalisation, environmental sustainability and population ageing. While there is scope for competition between governments to help promote policy improvements and innovations in responding to these challenges, collective and cooperative action, especially on broad policy frameworks, will be particularly important because of the extensive cross-jurisdictional elements associated with each challenge.

Globalisation is increasing

Globalisation of trade and investment and with it the integration of the world's economies is increasing, with China and India emerging as major new players.

While this provides important new opportunities for Australia, it also heightens competitive pressures. Our future living standards will be shaped by how well we respond. Countries that are unable to respond efficiently, flexibly and innovatively to changing patterns of demand, technological change, increasing mobility of capital and labour and shifts in underlying comparative advantage, risk seeing their standards of living fall, at least in relative terms.

An obvious area for policy focus, in this context, is further reducing barriers to the movement of goods and people within Australia that are attributable to unwarranted variations in institutional or regulatory frameworks. While considerable progress has been made in lessening impediments to the development of national markets in several areas, it is also apparent that the reform task is far from complete. For example, considerable scope remains to integrate better much of our economic infrastructure, notably in the areas of energy, water and freight transport (PC 2005a). Invariably, such reform requires collective action by governments.

Environmental sustainability

Environmental sustainability underpinned by effective natural resource management is integral to the living standards and quality of life of current and future generations.

As noted earlier, many of the policy issues associated with the effective management of natural resource and environmental systems involve cross-border considerations. Problems such as land degradation continue to be a drain on Australia's productive capacity, with a substantial commitment of resources and coordinated action between governments needed to enhance management and, where appropriate, rectify past mismanagement. Community demands to preserve biodiversity and enhance environmental amenity are becoming stronger. And, as in other countries, responding to greenhouse gas-related issues in the decades ahead could see significant adjustment challenges for domestic industries, particularly in regard to adaptation and technological innovation.

Population ageing

Arguably one of the biggest challenges facing Australia in the coming decades is the ageing of the population — as a consequence of falling fertility and, more importantly, of increasing life expectancy. The ageing phenomenon is not unique to Australia and brings important benefits. However, it will substantially increase demands for services such as health and aged care while significantly reducing the potential labour supply relative to the population. Projections by the Commission suggest that, in the absence of policy responses, this will in turn cut per capita

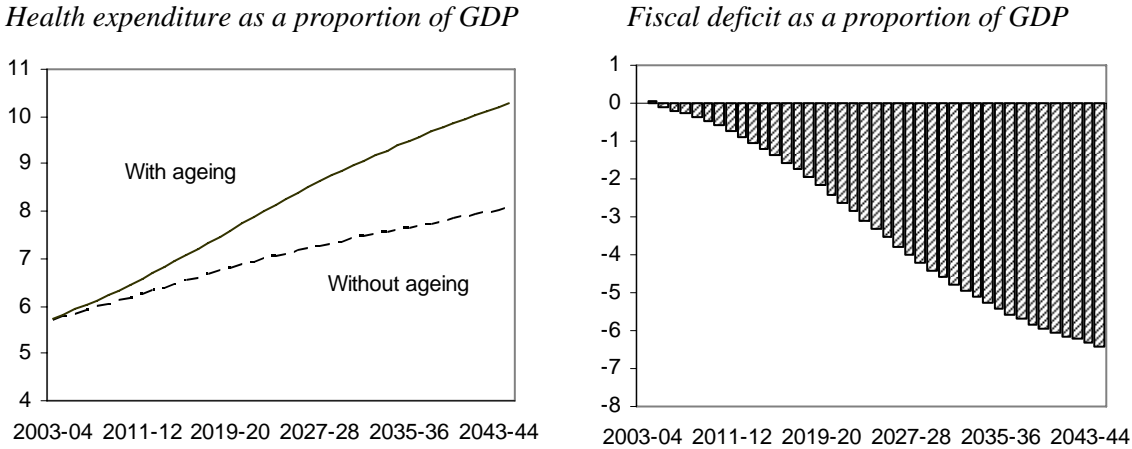
income growth by as much as a half by the mid-2020s compared to its 2003-04 growth rate (PC 2005b).

The most significant sources of potential stress on government budgets are health and aged care, with the former contributing most to the expected increase in government outlays. Health care costs are projected to rise by about 4.5 percentage points of GDP by 2044-45, with ageing accounting for nearly one-half of the increase, or some \$40 billion of extra spending (figure 1.1).

Overall, the fiscal gap associated with spending and revenue trends, in the absence of policy responses, is projected to be around 6.5 per cent of GDP by 2044-45, with ageing accounting for almost 90 per cent of the gap. On past trends, much of the fiscal burden could be expected to be borne by the Australian Government, but there are significant potential burdens faced by State and Territory governments.

A range of policy measures will be required to reduce the fiscal pressures of ageing or to finance the fiscal gap. Measures to raise productivity and labour force participation would lift income growth and the community's capacity to pay for the costs of ageing. Beyond this, more cost-effective delivery of government services, especially health care, would alleviate a major source of fiscal pressure at its source. While some policy measures can be effectively pursued on a jurisdictional basis, many will require collective and coordinated action across jurisdictions. For example, many potential reforms in the health and aged care areas require a multi-jurisdictional approach.

Figure 1.1 Projected impacts of ageing on health expenditure and fiscal pressure
Share of GDP, per cent



Data source: PC (2005b).

Responding to these challenges

To meet these challenges and to improve standards of living generally, Australia will need to position itself to maintain or improve its productivity performance of the past decade.

Australia's economic performance since the early 1990s stands out, not only by historical standards, but also among OECD countries. Even so, our economy is still characterised by inefficiencies and performance gaps which indicate that we have some way to go to realise our productivity potential. In terms of GDP per hour worked, we achieved 81 per cent of the US level in 2004 — only slightly above where we were in 1950. Productivity growth is a fundamental determinant of future living standards. If Australia could achieve the same productivity levels as the US — still below the world's highest levels — gross average household income could be 20 per cent, or some \$22 000 a year higher.

Whether or not matching US levels of productivity is realistic, the benefits for Australia of realising our productivity potential would be substantial and accumulate over time. Indeed, if Australia could sustain even half the improvement in the rate of productivity growth achieved during the 1990s, real cumulative GDP from 2003-04 to 2044-45 would be some \$2000 billion higher than if average productivity growth rates slipped back to the levels of the preceding two decades, resulting in GDP per capita in 2044-45 being around 6 per cent higher than otherwise (PC 2005a).

The Commission's research (PC 2005a,b), as well as other recent studies (Access Economics 2005a; Bracks 2005), suggest that there is considerable scope to achieve a more productive and sustainable Australia by building, in particular, on recent interjurisdictional reform initiatives in areas like NCP and embracing further reform in areas such as social infrastructure, natural resource management, labour markets, taxation and wider regulatory processes. Such a broad reform agenda involves all levels of government. While it provides opportunities for independent initiatives by individual governments, capturing the potential benefits in many areas will require further nationally coordinated reform.

In relation to opportunities for further nationally coordinated reform linked to the COAG Review of NCP, the Heads of Government at the June 2005 COAG meeting agreed:

While the benefits of NCP reforms are significant, gains from a broader economic reform agenda have the capacity to deliver much more to the community. Collaborative action on issues of national importance is again required, as a fragmented reform agenda will not achieve the momentum and commitment required for sustainable reform. ... The case for continuing reforms on a collaborative basis is clear. (COAG 2005, pp. 4, 5)

COAG agreed to proceed with the NCP Review, drawing on the Commission's report on the *Review of National Competition Policy Reforms* (PC 2005a) as part of the process. The Senior Officials undertaking the Review are to report to COAG by the end of 2005.

The agenda is wide ranging

A summary of the forward agenda for national reform recently proposed by the Commission is presented in box 1.7.

The proposed agenda is broad and challenging. It extends beyond purely economic issues, involving well-established pro-competitive prescriptions, to areas with important social and environmental dimensions.

That said, significant parts of the forward agenda are largely continuations of, or extensions to, NCP. As such, they can be accommodated within existing institutional frameworks, drawing on established reform principles and processes. In several key areas, much of what is required to deliver better outcomes has been set up already. Consequently, implementing the additional reforms proposed for, say, energy and water should not involve major new work for COAG.

In contrast, more detailed work supported by independent public reviews will be required in several areas as a pre-requisite to effective reform initiatives. This approach recognises that, in the past, progress with more complex reforms, requiring joint government agreement, has typically been facilitated by public reviews. This aids the process of reform by allowing for the clarification of the nature and extent of the problems, an assessment of the most beneficial reform measures and the development of an effective implementation strategy and timetable. Consistent with this, the Commission has proposed that there be independent public reviews for four areas within the forward agenda — health care, freight transport, natural resource management and consumer protection policies.

For health care — the area judged to offer the largest potential benefits from nationally coordinated reform — the Commission has proposed a review covering all dimensions of the health care system. Such a review would have a particular emphasis on the development of options to clarify government roles and responsibilities and associated funding arrangements, and to ensure effective coordination across individual service areas, including with aged care services.

Box 1.7 Summary of the forward agenda proposed by the Productivity Commission as part of its review of NCP

- In a number of key reform areas, national coordination will be critical to good outcomes. These areas — many of which have been encompassed by NCP — should be brought together in a new reform program with common governance and monitoring arrangements. Priorities for the program include:
 - strengthening the operation of the national electricity market;
 - enhancing water allocation and trading regimes and to better address scarcity and negative environmental impacts;
 - delivering a more efficient and integrated freight transport system;
 - addressing uncertainty and policy fragmentation in relation to greenhouse gas abatement policies;
 - improving the effectiveness and efficiency of consumer protection policies; and
 - introducing a more targeted legislation review mechanism, while strengthening arrangements to screen any new legislative restrictions on competition.
- An ‘overarching’ policy review of the entire health system should be the first step in developing a nationally coordinated reform program to address problems that are inflating costs, reducing service quality and limiting access to services.
- National action is also needed to re-energise reform in the vocational education and training area.
- Identifying areas of natural resource management (beyond water and greenhouse gases) where the pay-offs from new nationally coordinated reform could be high and what is required to reap the gains, should be the subject of a future review.

Source: PC (2005a).

At its June 2005 meeting, COAG recognised that many Australians (including the elderly and disabled) experience difficulties at the interfaces of different parts of the health system. It was also agreed that the system could be improved by clarifying the roles and responsibilities of governments, and by reducing duplication and gaps in services. Senior Officials have been tasked with developing an action plan to improve the health system and are to report back to COAG in December 2005 (COAG 2005, pp. 2–3). This ‘review’, which is sponsored by COAG, lacks public involvement and has comparatively limited terms of reference. Nevertheless, in drawing on recent examinations of the health sector in some jurisdictions, the work of the Health Reform Task Force and the findings from the Commission’s current examination of health workforce issues for COAG, the review offers an opportunity to identify useful national reforms.

Decisions in relation to the other proposed reviews and the wider reform agenda advanced by the Commission are expected following completion, later this year, of the COAG review of NCP.

Future reform initiatives will need to range more widely than the forward agenda flagged in box 1.7, which focuses on areas where there would be a high pay-off from nationally coordinated approaches. Other important areas for policy attention include labour market arrangements, taxation and the efficient development of our cities and regions.

Notwithstanding considerable reform to labour market arrangements over the last two decades, some significant restrictions on competition and flexibility remain. Further, differences in State and Territory provisions, and their interface with federal arrangements, can create significant complications for, and impose substantial costs on, multistate employers.

The Australian Government is moving to establish a national system to govern workplace relations, based on the corporations power in the Constitution. Depending on the estimates used, this would bring some 85 to 90 per cent of employees into a single market system (Andrews 2005). Another mechanism for advancing workplace relations reform nationally could entail the development of a national alternative operating in parallel to the existing State systems, enabling employers to opt out if they chose. In advancing this approach, as part of its *Review of National Competition Policy Reforms*, the Commission acknowledged that balancing the costs of divergent approaches to labour market reform against the potential benefits of interjurisdictional competition was not easy, and that the efficacy of such an arrangement would depend on the detail (PC 2005a).

Most of the issues in the taxation and urban planning/regional development areas are primarily for individual jurisdictions to resolve. For example, a key reform issue in the taxation area — the interface between the taxation regime and social security support and its implications for labour force participation rates — lies largely within the province of the Australian Government.

Both competition and cooperation are needed

Looking ahead, the competitive dimension of Australia's federal system will continue to provide in-built incentives for each government to undertake reforms to improve public sector efficiency and to enhance the regulatory and institutional frameworks within which citizens and businesses operate. Beyond this, Australia's experience with NCP demonstrates that effective cooperation among jurisdictions in

achieving reform can yield further significant dividends to the community (PC 2005a).

Securing these dividends will require strong leadership from COAG and other national leadership bodies. The experience of NCP also demonstrates the importance of governments establishing robust institutional arrangements to support future reform initiatives. Such arrangements need to:

- spell out objectives and principles to underpin reform programs;
- facilitate the analysis required to develop well-founded specific reform options and to provide for public input to that process;
- provide for independent monitoring of progress in implementing changes according to agreed timetables; and
- embody mechanisms to lock in the gains of past reforms and prevent backsliding.

Given the scope for lifting the performance of the economy and the need to respond pro-actively to looming challenges, the potential pay-offs from ‘getting it right’ are likely to be large.

2 Commission activities and performance

Some highlights from 2004-05

- completion of a major inquiry to provide input to COAG's consideration of a future program of reforms following on from NCP
- acceptance by governments of the Commission's findings and recommendations in reports on building regulation reform; smash repair and insurance; integration of the Australian and New Zealand competition and consumer protection regimes; and the Australian pigmeat industry
- completion of the Commission's report for COAG on the economic implications of an ageing Australia and its contribution to community understanding of the ageing challenge
- additional budgetary funding to enable the Commission to effectively support the Government's microeconomic and regulatory reform agenda over the coming years

Areas of focus for the coming year

- completion of current inquiries and government-commissioned research spanning such diverse policy issues as energy efficiency, medical technology, Australia's health workforce, consumer product safety, historic heritage places and the economic impacts of population growth and migration
- with guidance from the Steering Committee for the Review of Government Service Provision and in consultation with community groups, enhance the usefulness of reporting on government services and on overcoming indigenous disadvantage
- improve regulatory processes and outcomes by raising the required standards for analysis, community consultation and attention to compliance costs
- give particular emphasis in the Commission's supporting research program to the sustainability of productivity growth, broadly conceived to encompass fiscal, economic, social and environmental aspects
- plan for and develop the Commission's ability to meet future work demands

Overview

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

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

The 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.

The Commission's one outcome consists of 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 annual reporting.

The breadth and volume of the Commission's work are indicated by the reports it published in 2004-05 (box 2.1). A variety of social and environmental issues, each with significant economic dimensions, is evident in completed or ongoing projects on ageing, indigenous disadvantage, medical technology, water issues and the private cost effectiveness of improving energy efficiency. Another notable feature is the number of specific projects (NCP reform, ageing, health workforce and building regulation) and standing research responsibilities (government services performance, indicators of indigenous disadvantage and the performance of government trading enterprises) undertaken at the request of, or with the support of, all Australian jurisdictions. In addition, there was New Zealand Government support for the study on the trans-Tasman integration of competition and consumer protection regimes.

Box 2.1 Commission publications in 2004-05

Public inquiries (draft reports)

Review of Part X of the Trade Practices Act	Review of NCP reforms
Smash repair and insurance	Energy efficiency
Australian pigmeat industry	

Public inquiries (final reports)

Review of Part X of the Trade Practices Act	Review of NCP reforms
Australian pigmeat industry	Smash repair and insurance

Government-commissioned research reports (draft reports)

Reform of building regulation	Economic implications of an ageing Australia
ANZ competition & consumer protection regimes	Impacts of medical technology in Australia
Health workforce (issues paper for COAG)	

Government-commissioned research reports (final reports)

ANZ competition & consumer protection regimes	Economic implications of an ageing Australia
Reform of building regulation	

Supplements to government-commissioned reports

Modelling impacts of infrastructure industry change over the 1990s (draft)	Modelling impacts of infrastructure industry change over the 1990s (final)
Economic implications of an ageing Australia — data	Economic implications of an ageing Australia — technical papers

Performance reporting

Financial performance of government trading enterprises 1998-99 to 2002-03	Report on government services 2005: education, health, justice, emergency, management, community services and housing
Report on government services 2005: indigenous compendium	

Competitive neutrality reports

EDI post

Annual report suite of publications

Annual report 2003-04	Regulation and its review 2003-04
Trade & assistance review 2003-04	

Commission research papers

ICT use and productivity: a synthesis from studies of Australian firms	Assistance to tourism: exploratory estimates
Trends in Australian agriculture	

(continued next page)

Box 2.1 (continued)

Staff working papers

Responsiveness of demand for irrigation water: a focus on the southern Murray-Darling Basin

An integrated tariff analysis system: software and database

Modelling water trade in the southern Murray-Darling Basin

The growth of labour hire employment in Australia

2004 Richard Snape Lecture

Spreading prosperity and resisting economic divergence: the significance of Richard Snape's academic legacy (Anne O. Krueger)

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 2004-05 were as follows.

Public inquiries and other commissioned studies

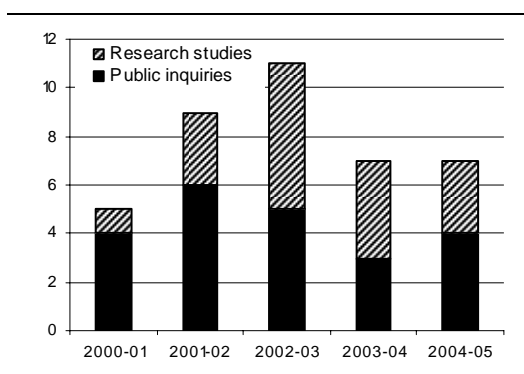
The Commission had six public inquiries and six government-commissioned research studies underway at some time during 2004-05. In addition to completing five references from the previous year, it received seven new projects, continuing the broad span of policy issues and the mix between inquiries and research studies evident in recent years (figure 2.1).

The Commission completed a major review of the impacts of national

competition policy, which also set out a proposed agenda and priorities for future reform. The Commission's proposals provide some continuity with, and draw on, the experiences and lessons from competition policy. The report is informing COAG's own review and consideration of possible future reforms.

The Commission also completed an inquiry on Part X of the Trade Practices Act which exempts ocean carriers from key parts of Australia's restrictive trade practices legislation.

Figure 2.1 References received number



Two inquiries were both commenced and completed by the Commission in 2004-05.

- The Government referred for investigation the disputation between the smash repair and insurance industries over their financial and commercial relationships. Long-running tensions between these industries had worsened in recent years as insurer power became more concentrated and insurers became more focused on cost control so as to improve shareholder returns and contain premium levels to attract and retain customers.
- Against the background of the Government's concerns about the economic situation facing the Australian pigmeat industry and industry lobbying for a Commission inquiry, the Commission was asked to review the competitiveness, profitability and future prospects of the pigmeat industry, as well as the need for any additional government and industry measures to enhance industry competitiveness.

The Commission commenced two other public inquiries in the year:

- In August 2004 the Commission was asked to report on the economic and environmental potential offered by energy efficiency improvements which are cost effective for individual producers and consumers. The inquiry had been foreshadowed in the Government's white paper on energy policy, *Securing Australia's Energy Future*, released in June 2004.
- In March 2005 the Government asked the Commission to review the policy framework and incentives for the conservation of Australia's historic heritage places, as well as the economic, social and environmental benefits and costs of conserving such heritage.

During 2004-05 the Commission finalised three research studies requested by the Government:

- an examination of the implications of Australia's ageing population structure over the next 40 years for productivity, the labour force and fiscal outcomes across the three tiers of government — a study complementary to, but updating and building on, the Australian Treasury's 2002 *Intergenerational Report*;
- 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, as well as the scope for further reforms; and
- an assessment of the potential to improve the trans-Tasman business environment through greater coordination, cooperation and integration of the general competition and consumer protection policy regimes in Australia and New Zealand.

Three government-commissioned research studies were commenced in 2004-05:

- the Government asked the Commission to undertake a research study on the impact of advances in medical technology in Australia on healthcare expenditure and the associated costs and benefits for the community against the background of intensified pressures on healthcare expenditure arising from an ageing population structure and questions about the benefits and costs of new technologies and processes for evaluating them;
- a COAG endorsed study of the institutional, regulatory and financial arrangements across the health and education sectors affecting the supply of health workforce professionals, the structure and distribution of the health workforce, and factors affecting the demand for services; and
- an examination of the benefits and costs of Australia's existing general consumer product safety system, as well as reform options and their impact.

Further information on public inquiries and the commissioned research studies undertaken by the Commission during 2004-05 and, where available, government responses to reports, is provided in appendices B and C.

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 twelfth year. The *Report on Government Services 2005* provides 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 approximately \$85 billion of government expenditure in 2003-04 and about 10.4 per cent of gross domestic product. The collaborative efforts of more than 80 Federal, State and Territory government agencies contributed to the 2005 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 2005 Report. In particular, these included new indicators for children's services, services for people with a disability and corrective services. There was also improved reporting on aspects of education and public hospital services for indigenous Australians. In association with the 2005 Report, an Indigenous Compendium was released by the Steering Committee in April 2005.

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 was released in November 2003. A key function of this reporting is to document outcomes for indigenous Australians within a

framework that allows governments to assess whether their policy interventions and programs are having the intended impacts and to guide further policy development. Following the release of this report, consultations were held with indigenous people and organisations across the country to ensure the ongoing usefulness of the reporting. Of particular importance was the feedback and input received on the complex issues of culture and governance. The second report, *Overcoming Indigenous Disadvantage: Key Indicators 2005*, under preparation during 2004-05, was released in July 2005.

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. Financial performance monitoring of government trading enterprises (GTEs) forms part of this research stream and was the major activity during 2004-05. The 2004 report was released in July 2004. The final report in a three-year work program of monitoring GTEs, assessing their external governance arrangements and identifying deficiencies, was released in July 2005. The Commission is seeking input from the Heads of Treasuries on its financial monitoring and associated research on GTEs for the next few years.

Further information on performance reporting activities in the year is provided in appendix B.

Regulation review activities

The Office of Regulation Review (ORR), a separate unit within the Productivity Commission, continued its role in helping to achieve better regulatory processes and outcomes. The ORR advises more than 60 departments, regulatory agencies, statutory authorities and national standard-setting bodies, 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 be efficient and effective — allowing for all costs as well as benefits — and to discard options that fail these tests. A RIS requires agencies to follow a consistent, systematic and transparent process for assessing appropriate 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 efficient and effective regulation 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 415 government officials in 2004-05.

Box 2.2 Compliance with RIS guidelines in 2004-05

The Productivity Commission is required to report annually on compliance with the Government's Regulation Impact Statement (RIS) requirements. Its report for 2004-05 reveals that:

- The Australian Government made about 2550 regulations. The ORR provided advice on 851 regulatory proposals, of which 167 proposals require preparation of a RIS. About 3 per cent of all new regulations made in 2004-05 required preparation of a RIS.
- Overall, the compliance of departments and agencies in 2004-05 with the RIS requirements at the decision-making stage of regulatory policy development was lower than in previous years:
 - adequate RISs were prepared for 80 per cent of 85 regulatory proposals (compared to 92 per cent in 2003-04 and 81 per cent in 2002-03).
- Nineteen departments and agencies were required to prepare RISs. Of these, nine were fully compliant (compared to 18 of 24 in 2003-04).
- Compliance by Ministerial Councils and national standard-setting bodies with COAG's RIS requirements at the decision-making stage was 84 per cent, also lower than in previous years.

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. In 2004-05 five draft consultation RISs were forwarded to New Zealand for comment.

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 2004-05* (PC 2005d).

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 four written complaints in 2004-05, with a complaint from 2003-04 — against the transactional mail services provided through Australia Post's EDI division — proceeding to formal investigation and report. Three of the new complaints did not proceed beyond preliminary investigation and one complaint remains subject to ongoing investigation.

The Office also provides informal advice on, 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 2004-05.

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.

Supporting research activities and annual reporting

The Commission has a statutory mandate to undertake research 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 2004-05 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; and
- impediments to improvements in the living standards of Australians;

with particular emphasis on issues concerning the ageing of the population and environmental sustainability.

The Commission published work on productivity, assistance, labour market and industry issues in 2004-05 (box 2.1). Much of the published output, however, concerned the development and use of economic modelling and frameworks to improve policy analysis. This included modelling that supported the Commission's inquiry on NCP reforms and, in particular, the impacts of infrastructure industry change over the 1990s; a suite of software and databases that will help trade policy analysts assess tariff reduction proposals being advanced in the current WTO Doha Development Round of trade negotiations; and analysis of the effects of expanding water trade and managing the environmental externalities associated with the supply and use of irrigation water. Quantitative tools and new modelling techniques to help improve microeconomic policy analysis and decision making were the subject of a Commission conference held in November 2004.

Further information on the Commission's supporting research activities and publications in 2004-05 is provided in appendix E. This also details the 80 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 28 international delegations and visitors during 2004-05, with a particular focus on Commission 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 are tested publicly and are therefore more robust. They also provide a public demonstration of the Commission's independence from the various arms of government and the 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 2004-05 it met with nearly 170 people, organisations or groups; held 26 days of public hearings; and received more than 620 submissions from participants.

The Commission has adapted its inquiry 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. For example, in the course of the six studies underway in 2004-05 the Commission received 294 submissions, a quarter of which were in connection with its ageing study. It held roundtable discussions with groups in Auckland, Wellington, Sydney, Canberra and Melbourne after the release of its draft report on the ANZ competition and consumer protection regimes. The Commission also hosted two workshops, attended by officials from the Australian, State and Territory governments, to discuss approaches to estimating the economic and budgetary impacts of population ageing and Commission work-in-progress. And in the course of the three commissioned research studies completed in 2004-05, the Commission met with a total of nearly 160 people, organisations or groups.

A further demonstration of the Commission's commitment to transparency is that, in conjunction with the release of its final report on the economic impact of ageing in Australia, it made available to researchers and the public at large its modelling, data and projections. The series of supporting technical papers can be assessed through the Commission's website and on CD.

Public access to the submissions made to the Commission is a hallmark of transparent processes. Participants' submissions, other than sections of confidential information, are placed on the Commission's website, and made available through libraries and for purchase through a photocopying service. However, a notable

feature this year was that about 70 per cent of submissions to the Commission's smash repair and insurance inquiry were accepted on a confidential basis. This was because they contained information about the dealings of individual repairers with insurance companies and concerns from some repairers that publication, even of their names, could disadvantage them in future dealings with insurers. In the main, the material in these confidential submissions was illustrative of the issues canvassed in the public submissions of the repairer representative organisations.

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 utilises specialist external expertise. Examples from the past year include:

- As part of its NCP inquiry, the Commission held a roundtable in Wagga Wagga focusing on NCP impacts on rural and regional communities. It was attended by representatives from a broad cross-section of agricultural interests, manufacturing firms, infrastructure service providers, welfare associations, local government, health care and education providers. A second roundtable, in Canberra, covered the future reform agenda and related priorities and was attended by a group encompassing academic, consulting, social welfare and public policy interests. A further two workshops were convened to provide feedback on the Commission's preliminary modelling results.
- In December 2004 the Commission convened a meeting with ANU and ABS experts on the demographic projection scenarios underpinning its analysis of ageing impacts.
- In March 2005 the Commission held a workshop, attended by a number of GTE board members and CEOs, academics, and Australian and State government officials, to obtain feedback on the Commission's analysis and findings on GTE external governance issues. It also subsequently obtained comments from several State Treasuries.

The Commission also involves outside policy advisers and researchers in its work through hosting or co-sponsoring conferences or roundtables on topics of policy interest. Two such conferences were held in 2004-05.

- In November 2004 the Commission organised a conference of academics and policy analysts to explore how the application of new, data-related modelling approaches could improve policy analysis. The conference papers are being published.

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- In conjunction with the ABS, the Commission sponsored the Productivity Perspectives 2004 conference in December 2004. International and local speakers, as well as Commission staff, provided an overview of productivity trends and measurement and associated analytical and policy issues to invited participants from government agencies, academia, industry bodies and consultants.

The Commission is organising its major conference for 2005-06 on a federalism theme. A roundtable to be held in October 2005 on productive reform in a federal system will focus on key issues associated with federal systems and their operation in principle and practice, including case studies exploring opportunities for improving arrangements in the key areas of health, the labour market and freight transport.

The Commission continued its 'Visiting Researchers' program which is designed to strengthen the Commission's expertise and its research capacity and linkages. Emeritus Professor Peter Lloyd (recently retired from Melbourne University) and Dr Geoff Edwards (formerly Associate Professor at La Trobe University) continued their participation in the program in 2004-05. In addition, Professor Knox Lovell from the University of Georgia in the United States, who has a particular interest in measuring productivity growth in the non-market sector, revisited the Commission during the year.

The Commission also arranged secondments from the New Zealand Ministry of Economic Development and the Independent Pricing and Regulatory Tribunal of New South Wales to assist it with the government-commissioned study on the trans-Tasman integration of competition and consumer protection regimes.

Research program consultations

The Commission's practice of extending consultative processes beyond its public inquiry work continued during the year. During February 2005 the Commission held a series of external consultations with Australian Government agencies, peak employer bodies, unions, community and environmental groups to obtain views on future directions for the Commission's supporting research program and on specific research topics. The views of State and Territory governments are gathered in a separate program of regular consultation visits and other exchanges. Discussions were also held with academics and other interested parties. In addition, the Commission monitors government statements on policy priorities and parliamentary debate and committee work.

Together with contributions from Commissioners and staff, these consultations continued to prove helpful in setting broad directions for the Commission's supporting research. However, the Commission adds to and modifies its research priorities when significant new issues arise and in the light of projects formally requested by government.

Over the next two years the Commission's supporting research program will give greater emphasis to the sustainability of Australia's productivity growth, where sustainability is broadly conceived to include fiscal, economic, social and environmental aspects. Details on individual projects are updated on the Commission's website during the year.

Research collaboration

The Commission participates in collaborative research projects with academic institutions. Partners in such research projects in 2004-05 were:

- the National Centre for Social and Economic Modelling (NATSEM, University of Canberra) to develop two models to strengthen the analytical framework for policy review and development:
 - a broadly-based health sector model to enable policy makers to assess the distributional consequences of a wide variety of health policy changes (other partner organisations are the NSW Health Department, the Health Insurance Commission, the ABS and the Australian Institute of Health and Welfare); and
 - a dynamic population microsimulation model with the capacity to assess the future distributional and revenue consequences of changes in tax and outlay programs and thereby aid policy development in the context of Australia's population ageing challenge (other partner organisations include the Australian Government Departments of the Prime Minister and Cabinet, Treasury, Employment and Workplace Relations, Health and Ageing, Education, Science and Training and Family and Community Services);
- 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 ABS, 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 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, as well as 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 16th East Asian Seminar on Economics, held in Manila in June 2005, focused on fiscal policy. Commission research on productivity and the trade and investment effects of preferential trading arrangements featured in previous seminars.
- The Commission's 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.
- The Secretariat for the Review of Government Service Provision is a member or observer of around 10 national and intergovernmental advisory groups developing priorities and strategies for improved reporting, as well as providing expert advice to data collectors and users on concepts, definitions and classifications.
- Staff members are also involved in such networking activities. Dr Jonathan Pincus, Principal Adviser Research, is a Fellow of the Academy of the Social Sciences in Australia and a member of its Workshop Committee. Other members of staff are on the editorial board of the *Australian Journal of Agricultural and Resource Economics*; on bodies such as the Australian Accounting Standards Board Consultative Group, the Bureau of the Statistical Working Party to the OECD's Committee on Industry and the Business Environment, the International Advisory Committee for the *International Productivity Monitor* and the executive committee of the Comparative Analysis of Enterprise Data (CAED) international network; and Assistant Commissioner Deborah Peterson is President of the Australian Agricultural and Resource Economics Society in 2005.

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- The Office of Regulation Review participated in the annual meeting of regulation review units from the States, Territories and New Zealand in Perth in October 2004. In conjunction with the States and Territories, the ORR has developed a web-forum, a common website for the regulatory review units to share information. The ORR also liaised on a variety of regulatory issues with the OECD, New Zealand, the United Kingdom Cabinet Office, and government officials from Belgium and Korea.

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 by the Chairman, competitive neutrality complaints reports, benchmarking studies, and reports arising from its secretariat work for the Review of Government Service Provision. The website facilitates on-line registration of people's interest in participating in individual inquiries and studies and to receive updates on more general developments. This email alert service currently notifies 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 email alerts sent to federal parliamentarians, the media, departmental heads and contacts in the States and Territories.

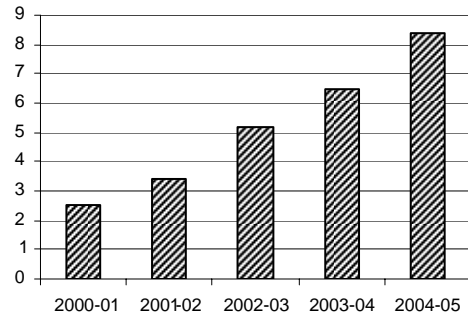
In the 12 months to 30 June 2005 there were more than 163 000 external requests for the index pages of inquiries and government-commissioned research studies current in 2004-05. The references of most interest were the study on the economic implications of Australia's ageing population (42 000 requests) and the inquiries on national competition policy reforms (19 500 requests) and the private cost effectiveness of improving energy efficiency (12 800 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 21 000 times and, for its 2004 report on first home ownership, more than 17 000 times. The 2004 and 2005

Reports on Government Services were also among the most frequently requested publications from the website during the year.

The Commission's website received a total of 8.4 million file requests from external users in 2004-05, nearly a 30 per cent 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 cover external perceptions about the quality of the Commission's inquiry processes and reports, its reporting on the financial performance of government trading enterprises and the quality and usefulness of its supporting research program. Last year the Commission reported the positive feedback from a survey of users and contributors to the Report on Government Services (PC 2004b).

In 2004-05 the ORR commenced an ongoing survey to obtain feedback from officials preparing RISs on how departments and agencies view the ORR's work performance and the quality of its service in providing advice on the Government's regulatory best practice requirements. Of the 27 respondents to date, one-half rated the quality of the ORR's written and oral advice as 'excellent', a fifth rated it as 'good' and the remainder as 'satisfactory'. Ten respondents offered specific suggestions on how the ORR could improve the quality of its advice (see pp. 134-5 for details).

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 opposition 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**

In tabling the Australian Government's response to a House of Representatives Committee report, the Minister for Local Government, Territories and Roads announced on 25 June 2005 that the Productivity Commission is to be asked to report on local councils' revenue streams and to identify areas where councils are impeded from accessing the resources they need to service their communities.

Various recent Senate Committee reports have recommended that the Productivity Commission be asked to evaluate:

- options for structural reform in Australian telecommunications, including the structural separation of Telstra; and
- the real costs to the community of institutional and other out-of-home care for 'vulnerable' children;

and that the reforms the Commission recommended in its 2000 *Broadcasting* report be reconsidered in a new review of broadcasting policy.

In August 2005 the Victorian Premier proposed that as part of a national COAG reform initiative, a body such as the Productivity Commission, directly commissioned by COAG, advise on the scale of potential benefits in areas that any government asks be included on the national reform agenda. The Commission could also advise periodically on the policy areas where reform could make the largest prospective contribution to productivity, participation and living standards.

In May 2005 the Prime Minister's Exports and Infrastructure Taskforce reported that it saw merit in the Commission being asked to carry out an infrastructure audit along the lines carried out in New Zealand and for such an audit to be repeated every five years. The Australian Chamber of Commerce and Industry's submission to the Taskforce recommended that the Productivity Commission conduct a broader infrastructure inquiry. And in August 2005, the Business Council of Australia recommended that the Commission was the most appropriate body to conduct a public biennial 'performance and policy' audit of national infrastructure, stating that the Commission would bring 'the appropriate approach, expertise and required standing in the community'.

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

- taxi reform;
- regular reporting on business compliance costs and the identification of priority areas for reform;
- the effects of horizontal fiscal equalisation on investment, productivity and efficiency in the States;
- the impacts of global warming on the Australian economy; and
- Australia's antidumping system.

Details are provided in appendix B.

The Commission systematically offers recipients of its reports and users of its website the opportunity to provide feedback. The Commission's website has provision for sending comments via email and an on-line survey form. The Commission also provides an opportunity for people attending its public hearings to express their views on the organisation and conduct of hearings. Feedback through these mechanisms remains small; less than 20 respondents in total in 2004-05. Positive feedback was received on the Commission's ageing study and on the conduct of various hearings, whereas other feedback raised concern about a hearing venue and the time available to present submissions. Feedback is forwarded to authors, inquiry teams and management for consideration and action, where required.

Policy and wider impacts

All of the Commission's activities in its five output groups are directed at meeting the policy needs of government or otherwise fulfilling statutory requirements. As agreed with the Treasurer, the outcome objective against which the Commission's overall performance is to be assessed is:

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

Proper assessment of the Commission's performance is made difficult because it is but one input among many to an eventual outcome. Even when its advice or findings are not supported by government, the Commission's independence and view of the long-term public interest can play a significant role in helping governments, parliaments and the community understand the trade-offs in different policy choices. Furthermore, as the Commission's public inquiry and research reports contribute to public debate and policy development across a range of complex and often contentious issues, its contribution and influence should be assessed over the medium to long term. (These and other considerations in assessing the Commission's overall performance and across its output groups are discussed in appendix B.)

Confirmation of the Commission's overall performance in meeting its outcome objective is found in the Government's decision in February 2005 to provide the Commission with additional funding of \$19 million over five years. This will allow the Commission to meet increased demand for its services in supporting the Government's microeconomic reform agenda.

Notwithstanding the difficulties inherent in measures of performance assessment, the influence of the Commission's work is reflected in a range of indicators

available for 2004-05, including government 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 and responses to government-commissioned research studies reflect their usefulness to the Government, Parliament and the broader community. In responding to recent reports, the Australian Government:

- accepted the majority of the Commission's recommendations in its review of the Disability Discrimination Act, including many of its more significant recommendations;
- agreed with the Commission's key recommendations in its smash repair and insurance inquiry on the development and nature of a voluntary code of conduct for the industries;
- noted that the Commission's analysis of the economic implications of an ageing Australia provided, for the first time, an independent and comprehensive analysis of the impacts that could guide planning and policy development, and drew on the Commission's projections in its 2005-06 Budget;
- through a new Inter-Governmental Agreement relating to the Australian Building Codes Board and the Building Code of Australia, implemented the Commission's principal findings on building regulation reform;
- together with the New Zealand Government, broadly endorsed the work program the Commission had recommended to more closely integrate the competition and consumer protection regimes of the two countries; and
- noted the Commission's analysis of the competitive situation and outlook for the Australian pigmeat industry, in effect endorsing the bulk of the Commission's findings and, importantly, did not commit to additional industry-specific assistance measures.

In November 2004 the New Zealand Prime Minister referred to the study (then in progress) on the trans-Tasman integration of competition and consumer protection regimes and commented on the Commission's contribution as follows:

This study is one of several the Commission has undertaken recently on issues affecting trans-Tasman business, the others being on the Trans-Tasman Mutual Recognition Arrangement and on rules of origin. They provide a helpful and independent analysis to our governments on options for developing the economic relationship. (Clark 2004)

However, governments do not always accept the Commission's advice. In December 2004 Australian and New Zealand trade and economic ministers announced their rejection of the Commission's recommendation that the basic form of CER Rules of Origin remain unchanged and that a change of tariff classification system model not be used for origin determination under CER. Subject to final agreement on 'sensitive sectors', a change of tariff classification system would be adopted.

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.7). Further, the nature and extent of references to Commission inquiry reports suggests that those reports materially contribute to policy debates 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 Commission's 1999 report on gambling, its 2000 report on broadcasting and the recommendation in its 2000 report on Australia's general tariff arrangements to abolish the 3 per cent revenue duty on business inputs imported under the Tariff Concession System (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 2004-05 sittings of the *Federal Parliament*:

- 35 Members and 32 Senators referred to 32 different Commission reports or inquiries, or to the Commission's role in policy processes;
- in around three-quarters of the 131 mentions in debates and questions, federal parliamentarians cited the Commission as an authoritative source. Only 3 per cent of mentions were critical of the particular finding, report or Commission attribute referred to; and
- Commission inquiries and reports which featured most prominently in mentions were those on ageing and its 2003 TCF report, analysis of preferential trading arrangements and productivity issues, as well as reference to the potential role for the Commission in evaluating the Australia–United States Free Trade Agreement.

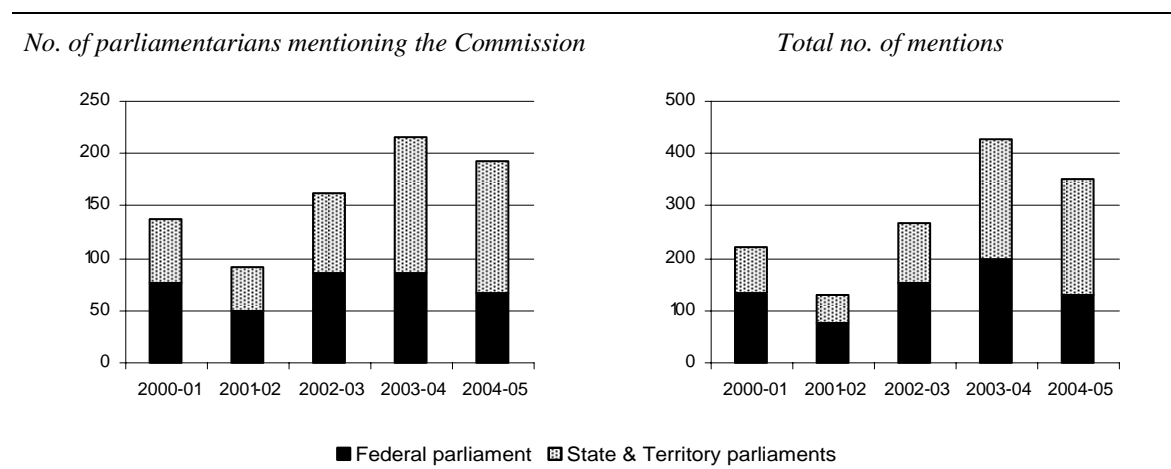
Commission inquiry and research reports, from this and previous years, were also used extensively in debate and questions by *State and Territory parliamentarians*. During the 2004-05 sittings of the eight State and Territory parliaments:

- 126 members referred to 25 different Commission publications, the Report on Government Services, Chairman’s speeches or to the Commission’s role in policy processes;
- in around three-quarters of the 220 mentions in debates and questions, State and Territory parliamentarians cited the Commission as an authoritative source, with only 3 per cent of mentions being critical; and
- nearly 40 per cent of mentions were to the Report on Government Services, with the Commission’s gambling, native vegetation and ageing reports 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 150 mentions of the Commission and its work in the Hansard proceedings of *federal parliamentary committees* in 2004-05. The Commission was mentioned in the proceedings of 14 different committees, the majority of mentions being in proceedings of Senate Economics Committee (but excluding its Estimates work). The most common mentions were to the Commission’s NCP inquiry and report, its 2003 TCF report and the report on indigenous disadvantage, and to the Commission’s role and capabilities in policy advice.

Figure 2.3 Mentions of the Commission in Australian parliaments
2000-01 to 2004-05



Fifteen recent parliamentary committee reports referred to 24 different Commission inquiries or research reports, as well as to a speech by the Commission's Chairman (table B.1).

Examples of the use of a range of Commission reports by the Parliamentary Library in 2004-05 are reported in appendix B.

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 through COAG in having the Commission undertake a study on Australia's health workforce;
- use in current policy debates of the Commission's inquiry and research reports — for example, on NCP, ageing, the national access regime, the gas access regime, price regulation of airport services, native vegetation and the Great Barrier Reef — variously by the Victorian Government, the Victorian Competition and Efficiency Commission, the Prime Minister's Exports and Infrastructure Taskforce and peak industry bodies;
- 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 use being made of, and positive feedback on, the report on *Overcoming Indigenous Disadvantage*;
- reference to the Commission's monitoring of the financial performance of GTE's by the Minister for Finance and Administration and the National Competition Council and in wider policy debates on the appropriate relationship between governments with their trading enterprises;
- the extensive use of Commission research on regulatory review processes and assessments of compliance with the Government's RIS requirements in current policy debates on improving regulatory outcomes and reducing business compliance costs; and
- the use of the Commission's supporting research outputs on productivity, labour market, industry studies, conference proceedings and annual reporting by governments, members of parliament, the OECD, peak business groups and in the wider community.

One continuing indicator of interest in the Commission's inquiry and other work is the many invitations it accepted in 2004-05 to give briefings and present papers to parliamentary, business and community groups and to conferences (table E.1). As part of a rolling program of briefings for State and Territory governments on the Commission's work, presentations and visits were made to New South Wales, Queensland and Tasmania in 2004-05 and visits to others are planned for 2005-06. The Commission also responded to requests from visiting officials and delegations from China, Japan, Korea, Thailand, Vietnam, Malaysia, the APEC Secretariat, New Zealand, Brazil, Chile, certain Gulf countries, France, the United Kingdom, Denmark, Poland, the IMF and the International Energy Agency 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 2004-05, 68 editorials in nine major metropolitan newspapers drew on the findings or recommendations in 19 different Commission reports, or referred to the Commission's role in assisting public policy making. The Commission's NCP inquiry, Discussion Draft and final report together accounted for over one-third of all mentions and the draft and final reports for its ageing study together accounted for a further 20 per cent of mentions. However, editorialists also drew on the analysis in a wide range of other inquiry and research reports (including the 2005 Report on Government Services; and reports on overcoming indigenous disadvantage, first home ownership, national frameworks for workers' compensation, broadcasting, the ANZ competition and consumer protection regime, energy efficiency, preferential trading arrangements and productivity), speeches by the Commission's chairman, or referred to the Commission's role or potential role in contributing to policy development. The Commission rated an average of 200 mentions a month in electronic media and an average of 129 mentions a month in print media in 2004-05. The Commission's ageing study, its NCP inquiry and the 2005 Report on Government Services 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 2004-05 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 is preparing two companion publications:

- *Regulation and its Review 2004-05*, which assesses compliance by departments and agencies with the Australian Government's requirements for the making and review of regulation, reports on the activities of the Office of Regulation Review and provides information on developments in regulatory policy in Australia and internationally; and
- *Trade and Assistance Review 2004-05*, which 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 1998, 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 2005 are shown in figure A.1.

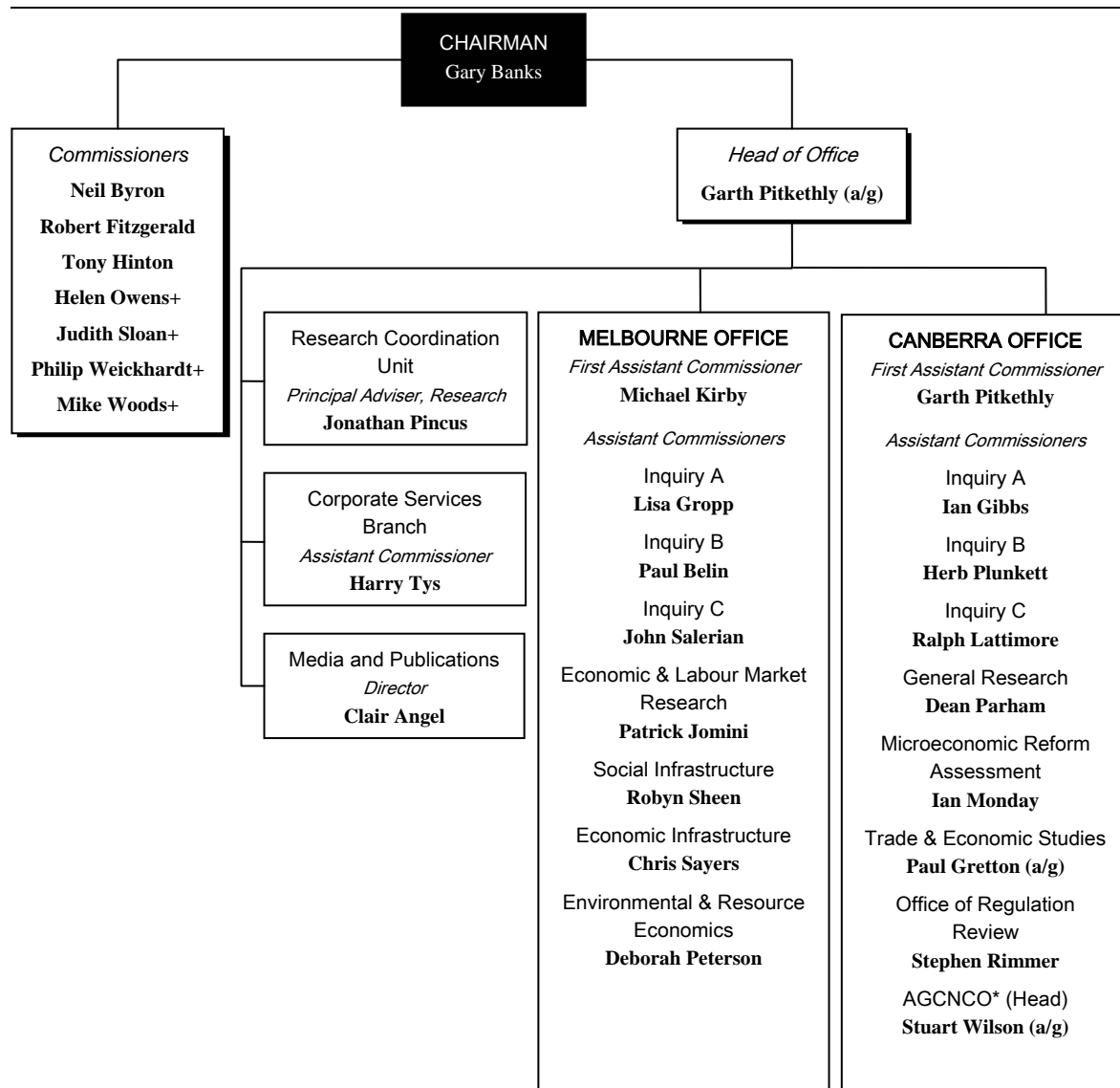
Commissioners

At 30 June 2005 there were eight Commissioners, including the Chairman. Four Commissioners were part-time appointments (table A1.1 of attachment A1).

No Commissioner appointments concluded during the year, nor were there any new appointments. On 16 April 2005 the terms of appointment of Commissioner Helen Owens were changed from full time to part time. Commissioner Owens was granted extended leave from 27 May 2005.

Biographical information on Commissioners is on the Commission's website.

Figure A.1 Productivity Commission structure and senior staff, 30 June 2005



+ Part-time Commissioners

* Australian Government Competitive Neutrality Complaints Office

a/g acting

Associate Commissioners

At 30 June 2005 no Associate Commissioner appointments were current.

During the year one Associate Commissioner — Mr Curt Rendall — was appointed on a part-time basis for the duration of the inquiry on smash repair and insurance. That inquiry both commenced and was completed during 2004-05. Mr Rendall, a principal of Rendall Kelly, Chartered Accountants, was a member of the Dawson Committee on the review of the competition provisions of the *Trade Practices Act 1974*. Other appointments held were Chair of the Government's Small Business Consultative Committee, deputy chair of the New Tax System Advisory Board, deputy chair of the Small Business Development Corporation of New South Wales and he is currently a non-government member of the Board of Taxation.

The appointment of Mr Gary Potts — appointed in 2003-04 on a part-time basis for the duration of the review of Part X of the Trade Practices Act — also concluded during the year.

Associate Commissioners who completed their appointments during 2004-05 are listed in table A1.2 of attachment A1.

Staff

At 30 June 2005 staff numbered 181, virtually unchanged from 180 a year ago.

Staff turnover — excluding departures from end-of-contract and voluntary redundancy packages — fell marginally from 13 per cent in 2003-04 to 11 per cent in 2004-05. Turnover in the Melbourne office (14 per cent) was higher than in the Canberra office (8 per cent).

The Commission recruited 39 staff during the year, including six through its graduate recruitment program.

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

Following a 33 year career in the Australian Public Service, Mr Robert Kerr retired in October 2004 as Head of Office after nine years in the role. He joined the Commission in July 1993 as First Assistant Commissioner in the Canberra office. Previously he had served in the Australian Treasury, both in Australia and overseas.

Outcome, outputs and resources

The financial and staffing resources devoted to achievement of the Government's desired outcome for the Commission — outlined on page 93 — through the provision of five mandated outputs, are summarised in table A.1. Further information on these matters is provided in appendix B.

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

	<i>Budget 2004-05</i>	<i>Actual 2004-05 ^a</i>	<i>Budget 2005-06 ^b</i>
Price of Outputs	\$'000	\$'000	\$'000
Output 1.1 – Government commissioned projects	10 900	12 991	14 000
Output 1.2 – Performance reporting and other services to government bodies	3 900	4 275	3 900
Output 1.3 – Regulation review activities	2 500	2 698	2 800
Output 1.4 – Competitive neutrality complaints activities	300	105	300
Output 1.5 – Supporting research and activities and statutory annual reporting	7 273	6 275	7 332
Total Price of Outputs	24 873	26 344	28 332
Revenue from Government	24 588	28 293	28 247
Revenue from other sources	285	352	85
Total Resources	24 873	28 645	28 332
	<i>2004-05</i>	<i>2004-05</i>	<i>2005-06</i>
Commissioner/staff years (number)	172	192	200

^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 2005 for the Portfolio Budget Statements.

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;

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- 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 Adviser 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.

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;

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- 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 also 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 and fraud control

The Commission has adopted the Joint Standard AS/NZS 4360:1999 as its approach to risk management. Risk assessments are undertaken within a formal risk management model specified in the Commission's risk management plan. The plan is reviewed annually by senior management and the Audit Committee.

A number of specific risk assessments undertaken during the year related to the Commission's website, a new lease for the Melbourne office accommodation and the replacement of the human resource management information system. Risk assessments associated with the renewal of the Comcover insurance policy were also conducted.

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 2004-05.

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 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. Specific training on workplace behaviour was offered to employees during the year — approximately 70 per cent of employees attended.

External and internal scrutiny

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

External scrutiny is also promoted through the Commission's extensive reporting, in various publications, of different aspects of its work. This annual report is an example and, in particular, appendix B provides an account of the Commission's performance 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. 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 2004-05 in respect of either charter.

A broad assessment of the Commission's operational efficiency was completed 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 concluded that the management and governance of the Commission is sound, and found little scope for further internal efficiency improvements. Following the review, additional funding of \$19 million over five years was approved in the 2004-05 Additional Estimates.

External reports relating to the operations of the Commission were issued by the Auditor-General and the Australian Senate's Economics Legislation Committee.

The Auditor-General issued an unqualified independent audit report on the Commission's 2003-04 financial statements.

The Senate Economics Legislation Committee's March 2005 report on annual reports noted that the Commission's 2003-04 Annual Report did not include a Chairman's foreword summary, and that the report was not tabled by the 31 October timeline. The Committee's March 2004 report also noted the late tabling of the Commission's 2002-03 Annual Report, a fact not reported by the Commission in its 2003-04 Annual Report as it was unaware of the comment at that time.

As a statutory agency, the Commission's legal obligations in regard to annual reporting derive from its own legislation (section 10 of the *Productivity Commission Act 1998*). Nevertheless, it will continue its endeavours to comply as fully as possible with the Parliament's broader requirements for annual reporting. In particular, the Commission has scheduled completion of this annual report so as to allow tabling by 31 October 2005.

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 matters addressed during the year included:

Website: The Commission's website continues to grow in importance as a source of information about the current work of the Commission, its publications and other activities. Total requests to the web server for pages on the site numbered nearly 8.4 million this financial year, an increase of just under 30 per cent over 2003-04.

A risk management plan for the site was finalised, and the site's appearance was updated in conjunction with implementing the Australian Government's directive concerning the use of agency-specific logos.

The site was certified by Accessible Information Solutions (consulting arm of Vision Australia Foundation) as conforming with the W3C *Web Content Accessibility Guidelines 1.0* at level 'A' in April 2005.

Human resources management information system (HRMIS): following a tender process, the Aurion Corporation was selected to implement its HRMIS. The payroll module of the new system became operational from 1 July 2005, and further modules and features will be implemented progressively during 2005-06. The new system offers operational efficiencies including direct interface with the Commission's financial management information system and enhanced services to Commission employees.

Financial management information system: the upgrading of the Commission's financial management information system to the latest version of the software was completed early in 2004-05. An improved payment processing system was also implemented. A new module to improve internal budgeting and reporting is currently being implemented.

Information technology: information technology efforts focused on several areas including:

- the further development of a secure and ethical operating environment, with the launch of three new policies covering usage of the internet, email and the general IT systems. The policies were implemented with the deployment of supporting multi-tiered virus scanning, and email and web content filtering systems;
- improvements in telecommunication services and costs as a result of market testing fixed line voice and internet service provision. The mobile phone policy was reviewed and changes implemented to promote improved efficiency and accountability; and
- maintaining an efficient and reliable IT operating environment through a series of system enhancements.

In May 2005 the Commission engaged an external consultant to review the cost and effectiveness of its IT and website services. The consultant's report was received in July 2005 and consideration of its recommendations and their implementation will proceed during the second half of 2005.

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

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- consideration of the annual financial statements, and associated issues;
 - reviews of risk assessments relating to the Commission's risk management and fraud control plans;
 - oversight of planning for the introduction of the International Financial Reporting Standards;
 - reviews of relevant ANAO reports; and
 - progressing the development of a formal business continuity plan.

Management of human resources

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

Workforce planning

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

One issue is the Commission's 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 continue to operate effectively.

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. The current agreement, under section 170LK of the *Workplace Relations Act 1996*, has a nominal expiry date of 15 January 2007.

A key feature of the agreement, the gradual elimination of automatic annual ‘across-the-board’ pay increases, was achieved at 30 June 2005. Total reliance is now placed 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 senior staff achieving the highest rating.

Family friendly issues in the agreement include provision for up to five days leave in association with the birth or adoption on an employee’s child, and modifications to 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. 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 occurs 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 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'. For Principal Executive Offices, bonuses of up to 15 per cent of total remuneration are available within the Remuneration Tribunal framework.

Performance bonuses payable for 2004-05 are summarised in table A.2.

Table A.2 Performance bonuses payable for 2004-05

<i>Classification level</i>	<i>Employees receiving bonus</i>	<i>Total bonuses paid</i>	<i>Average bonus paid</i>
	no.	\$	\$
Staff Level 3	14	16 846	1 203
Staff Level 4	15	33 672	2 245
SES	18 ^a	155 398	8 633
Principal Executive Offices	7	92 179	13 168
Total	54	298 095	5 520

^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.

The PCCC convened on four occasions during the financial year. Whilst the main item for consideration was the implementation of the certified agreement which came into effect in January 2004, matters relating to the following were also discussed:

- Equity and Diversity plan;
- internet and email policies;
- the revised performance management system;
- salary sacrifice providers;
- workplace behaviour training;
- training program for individual staff levels; and
- establishment of a commuter club in the Melbourne office to enable staff to access discounted public transport fares.

In addition, 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.

In April 2005 the Commission undertook another biennial staff opinion survey. The survey sought staff views on a range of organisational and management issues, designed to help identify areas where current practices could be improved and ways to provide a better working environment for staff. Questions were framed with a view to allowing comparisons with previous staff surveys (the most recent being in March 2003) and, in some areas, the service-wide survey conducted by the Australian Public Service Commission.

The response rate of 93 per cent remains high for a voluntary survey and provides a good basis for gauging staff views. A detailed examination of survey responses, and consideration of possible courses of action, is underway. However, as a broad indicator of staff satisfaction, 84 per cent of responses rated the Commission as a 'good' or 'very good' place to work — similar to the responses in the 2001 and 2003 surveys, and an improvement on the 70 per cent of responses in the 1999 survey.

Learning and development

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

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

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 giving and receiving effective feedback).

Recorded expenditure on learning and development in 2004-05 was 2 per cent of the annual salary budget, up from 1.5 per cent during the previous year. This expenditure related to:

- 191 employees who undertook a total of 612 days of specific training and development;
- 34 Staff Level 3 and 21 Staff Level 1 employees who attended two-day general development programs;
- 10 employees who received studies assistance in the form of paid leave, and assistance with fees, in the pursuit of tertiary qualifications;
- one employee who was granted a Post Graduate Study Award to undertake full-time tertiary study for a semester; and
- one employee who, during the year, completed the final year of the Executive Masters of Public Administration delivered by the Australia New Zealand School of Government.

Workshops on giving and receiving effective feedback were conducted in both offices to enhance employees skills in their participation in the Performance Management Scheme. A total of 79 employees participated in the workshops.

The above activities are in addition to one-on-one coaching to address particular development needs, and extensive on-the-job training within the Commission.

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 three times during 2004-05.

New OHS activities during the year included:

- receptionist emergency procedures training for response to fire, bomb or personal threat;
- in-house OHS awareness workshops for managers and other employees in the Canberra office by a Comcare trainer; and
- employee seminars covering a range of health and safety issues, including on: bicycle safety awareness; St John Ambulance CPR techniques; and taking care of mental as well as physical health through sessions on the practice of meditation and mind-body connection.

Ongoing OHS activities during the year included:

- Commission funded flu vaccinations (with a take-up of around 45 per cent of employees);
- ergonomic work station assessments (62 were completed including 30 as part of the induction program. They are provided for all new employees as well as existing employees who require advice, particularly after a workplace relocation. This pro-active service has proven beneficial in the early identification of potential workplace injuries);
- desk calendars for all employees promoting emergency evacuation and threat procedures;
- lunch time yoga classes (employees pay class fees while the Commission provides the administrative support and a venue);
- workplace massage for employees on a fee-for-service basis (paid for by participating employees);
- regular workplace hazard inspections that also include monthly reports of air cooling tower tests;

-
- 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; and
 - screen based equipment eyesight testing (available to all employees who use a computer for more than two hours a day).

Employees in OHS appointments such as fire wardens, first aid officers and health and safety representatives continue to receive training. Rehabilitation case managers participated in various forums and attended Comcare’s ‘Towards Australia’s Safest Workplaces’ national conference.

A function, to recognise the contribution of employee volunteers to OHS related activities, was held in each office. The function included presentations by the Chairman for roles such as fire wardens, first aid officers, health and safety representatives, OHS Committee and harassment contact officers. It is proposed to make this an annual event.

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 continued at around one-third of the rate for the whole-of-Australian Government pool.

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 whose contract was recently renewed for three years following a tender process. Twenty-four employees or their families utilised the service in 2004-05, about a 50 per cent increase over 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 reviewed its equity and diversity plan and released its updated plan to employees in February 2005. The harassment policy was also revised and

released in October 2004 as an ‘interim’ workplace behaviour policy. The Commission is awaiting the Australian Public Service Commission’s new guidelines on bullying and harassment and will finalise its policy once these have been released.

Refresher training for harassment contact officers was provided by an external trainer, in conjunction with a revision of the contact officer checklist and induction proforma. A site has been developed on the Commission’s intranet with relevant information for harassment contact officers.

Workplace behaviour training was conducted in the Melbourne and Canberra offices with separate sessions provided for managers and employees. A total of 70 employees participated in the sessions.

The Commission participates in, and contributes to, various 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

During the year the Department of Finance and Administration and the Commission concluded a joint input-based costing review of the Commission’s funding arrangements.

The review identified increased workload as the key cost driver underlying the Commission’s structural operating deficit, principally as a result of increased

government demand for the Commission's services. The review noted that this trend will continue to grow as the Commission continues to support the Government's future microeconomic reform agenda.

Following the review the Government approved, in the 2004-05 Additional Estimates, an increase in the Commission's funding of \$19 million over five years.

The audited financial statements for 2004-05 are shown in appendix G.

A surplus of \$2 301 000 was achieved for 2004-05. Revenue increased by 16 per cent over the previous year due to the additional funding provided by the Government following the outcome of the input-based costing review, whereas expenses increased by 3 per cent. The Commission is budgeting for a break-even result in 2005-06 within the constraints of additional funding of \$19 million provided over the five years to 2008-09.

Other information

Accommodation

The Commission has taken out new leases on its existing accommodation in Canberra (Belconnen) and Melbourne (Collins Place). The terms of the new leases are five and six years respectively.

Consultancies

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

During 2004-05, 22 new consultancy contracts were entered into involving total actual expenditure of \$135 502. In addition, one ongoing consultancy contract was active during the 2004-05 year, involving total actual expenditure of \$8525.

Further information on consultancies, as required by government reporting requirements, is provided in attachment A3.

Special payments

The Commission made a number of special payments during 2004-05. 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: \$24 640 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; \$66 000 to Monash University for economic modelling for Australia and the USA; \$33 000 to the University of Melbourne (MIAESR) for a partnership project on the evolution of Australian enterprises, 1990 to 2007; and \$16 500 to the University of Canberra (NATSEM) for a project on assessing the social and financial implications of an ageing population.

Conference sponsorships: \$13 550 to the University of Melbourne for part sponsorship of the 2005 'Sustaining Prosperity Conference'; \$16 500 to the Economics Society of Australia for the 33rd (2004) and 34th (2005) Conferences of Economists; \$2200 to the University of Western Australia for the 2005 PhD Conference; and \$2200 to the Australian National University for the 2004 PhD Conference in Business and Economics.

Awards: \$1200 to the top 2004 student, Economics Honours, at Monash University (R H Snape – Productivity Commission Prize) and \$1000 to the top 2004 student, Master of Economics, at the Australian National University (Robert Jones — Productivity Commission Prize).

Purchasing

The Commission applies the Australian Government's Procurement Guidelines which we revised during the year to reflect a change in procurement policy with regard to procurement, including prescription for procurement processes which had not existed prior to January 2005.

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.

Ecologically sustainable development (ESD)

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

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

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

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

Reflecting its statutory guidelines, ESD principles are integral to the Commission's analytical frameworks, their weighting depending on the particular inquiry or research topic. Examples of Commission projects where different aspects of ESD have arisen have been provided in recent annual reports. The inquiry on the private cost effectiveness of improving energy efficiency and the current inquiry on the conservation of Australia's historic heritage places, 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 upgrades of the Commission’s website which is certified as conforming with the W3C *Web Content Accessibility Guidelines 1.0* 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 entrance to the Commission’s Melbourne office is being rebuilt to facilitate access for people with disabilities.

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 maintains an Environmental Management System. The Environmental Management System contains the Commission’s environmental policy, an environmental management program to address identified impacts, and provision for monitoring and reporting on performance.

During 2004-05 the Commission recorded energy usage of 11 780 MJ/person/annum against the Government’s target of 10 000 MJ/person/annum. Efforts are continuing to reduce energy usage. For example, after an independent energy audit, lease negotiations for the Commission’s Melbourne office included provision for energy-efficient tri-phosphor lamps, fixed dimming and after-hours lighting reset capabilities. These changes are being implemented progressively with early indications that energy usage has decreased by 18 per cent. Similar works are being conducted in the Commission’s Canberra office.

Freedom of Information

No requests were received in 2004-05 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 email alert service, notification on the Commission's website and direct mailing of Commission circulars.

A total of \$230 063 was paid for advertising (including recruitment advertising) in 2004-05 to HMA Blaze Pty Ltd.

Publications and submissions

Appendix F lists all the Commission's publications in 2004-05.

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 the 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 2005**

	<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 (M)	27 Mar 2002	26 Mar 2007
Mrs H J Owens (M) (p/t)	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 completing appointments during 2004-05**

	<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 March 2005
Mr A C Rendall	Smash Repair and Insurance	30 August 2004	30 March 2005

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

Table A1.3 Staff^a by location and gender, 30 June 2005

Level	Melbourne			Canberra			Total		
	Female	Male	Total	Female	Male	Total	Female	Male	Total
SES Band 3	0	0	0	0	1 ^b	1	0	1	1
SES Band 2	0	2	2	0	0	0	0	2	2
SES Band 1	3	5	8	0	7	7	3	12	15
Staff Level 4	6	19	25	7	17	24	13	36	49
Staff Level 3	9	12	21	7	17	24	16	29	45
Staff Level 2	13	11	24	5	8	13	18	19	37
Staff Level 1	16	5	21	10	1	11	26	6	32
Total	47	54	101	29	51	80	76	105	181
Corresponding totals at 30 June 2004	47	56	103	27	50	77	74	106	180

^a Excludes 18 inoperative staff at 30 June 2005 and 12 at 30 June 2004. ^b Acting.

Table A1.4 Staff^a by employment status and gender, 30 June 2005

Level	Female			Male			Total		
	F/t	P/t	Total	F/t	P/t	Total	F/t	P/t	Total
SES Band 3	0	0	0	1 ^b	0	1	1	0	1
SES Band 2	0	0	0	2 ^c	0	2	2	0	2
SES Band 1	3	0	3	12	0	12	15	0	15
Staff Level 4	9	4	13	35 ^c	1 ^c	36	44	5	49
Staff Level 3	13	3	16	28	1	29	41	4	45
Staff Level 2	15 ^c	3	18	19	0	19	34	3	37
Staff Level 1	20	6 ^d	26	6	0	6	26	6	32
Total	60	16	76	103	2	105	163	18	181
Corresponding totals at 30 June 2004	60	14	74	100	6	106	160	20	180

^a Excludes 18 inoperative staff at 30 June 2005 and 12 at 30 June 2004. ^b Acting. ^c Includes 1 non-ongoing employee. ^d Includes 2 non-ongoing employees.

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

Table A1.5 Staff by level and reason for separation, 2004-05

<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	1	0	0	0	1
Staff Level 4	1	0	4	0	0	4	9
Staff Level 3	1	2	5	0	0	0	8
Staff Level 2	2	0	5	0	0	0	7
Staff Level 1	0	0	1	0	0	6	7
Total	4	2	16	0	0	10	32
Corresponding totals at 30 June 2004	0	7	19	1	2	5	34

^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.	<ul style="list-style-type: none">• The Commission's Disability Action Plan is due for review and this will be undertaken once the Office of Disability completes their evaluation of the Commonwealth Disability Strategy.• Commission policies have checklists that cover the consideration of access and equity (including disability) matters. The extent to which such considerations develop varies from inquiry to inquiry. <p>Project evaluation templates have a section included for comments on disability issues as defined in our Disability Action Plan. These comments are monitored to assess if procedures need to be further reviewed. These comments will be incorporated into the review of the Disability Action Plan.</p> <ul style="list-style-type: none">• The Commission continues to promote the awareness of issues related to people with disabilities to all new employees through its induction program and briefings to other employees as appropriate.• When the Commission's web unit incorporated the Australian Government logo into the website, the site was totally recoded to meet the current standard for maximum accessibility for our users. All users are taken into account when incorporating features that enhance accessibility with particular emphasis on impairments which include vision, hearing, movement and cognition. Ensuring the website is accessible to the highest standard is an ongoing process as more is discovered about user requirements and web technology changes. Details of this process were

provided to all employees in Staff News.

<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, consultation is facilitated by:</p> <ul style="list-style-type: none"> • advertisements in the national press inviting submissions; • development of interested parties lists; • TTY machine available and promoted; • website conforms to mandatory disability access requirements; • portable hearing loop available for public hearings; • ongoing improvements to building access through discussions with building management (including the provision of expert advice from a disability management consultant) to incorporate accessibility requirements in the upgrade to entrances; • copies of reports and circulars available in Braille, large print and audio on request; 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 worked with Accessible Information Solutions to ensure the web site conforms with the W3C Web Content Accessibility Guidelines 1.0 at level "A" of WCAG 1.0 (as at April 2005). A page is devoted to 'Accessibility' on the website.</p> <p>Depending on format requested up to two weeks.</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.	Percentage of recruitment information requested and provided in: <ul style="list-style-type: none"> • accessible electronic formats; and • accessible formats other than electronic. 	All vacancies are advertised in the gazette and on our website. Most vacancies are advertised in the press. 100 per cent available. None requested.
	Average time taken to provide accessible information in: <ul style="list-style-type: none"> • formats other than electronic. 	Dependent on request, none received to date. Information has been sourced on the procedures for requesting alternative formats such as Braille and audio and is available should a request be received.
	Agency recruiters and managers apply the principle of 'reasonable adjustment'.	Percentage of recruiters and managers provided with information on 'reasonable adjustment'.
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 2004-05.
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 programs include information on these issues including our Access and Equity and Disability Action Plan.
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 were conducted in 2004-05.

Attachment A3

Consultancies

The following information is provided in accordance with government reporting requirements.

Selection

The Commission selects and engages consultants under the following circumstances:

- insufficient in-house resources;
- a need for independent expert advice, information or evaluation to assist in its research; and
- a need for specialised professional services including legal advice and benchmarking of its activities.

Procedures

The Commission's selection procedures follow the value-for-money objectives of the Australian Government's procurement guidelines. By a regulation under its Act, the Commission is also required to use open competitive tendering where the estimated value of a consultancy exceeds \$20 000.

Purposes

The main purposes for which consultants were engaged in 2004-05 were to provide expert technical advice for a range of projects, referee particular pieces of work, undertake modelling work and provide legal advice.

Consultancies over \$10 000

The following table lists those consultancies let in 2004-05 valued at \$10 000 or more, including the method of selection, the reason for the consultancy and a summary of the overall costs involved. The total figure refers to total value of the contracts let, irrespective of the period of the contract, noting that some contracts are for periods in excess of one year.

Consultancy contracts let in 2004-05 valued at \$10 000 or more

<i>Consultant</i>	<i>Nature of consultancy</i>	<i>Contract amount¹</i>	<i>Method of selection²</i>	<i>Reason for contract³</i>
Government-commissioned projects				
Austhink	To provide advice on the structure and general cogency of the Commission's report on energy efficiency	19 800	3	A
Bainbridge Consultants P/L	To provide expert technical assistance with development of a framework for undertaking case studies for the inquiry into medical technology; to assist with development of criteria for selection of the case studies; to undertake the case studies; and to provide general technical advice to the inquiry	17 600	2	A
<i>Government-commissioned projects — total</i>		<i>37 400</i>		
Performance reporting				
Health Policy Analysis P/L	Analyse patient satisfaction surveys from each state and territory and identify data items for inclusion in the Report on Government Services	10 000	3	A
<i>Performance reporting — total</i>		<i>10 000</i>		
Supporting research and activities and annual reporting				
Meyrick Consulting Group P/L	To measure the effects of economic welfare of productivity growth and changes in the terms of trade for Australia	20 000	3	A
Dr Trevor Breusch	To provide econometric modelling advice and to referee project documentation	11 000	3	A
Centre of Policy Studies, Monash University	To develop the Commission's capacity to model the economic impacts of changes in water policies and other factors such as drought	16 700	4	B
Centre of Policy Studies, Monash University	Referee modelling work undertaken for the 'Review of National Competition Policy Arrangements'	15 000	4	B
<i>Supporting research and activities and annual reporting — total</i>		<i>62 700</i>		

<i>Consultant</i>	<i>Nature of consultancy</i>	<i>Contract amount</i> ¹	<i>Method of selection</i> ²	<i>Reason for contract</i> ³
Corporate management and services				
Value Sourcing	Review of IT and Web services	19 500	3	C
Australian Government Solicitor	Legal advice on new lease for Melbourne office accommodation	11 960	3	A
<i>Corporate management and services — total</i>		<i>31 460</i>		
Total consultancies		141 560		

¹ All figures are GST inclusive.

² Method of selection

1. Public tender
2. Sought tenders from a number of selected providers
3. Directly approached one provider as known expert in field
4. Sole supplier

³ Reason for contract

- A. Lack of in-house resources and/or specialist skills
- B. Need for an independent evaluation
- C. Benchmarking

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 were held as usual in 2004-05.

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 – usually annually – to discuss issues relevant to the interpretation and implementation of competitive neutrality policy.

Categories of documents

Principal categories include:

- commissioned projects 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 research papers; and
- reports by the Steering Committee for the Review of Government Service Provision.

Reports on competitive neutrality matters, submissions made by the Commission to other review bodies and Staff Working Papers 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 Productivity Commission's designated role is to contribute to well-informed policy decision making and public understanding on matters relating to Australia's productivity and living standards. It performs this role by undertaking independent and transparent analysis from a community-wide perspective.

The Commission's 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 sets out some broad considerations in assessing the Commission's performance and reports various indicators of overall performance, as well as the Commission's outputs and related performance in 2004-05.

Assessment of the Commission's performance

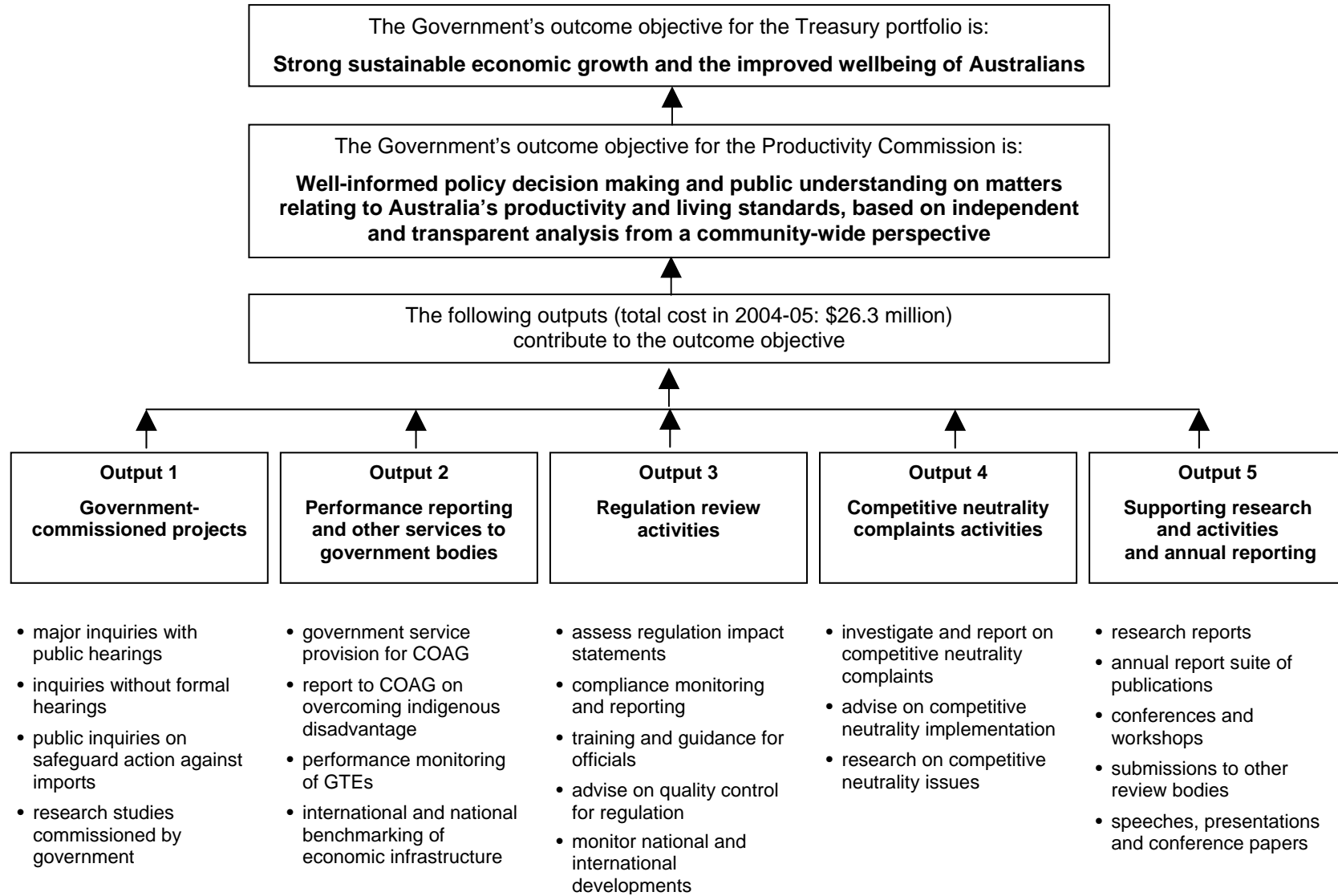
The Commission's inquiry, research, advisory and associated activities derive from its statutory functions. Having regard to the Government's accrual budget outcome and output framework, and with the agreement of the Treasurer, these activities have been classified into five outputs:

- 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 single 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 2004-05**



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

Strong sustainable economic growth and the improved wellbeing of Australians.

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 — on the analysis of information and 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 public interaction than inquiries. The Commission adapts its inquiry processes in conducting these studies, although it aims to expose its preliminary findings in workshops or roundtable discussions. Commissioned research studies are released at a time agreed with the Government.

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 has sought to demonstrate its effectiveness 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.

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

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,

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

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.

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 the Commission's July 2000 recommendation to remove the 3 per cent duty on business inputs under the Tariff Concession System, and its inquiry reports on gambling and broadcasting — 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, to a significant extent, 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 the Commission's contribution to outcomes.

- The Commission's inquiry reports on NCP reforms, smash repair and insurance, and the Australian pigmeat industry, were all released within the statutory period. There was no Australian Government response to the Commission's NCP inquiry report as it is intended to inform COAG's review of NCP and the response will be the outcome of that review. Decisions on the smash repair and pigmeat reports were released at the time they were tabled.
- The Commission completed its inquiry report on Part X of the Trade Practices Act in February 2005. The report was due to be tabled in June 2005 but awaits release.

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- The Government released the Commission's June 2004 report on the gas access regime in August 2004, but a response by the Ministerial Council on Energy is still awaited.
 - The Government has not formally responded to the Commission's March 2000 inquiry report on broadcasting, although it continues to be a reference point in policy debate on reform of broadcasting regulation in Australia.

Box B.2 The longer term influence of Commission reports

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

- The Commission's 1999 report, *Australia's Gambling Industries*, together with the update released by the Commission in November 2002, continue to be a prime reference source in parliamentary and community debate on gambling issues. For example, analysis in the Commission's report is still often referred to in the proceedings of State parliaments (particularly in South Australia, but elsewhere as well); is drawn on in other policy work, for example, gambling issues for the Aboriginal community (Brady 2004); reference to it this year in UK, Singapore and New Zealand policy debates; and the report remains one of the most popular available on the Commission's website.
- The Commission's 2000 inquiry report on *Broadcasting* continues to be influential in current policy debate on broadcasting regulation in Australia. For example, the ACCC drew on the report in its submission to the Commission's NCP inquiry. The Senate Environment, Communications, Information Technology and the Arts Committee drew on the report in its consideration of anti-siphoning legislation; and it recommended that the Government institute a review — of both regulatory policy for communications and the operations of the new Australian Communications and Media Authority — that would reconsider the Commission's recommendations on broadcasting. The Parliamentary Library's 2004 Bills Digest on the legislation creating the Australian Communications and Media Authority noted that the idea of merging the Australian Broadcasting Authority and the Australian Communications Authority had been under active consideration since 2002, although the idea was contemplated in the Commission's broadcasting report.
- In its 2000 inquiry report, *Review of Australia's General Tariff Arrangements*, the Commission recommended, among other tariff policy changes, that the 3 per cent duty on business inputs under the Tariff Concession System be removed. The Government decision at the time was to retain the duty. In subsequent reports on post-2005 assistance arrangements for the Australian automotive industry (2002) and the TCF industries (2003), the Commission also found that this revenue duty was disadvantaging Australian manufacturers generally, and imposing unnecessary costs on their customers. In its 2005-06 Budget, the Government announced removal of the 3 per cent tariff, effective 11 May 2005.

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 were reported in previous annual reports of the Commission and cover external perceptions about the quality of the Commission's inquiry processes and reports, its reporting on the financial performance of government trading enterprises and the quality and usefulness of its supporting research program. Last year the Commission reported the positive feedback from a survey of users and contributors to the Report on Government Services (PC 2004b, p. 93).

In 2004-05 the ORR commenced an ongoing survey to obtain feedback from officials preparing RISs on how departments and agencies view the ORR's work performance and the quality of its service in providing advice on the Government's regulatory best practice requirements. Of the 27 respondents to date, one-half rated the quality of the ORR's written and oral advice as 'excellent', a fifth rated it as 'good' and the remainder as 'satisfactory'. Ten respondents offered specific suggestions on how the ORR could improve the quality of its advice (see pp. 134-5 for details).

The Commission is currently seeking feedback from the heads of State and Territory Treasuries on its financial monitoring work on government trading enterprises and their suggestions for any improvement and for related research. Following release of the report *Overcoming Indigenous Disadvantage: Key Indicators 2005* in July 2005, the Commission is involved in extensive national consultation with indigenous and other groups to obtain feedback on the report and possible enhancements to its framework.

As noted in chapter 2, feedback opportunities provided through email, on-line survey forms and survey forms issued to participants in the Commission's public hearings remained little used in 2004-05. 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 2004-05 were the Commission's report on the economic implications of an ageing Australia, its NCP Discussion Draft and its 2003 review of post-2005 TCF assistance arrangements. 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.

As noted in chapter 2, 35 Members of the House of Representatives and 32 Senators collectively referred to 32 different Commission inquiries or reports, or to the Commission's role in policy processes, during the 2004-05 parliamentary proceedings. The total number of mentions of the Commission was some 35 per cent fewer than in the previous year, but that in large part could be explained by the prorogation of Parliament for the federal election.

The Commission's Chairman and the Head of the Secretariat for the Review of Government Service Provision accepted an invitation to appear before the Senate Select Committee on the Administration of Indigenous Affairs in February 2005.

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

- Eleven different parliamentary committees drew 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 20 specific Commission inquiries or research outputs.
- People appearing at the hearings of parliamentary committees in 2004-05 referred to Commission outputs in more than 25 different topic areas, including its 2003 review of TCF assistance, the report on overcoming indigenous disadvantage, reports on government services, the NCP inquiry and report, and to the Commission's role and capabilities in providing policy advice.
- The Parliamentary Library's Vital Issues Seminars aim to allow Senators and Members to hear, first hand, expert opinion on a range of currently relevant topics. Dr Ralph Lattimore and Mr Stuart Wilson of the Commission's staff presented a seminar in May 2005 on the Commission Research Report *Economic Implications of an Ageing Australia*.

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

<i>Parliamentary Committee and report</i>	<i>Commission output used</i>
Senate Legal and Constitutional Legislation Committee, <i>Disability Discrimination Amendment (Education Standards) Bill 2004</i> , December 2004	Inquiry Report, <i>Review of the Disability Discrimination Act 1992</i> , April 2004
Senate Select Committee on the Administration of Indigenous Affairs, <i>After ATSIC – Life in the mainstream?</i> , March 2005	Steering Committee for the Review of Government Service Provision, <i>Overcoming Indigenous Disadvantage: Key indicators 2003</i> , November 2003 and Chairman's speech to the <i>Pursuing Opportunity and Prosperity Conference</i> , November 2003
Senate Community Affairs References Committee, <i>Protecting vulnerable children: A national challenge, second report on the inquiry into children in institutional or out-of-home care</i> , March 2005	Steering Committee for the Review of Government Service Provision: <i>Report on Government Services 2005</i> , January 2005
Senate Environment, Communications, Information Technology and the Arts Legislation Committee, <i>Inquiry into the provisions of the Broadcasting Services Amendment (Anti-Siphoning) Bill 2004</i> , March 2005	Inquiry Report, <i>Broadcasting</i> , March 2000
Senate Environment, Communications, Information Technology and the Arts References Committee, <i>A lost opportunity?: Inquiry into the provisions of the Australian Communications and Media Authority Bill 2004 and related bills and matters</i> , March 2005	Inquiry Report, <i>Broadcasting</i> , March 2000
House of Representatives Standing Committee on Employment, Workplace Relations and Workforce Participation, <i>Working for Australia's future: Increasing participation in the workforce</i> , March 2005	Productivity Commission research work on productivity; Staff Research Paper, <i>Skill and Australia's Productivity Surge</i> , October 2002; Steering Committee for the Review of Government Services Provision, <i>Overcoming Indigenous Disadvantage: Key Indicators 2003</i> , November 2003; Inquiry Report <i>Independent Review of the Job Network</i> , September 2002; and Draft Research Report <i>Economics Implications of an Ageing Australia</i> , November 2004
House of Representatives Standing Committee on Health and Ageing, <i>Future ageing, Report on a draft report of the 40th Parliament: Inquiry into long-term strategies to address the ageing of the Australian population over the next 40 years</i> , March 2005	PC/Melbourne Institute Conference Proceedings, <i>Policy Implications of the Ageing of Australia's Population</i> , March 1999, Inquiry Report, <i>Nursing Home Subsidies</i> , January 1999; and Research Report, <i>General Practice Administrative and Compliance Costs</i> , March 2003

Senate Environment, Communications, Information Technology and the Arts References Committee, *Lurching forward, looking back: Budgetary and environmental implications of the Government's Energy White Paper*, May 2005

Senate Legal and Constitutional References Committee, *The real Big Brother: Inquiry into the Privacy Act 1988*, June 2005

Senate Regulations and Ordinances Committee, *40th Parliament Report, 112th Report*, June 2005

Parliamentary Joint Committee on Corporations and Financial Services, *Property Investment Advice — Safe as Houses?*, June 2005

House of Representatives Standing Committee on Employment, Workplace Relations and Workforce Participation, *Making it work: Inquiry into independent contracting and labour hire arrangements*, August 2005

Senate Environment, Communications, Information Technology and the Arts References Committee, *The performance of the Australian telecommunications regulatory regime*, August 2005

House of Representatives Standing Committee on Environment and Heritage, *Sustainable Cities*, August 2005

Senate Economics Legislation Committee, *Provisions of the Trade Practices Amendment (National Access Regime) Bill 2005*, September 2005

Commission's inquiry and Draft Report on the private cost effectiveness of improving energy efficiency, April 2005

Inquiry Report, *Review of the Disability Discrimination Act 1992*, April 2004

Inquiry Report, *Cost Recovery by Government Agencies*, August 2001

Inquiry Report, *First Home Ownership*, March 2004

Staff Working Paper, *The Growth of Labour Hire Employment in Australia*, February 2005; Staff Research Paper, *Self-employed contractors in Australia: Incidence and Characteristics*, September 2001; and Inquiry Report, *National Workers' Compensation and Occupational Health and Safety Frameworks*, March 2004

Inquiry Reports: *Telecommunications Competition Regulation*, September 2001 and *Review of National Competition Policy Reforms*, February 2005

Inquiry Report, *First Home Ownership*, March 2004

Inquiry Report, *Review of the Gas Access Regime*, June 2004

- Research material provided to parliamentarians during 2004-05 by the Parliamentary Library — such as Bills Digests, Research Briefs and Research Notes — referred to 15 different Commission outputs (table B.2). These included 11 inquiry and other commissioned research reports, three supporting research reports and a speech by the Chairman on regulation.

Table B.2 Parliamentary Library use of Commission outputs in 2004-05

<i>Parliamentary Library output</i>	<i>Commission output used</i>
<i>Customs Tariff Amendment (Textile, Clothing and Footwear Post-2005 Arrangements) Bill 2004, Bills Digest, No. 1, 8 July 2004</i>	<i>Inquiry Report, Review of TCF Assistance, July 2003</i>
<i>Indirect Tax Legislation Amendment (Small Business Measures) Bill 2004, Bills Digest, No. 15, 2 August 2004</i>	<i>Annual Report Series, Regulation and its Review 2002-03: November 2003, Chairman's speech, 'Reducing the business costs of regulation', 20 March 2003</i>
<i>Trade Practices Legislation Amendment Bill 2004, Bills Digest, No. 23, 9 August 2004</i>	<i>Inquiry Report, Review of Section 2D of the Trade Practices Act 1974: Local Government Exemptions, August 2002</i>
<i>Textile, Clothing and Footwear Strategic Investment Program Amendment (Post-2005 Scheme) Bill 2004, Bills Digest, No. 48, 26 November 2004</i>	<i>Inquiry Report, Review of TCF Assistance, July 2003</i>
<i>Disability Discrimination Amendment (Education Standards) Bill 2004, Bills Digest, No. 49, 29 November 2004</i>	<i>Inquiry Report, Review of the Disability Discrimination Act 1992, July 2004</i>
<i>Workplace death and serious injury: a snapshot of legislative developments in Australia and overseas, Research Brief No. 7, 29 November 2004</i>	<i>Inquiry Report, National Workers' Compensation and Occupational Health and Safety Frameworks, March 2004</i>
<i>Australian Communications and Media Authority Bill 2004, Bills Digest No. 78, 9 December 2004</i>	<i>Inquiry Report, Broadcasting, March 2000</i>
<i>Customs Amendment (Thailand-Australia Free Trade Agreement Implementation) Bill 2004 & Customs Tariff Amendment (Thailand-Australia Free Trade Agreement Implementation) Bill 2004, Bills Digest, Nos. 89-90, 21 January 2005</i>	<i>Commission Research Report, Rules of Origin under the Australia-New Zealand Closer Economic Relations Trade Agreement, Canberra, June 2004. The Digest also noted that 'Although there is a large amount of expertise in the Commission regarding trade issues, no reference to the Commission regarding TAFTA was made by the Government'.</i>
<i>AusLink (National Land Transport) Bill 2004, Bills Digest, No. 92, 3 February 2005</i>	<i>Inquiry Discussion Draft, Review of National Competition Policy Reforms, October 2004</i>
<i>General Insurance Supervisory Levy Imposition Amendment Bill 2004, Bills Digest, No. 101, 7 February 2005</i>	<i>Inquiry Report, Cost Recovery by Government Agencies, August 2001</i>

(Continued on next page)

Table B.2 (continued)

<i>Parliamentary Library output</i>	Commission output used
<i>Life Insurance Supervisory Levy Imposition Amendment Bill 2004</i> , Bills Digest, No. 102, 7 February 2005	Inquiry Report, <i>Cost Recovery by Government Agencies</i> , August 2001
<i>Retirement Saving Account Providers Supervisory Levy Imposition Amendment Bill 2004</i> , Bills Digest, No. 103, 7 February 2005	Inquiry Report, <i>Cost Recovery by Government Agencies</i> , August 2001
<i>Australia's ageing workforce</i> , Research Note, No. 35, 7 March 2005	Draft Research Report, <i>Economic Implications for an Ageing Australia</i> , November 2004
<i>Anti-dumping rules and the Australia-China Free Trade Agreement</i> , Research Note, No. 38, 14 March 2005	Annual Report Series, <i>Trade & Assistance Review 2003-04</i> , December 2004
<i>Global ageing: economic implications for Australia</i> , Research Note, No. 46, 10 May 2005	Draft Research Report, <i>Economic Implications for an Ageing Australia</i> , November 2004
<i>Regional telecommunications: an overview</i> , Research Note, No. 52, 14 June 2005	International Benchmarking Report, <i>International Benchmarking of Remote, Rural and Urban Telecommunications Services</i> , July 2001; Inquiry Report, <i>Impact of Competition Policy Reforms on Rural and Regional Australia</i> , September 1999
<i>Trade Practices Amendment (National Access Regime) Bill 2005</i> , Bills Digest, No. 186, 21 June 2005	Inquiry Report: <i>Review of the National Access Regime</i> ; September 2001

Other broad-based performance indicators

In addition to the performance indicators for 2004-05 referred to in chapter 2 and those detailed elsewhere in this appendix, recognition of the ability of the Commission to contribute to policy making and public understanding through independent and transparent analysis was demonstrated by the following developments. These mostly involve suggestions for specific references or reporting tasks, but also encompass general assessments of the Commission's performance.

- In November 2004 the New Zealand Prime Minister commented that the series of recent Commission studies on trans-Tasman policy issues had provided governments with 'helpful and independent analysis' on options for developing the economic relationship between Australian and New Zealand (Clark 2004).
- The Australian Government Minister for Local Government, Territories and Roads has announced that the Commission is to report on the revenue streams of

local councils and identify areas where they are impeded from accessing the resources they need to service their communities (Lloyd and Bell 2005).

- The Senate Environment, Communications, Information Technology and the Arts References Committee (2005a, b), in two separate reports, recommended that the Commission be asked to undertake an evaluation of the structural separation of Telstra.
- The Senate Community Affairs References Committee (2005) recommended that the Commission be asked to evaluate the real costs to the Australian community of institutional and other out-of-home care for ‘vulnerable’ children.
- The Victorian Premier has proposed that as part of a national COAG reform initiative, a body such as the Productivity Commission, directly commissioned by COAG, advise on the scale of potential benefits in areas that any government asks be included on the national reform agenda. The Commission could also advise periodically on the policy areas where reform could make the largest prospective contribution to productivity, participation and living standards (Bracks 2005).
- In its 2004 assessment of progress in implementing NCP, the National Competition Council noted the ‘intractable’ nature of taxi reform in some Australian jurisdictions and considered ‘that it may be necessary for an independent agency, like the Productivity Commission, to examine the models adopted across Australia to determine how best to advance the public interest’ (NCC 2004a, p. 9.15).
- Amongst its proposals to reduce and manage the compliance cost burden on business, the Australian Industry Group advocated that the Commission be asked to report regularly on business compliance costs and identify areas most in need of reform (Ai Group 2004).
- In its submission to the Government’s Exports and Infrastructure Taskforce, the Australian Chamber of Commerce and Industry recommended that there should be a broader infrastructure inquiry conducted ‘preferably’ by the Productivity Commission (ACCI 2005b).
- The Exports and Infrastructure Taskforce (2005) reported that it saw merit in the Commission being asked to carry out an infrastructure audit along the lines carried out in New Zealand and for such an audit to be repeated every five years. (COAG subsequently decided that the jurisdictions themselves would undertake this task.)

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- In August 2005 the Business Council of Australia recommended that the Commission was the most appropriate body to conduct a public biennial ‘performance and policy’ audit of national infrastructure because it would bring ‘the appropriate approach, expertise and required standing in the community’ (BCA 2005b).
 - In its report to the Victorian Government on Australia’s economic infrastructure, the Allen Consulting Group (2005) recommended the Productivity Commission as ‘the most appropriate body’ to review the effects of the horizontal fiscal equalisation process on investment, productivity and efficiency in the Australian States and to suggest alternative means of achieving policy objectives.
 - The Leader of the Australian Greens called on the Government to have the Productivity Commission assess the impact of global warming on Australia’s future economy (Brown 2004).
 - A number of economic analysts and newspaper editorials during 2004-05 called for the Commission to report on telecommunications regulation and Australia’s antidumping system.
 - In testimony before the Senate Environment, Communications, Information Technology and the Arts References Committee, the Media Entertainment and Arts Alliance advocated an independent review of the policy framework for broadcasting in Australia. (The Alliance is the union and professional organisation covering the media, entertainment, sports and arts industries.) In discussing the nature of an ‘independent’ review, the Alliance noted:

The Productivity Commission is a model; it is independent of the department and, if given appropriate terms of reference by government, it has shown itself in a number of inquiries it has conducted to be independent. It has run incredibly comprehensive reviews that have allowed for sufficient input by the general public as well as stakeholders across a range of inquiries that it has conducted. (Gailey 2005)
 - At the 2004 OECD Global Forum on Trade conference in Bangkok, participants discussed trade-related structural adjustment issues and were in general agreement that:

The institutions in a country should have the capacity and resources needed in order to identify challenges and respond to them effectively. The Productivity Commission in Australia, for example, was cited as such an institution. (OECD 2004a)

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 245 citations of the Commission and its reports in 2004-05. More than 20 per cent of mentions were to inquiries and commissioned studies current in 2004-05. The Commission’s work was cited in more than 90 different

journals and publications, most frequently in *Online Opinion*, the *Australian Economic Review*, the *Australian Business Law Review*, *New Matilda* and *Business Review Weekly*. Commission work which received the most citations were its reports on ageing, NCP reform and first home ownership, and its 2001 Research Report, *International Pharmaceutical Price Differences*.

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

The resources used in producing this output in 2004-05 were:

- 69.5 staff years; and
- \$13.0 million on an accrual basis.

All government-commissioned inquiries in 2004-05 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 2004-05

The Commission had six public inquiries and six government-commissioned research studies underway at some time during the year, and has since commenced a study on the economic impacts of population growth and migration. The program of government-commissioned projects is summarised in table B.3, although the complexity of policy issues addressed and the consultation demands are difficult to capture.

During 2004-05 the Commission:

- completed two public inquiries begun in 2003-04 — the impacts of national competition policy and priorities for future reform; and Part X of the Trade

Practices Act which exempts ocean carriers from key parts of Australia's restrictive trade practices legislation;

- commenced and completed two public inquiries — the financial and commercial relationships between the smash repair and insurance industries; and the Australian pigmeat industry; and
- commenced two public inquiries which report in 2005-06: the private cost effectiveness of improving energy efficiency (August 2005); and the policy framework and incentives for the conservation of Australia's historic heritage places (April 2006).

In a continuation of recent trends, research studies commissioned by the Government remained a significant component of the Commission's workload (figure 2.1). During 2004-05 the Commission:

- finalised three government-commissioned research studies begun the previous year — the economic implications of an ageing Australia; reform of building regulation; and the potential to further integrate the competition and consumer protection regimes of Australia and New Zealand; and

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

	2003-04					2004-05						2005-06												
	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D
Public inquiries:																								
Review of national competition policy reforms																								
Review of Part X of the Trade Practices Act																								
Australian pigmeat industry																								
Smash repair and insurance																								
Private cost effectiveness of improving energy efficiency																								
Conservation of historic heritage places																								
Commissioned research studies:																								
Reform of building regulation																								
Economic implications of an ageing Australia																								
ANZ competition and consumer protection regimes																								
Impacts of advances in medical technology in Australia																								
Australia's health workforce																								
Australian consumer product safety system																								
Economic impacts of migration and population growth																								

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

- commenced three studies which report in 2005-06 — the impacts of advances in medical technology in Australia (August 2005); a COAG endorsed study of Australia's health workforce (December 2005); and the benefits and costs of, and reform options for, Australia's general consumer product safety system for consideration by the Ministerial Council on Consumer Affairs (January 2006).

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

The Commission endeavours to conduct projects in an economical manner, while ensuring rigorous analysis and maximising the opportunity for participation. Total estimated costs (covering salaries, direct administrative expenses and an allocation for corporate overheads) for the seven government-commissioned inquiries and research studies completed in 2004-05 are shown in table B.5.

Table B.4 Public inquiry and other commissioned project activity, 2000-01 to 2004-05

<i>Indicators</i>	<i>2000-01</i>	<i>2001-02</i>	<i>2002-03</i>	<i>2003-04</i>	<i>2004-05</i>
Public inquiries					
Inquiry references received	4	6	5	3	4
Issues papers released	5	6	4	3	3 ^c
Public hearings (sitting days) ^a	38	24	31	66	26
Organisations/people visited	217	318	191	186	167
Submissions received	460	847 ^d	540	1 221	623 ^e
Draft reports ^b	5	8	1	5	5
Inquiry reports completed	2	9	3	6	4
Inquiries on hand (at 30 June)	6	3	5	2	2
Research studies					
References received	1	3	6	4	3
Research reports completed	–	2	7	2	3
Studies on hand (at 30 June)	1	2	1	3	3
Total references					
Total references received	5	9	11	7	7
Total references completed	2	11	10	8	7
Total references on hand (at 30 June)	7	5	6	5	5

^a Excludes forums and roundtable discussions. ^b Includes all types of draft reports. ^c Includes two inquiries that issued 'Issues and questions' with their 1st inquiry circular. ^d Includes more than 200 multiple copies of two submissions from different participants in the inquiry on radiocommunications. ^e Includes 130 submissions accepted on a commercial-in-confidence basis in the smash repair and insurance inquiry.

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 2000-01 to 2004-05 are in table B.6.

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

Table B.5 Cost of public inquiries and other commissioned projects completed in 2004-05^a

<i>Government-commissioned project</i>	<i>Total cost</i>
	\$'000
Reform of building regulation	1 029
ANZ competition and consumer protection regimes	790
Review of national competition policy reforms	3 569
Review of Part X of the Trade Practices Act	701
Smash repair and insurance	500
Australian pigmeat industry	819
Economic implications of an ageing Australia	1 830

^a Includes estimated overheads.

Table B.6 Direct administrative expenditure on public inquiries and other government-commissioned projects^a, 2000-01 to 2004-05

<i>Expenditure item</i>	<i>2000-01</i>	<i>2001-02</i>	<i>2002-03</i>	<i>2003-04</i>	<i>2004-05</i>
	\$	\$	\$	\$	\$
Travel	193 972	215 062	381 491	415 835	342 728
Printing	59 972	171 399	91 813	181 435	125 259
Consultants	2 882	106 621	348 974	62 416	31 520
Other ^b	265 923	164 354	245 230	289 234	193 929
Total	522 749	657 436	1 067 508	948 920	693 436

^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 government departments and agencies, professional and industry organisations, academics and the broader community during inquiries and government-commissioned research projects continued in 2004-05. In the course of its inquiry work, the Commission held 26 public hearings, visited nearly 170 people and organisations and received more than 620 submissions during the year. Public hearings were held in Sydney, Melbourne, Brisbane, Perth, Canberra and Adelaide; a scheduled hearing in Toowoomba, Queensland, on the NCP Discussion Draft was cancelled due to a lack of participants wanting to make a submission. 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.4. The Commission adapts its consultative processes to suit the variety of research studies commissioned by the Government. Consultative processes used this year in the course of these research studies are outlined in chapter 2.

The Commission's practice of extending its consultative processes beyond visits, public hearings, seeking submissions and providing draft reports, continued during the year. During 2004-05 the Commission:

- held roundtable discussions in Sydney, Melbourne and Canberra (and Perth via video) on its draft research report on building regulation reform in August 2004;
- held roundtable discussions in New Zealand (Auckland and Wellington) and in Sydney, Canberra and Melbourne on its draft research report on the ANZ competition and consumer protection regimes;
- held a roundtable in Wagga Wagga in July 2004 focusing on NCP impacts on rural and regional communities that was attended by representatives from a broad cross-section of regional interests and held a second roundtable, in Canberra, on the future reform agenda and priorities that was attended by a group encompassing academic, consulting, social welfare and public policy interests;
- convened two workshops to provide feedback on the Commission's preliminary modelling results in its NCP inquiry; and
- hosted two workshops for officials from the Australian, State and Territory governments to discuss approaches to estimating the economic and budgetary costs of population ageing and Commission work-in-progress, as well as convening a meeting with ANU and ABS experts in December 2004 on the demographic projection scenarios underpinning its analysis of ageing impacts.

Internet technology has greatly increased the accessibility of the Commission's reports and facilitated speedier and easier notification of developments in inquiries and studies. On-line registration facilitates people notifying their interest in specific inquiries and studies and being kept informed of developments. In particular, participants' submissions to inquiries and studies and transcripts of hearings (other than confidential information) are placed on the Commission's website. Internet access has increased the opportunities for earlier and less costly public scrutiny of the views and analysis being put to the Commission. There were more than 20 000 external requests for the index pages to submissions and hearing transcripts for inquiries and commissioned studies current in the year to 30 June 2005.

Quality indicators

Quality assurance processes are built into the way the Commission conducts its public inquiries and other government-commissioned projects. The Commission receives extensive feedback on the accuracy and clarity of its analysis in its inquiry work and the relevance of its coverage of issues. Much of this feedback is on the public record through submissions on draft reports and transcripts of public hearings. The roundtables and workshops, 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 four inquiries and three commissioned studies finalised in 2004-05 were completed within or on schedule.

At the request of the Commission and with the agreement of the Treasurer, the reporting dates for four inquiries were extended by up to two months from those initially specified in terms of reference. The extensions for the NCP and Part X inquiries were to account for the delay in issuing draft reports caused by the timing of the Federal election. The reporting date for the smash repair and insurance inquiry was extended by two months as a result of illness, but the report was finalised earlier than this. The reporting date for the pigmeat inquiry was extended to allow inquiry participants adequate time to prepare further submissions in response to the Commission's draft report and to participate in public hearings. All these amended reporting dates were met or bettered.

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 responses to, and decisions on, its reports. The Government has recently:
 - accepted the majority of the Commission's recommendations in its review of the Disability Discrimination Act, including many of the more significant recommendations;
 - agreed with the Commission's key recommendations in its smash repair and insurance inquiry on the development and nature of a voluntary code of conduct for the industries;
 - noted that the Commission's analysis of the economic implications of an ageing Australia provided, for the first time, an independent and comprehensive analysis of the impacts that could guide planning and policy development, and drew on the Commission's projections in its 2005-06 Budget;
 - through a new Inter-Governmental Agreement relating to the Australian Building Codes Board and the Building Code of Australia, implemented the Commission's principal findings on building regulation reform;
 - together with the New Zealand Government, broadly endorsed the work program the Commission had recommended to more closely integrate the competition and consumer protection regimes of the two countries; and
 - noted the Commission's analysis of the competitive situation and outlook for the Australian pigmeat industry, in effect endorsing the bulk of the Commission's findings and, importantly, did not commit to additional industry-specific assistance measures.
- Governments do not always accept the Commission's advice or may reject it initially. For example:
 - when announcing its decision in December 2000 on the Commission's inquiry report, *Review of Australia's General Tariff Arrangements*, the Government rejected the Commission's recommendation to remove the 3 per cent duty on business inputs imported under the Tariff Concession System. In its 2005-06 Budget, however, the Government announced removal of the duty, effective from 11 May 2005; and
 - in December 2004 Australian and New Zealand trade and economic ministers announced their rejection of the Commission's recommendation that the basic

form of CER Rules of Origin remain unchanged and that a change of tariff classification system model not be used for origin determination under CER (DFAT 2004). Subject to final agreement on 'sensitive sectors', a change of tariff classification system would be adopted.

- Nevertheless, responses to and decisions on commissioned reports confirm the continuing 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.7, updated since last year's annual report). Further, the nature and extent of references to Commission inquiry reports suggests that those reports have materially contributed to policy debate in Federal, State and Territory parliaments, as well as more generally within the media and the wider 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 37 separate occasions by Members and Senators in the Federal Parliament in 2004-05. The Commission's ageing study and its NCP inquiry accounted for most of these mentions. Reports from previous years were also referred to on 37 occasions (principally the reviews of TCF assistance, the Disability Discrimination Act and the national access regime).
 - State and Territory members of parliament referred to Commission inquiries and commissioned research studies on 98 occasions. The Commission's 1999 report on gambling accounted for one-third of all mentions, with the Commission's ageing study and NCP inquiry also featuring prominently.
- Evidence of the usefulness of the Commission's recent reports on NCP and ageing is found in their use by the Victorian Government in its own work on the need for a new national reform initiative (Bracks 2005).
- The Victorian Competition and Efficiency Commission (2005) draft inquiry report on regulatory barriers to regional economic development drew substantially on the Productivity Commission's 2004 inquiry report on native vegetation and biodiversity in its own analysis of native vegetation regulation. Four other inquiry and commissioned research studies were also cited.
- The Prime Minister's Exports and Infrastructure Taskforce (2005) drew on the Commission's recent NCP inquiry report, further noting areas where its views were consistent with those in recent Commission's reports on the national access regime (2001) and the Great Barrier Reef (2003).

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- The Commission's inquiry reports on NCP, the national access regime, the gas access regime and the price regulation of airport services were variously used in industry submissions to the Exports and Infrastructure Taskforce, including by the ACCI; the Australian Council for Infrastructure Development; the Australian Pipeline Industry Association; the Business Council of Australia; the Centre for International Economics and Pacific Road Corporate Finance; the Minerals Council of Australia; Pacific National; and Prime Infrastructure, the lessee of the Dalrymple Bay Coal Terminal that featured strongly in the lead up to the commissioning of the Taskforce.
 - 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 34 invitations the Commission accepted in 2004-05 to present papers on inquiries and commissioned studies to business, community and other groups, in particular on the NCP inquiry and the studies on ageing and building regulation reform (table E.1).
 - Other measures of the Commission's usefulness in contributing to public understanding are the use of its website and media coverage of its reports.
 - In the 12 months to June 2005 there were more than 163 000 external requests for the index pages of inquiries and government-commissioned research studies current in 2004-05. The references of most interest were the ageing study (42 000 requests) and the inquiries on national competition policy reforms (19 500 requests) and the private cost effectiveness of improving energy efficiency (12 800 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 21 000 times and for its 2004 report on first home ownership, more than 17 000 times.
 - Inquiry and commissioned research reports receive extensive media coverage — in 2004-05 there were 46 editorials in major newspapers on Commission inquiries and commissioned research studies. These included 24 editorials on the Commission's NCP inquiry and report and 15 on its ageing study. Other Commission inquiry and commissioned research reports mentioned in editorials during the year were those on the ANZ competition and consumer protection regimes and energy efficiency, and past reports on first home ownership, the national access regime, national frameworks for workers' compensation, university resourcing and broadcasting.
 - The Commission's NCP inquiry and its ageing study were also the most widely reported during 2004-05, receiving a total of more than 1900 mentions in print and electronic media.

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

	<i>Inquiry report</i>	<i>Government response to Commission findings and/or recommendations</i>
1	Australian Black Coal Industry (July 1998)	The Australian Government supported all of the Commission's recommendations and intended to work with the New South Wales and Queensland Governments to ensure their implementation.
2	International Air Services (September 1998)	The Government agreed to implement substantial liberalisation of the regulatory framework, though not to offer unrestricted access to Australia's major airports nor to remove cabotage restrictions.
3	Pig and Pigmeat 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.

(continued next page)

Table B.7 (continued)

	<i>Inquiry report</i>	<i>Government response to Commission findings and/or recommendations</i>
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 still referred to in parliamentary and wider community debate on foreign ownership, the cross-media rules, the regulation of digital TV and datacasting and indigenous broadcasting; and the media continue to cite it regularly.
12	Review of Australia's General Tariff Arrangements (July 2000)	In December 2000 the Government rejected the Commission's recommendations to remove the 3 per cent duty on business inputs under the Tariff Concession System and the 5 per cent general tariff rate, but agreed to overhaul the by-law system. <i>In its 2005-06 Budget, the Government announced removal of the 3 per cent tariff applying to business inputs imported under a tariff concession order, effective from 11 May 2005.</i>
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.

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

24 Economic Regulation of
Harbour Towage and Related
Services (August 2002)

The Government accepted all the Commission's recommendations, with minor modifications relating to the implementation of price monitoring.

(continued next page)

Table B.7 (continued)

	<i>Inquiry report</i>	<i>Government response to Commission findings and/or recommendations</i>
25	Review of Automotive Assistance (September 2002)	The Government endorsed the Commission's findings on post-2005 tariff reductions and transitional adjustment assistance for the industry (though with an additional \$1.4 billion, over 10 years, than preferred by the Commission), agreed with many of the Commission's findings on other assistance and industry matters, and announced a further inquiry by the Commission in 2008.
26	Review of TCF Assistance (July 2003)	The Government accepted the Commission's preferred tariff option and quantum of transitional assistance, though with some variations in the components of that support package.
27	National Workers' Compensation and Occupational Health and Safety Frameworks (March 2004)	The Government 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.
28	First Home Ownership (March 2004)	The Government supported recommendations relating to areas of State responsibility but not those relating to reviews of the personal income taxation regime and the housing needs of low income households nor changes to the First Home Owner Scheme.
29	Impacts of Native Vegetation and Biodiversity Regulations (April 2004)	The Government announced that it supported the Commission's recommendations and would pursue implementation by the States and Territories through the COAG process.
30	<i>Review of the Disability Discrimination Act 1992 (April 2004)</i>	<i>The Government accepted a majority of the Commission's 32 recommendations in full, in principle or in part. Many of the Commission's most significant recommendations were adopted including legislative change to clarify the reasonable adjustment duty implied in the Act but, importantly, also to strengthen and/or extend existing safeguard mechanisms.</i>
31	<i>Review of the Gas Access Regime (June 2004)</i>	<i>Awaits a response by the Ministerial Council on Energy.</i>
32	<i>Review of Part X of the Trade Practices Act 1974: International Liner Cargo Shipping (February 2005)</i>	<i>Report not yet tabled.</i>

33	<i>Review of National Competition Policy Reforms (February 2005)</i>	<i>The Government stated that the response to the Commission's recommendations will be the outcome of the COAG review of national competition policy.</i>
34	<i>Smash Repair and Insurance (March 2005)</i>	<i>The Government agreed with the Commission's key recommendations on the development and nature of a voluntary code of conduct for the smash repair and insurance industries.</i>
35	<i>Australian Pigmeat Industry (March 2005)</i>	<i>The Government in effect endorsed the bulk of the Commission's findings and, importantly, did not commit to additional industry-specific assistance measures.</i>

^a Additions or significant changes to the table published in the 2003-04 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 equity of access, and 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 is committed to producing reports of a high standard which are useful to government and the wider community, and completed on time.

The resources used in producing this output in 2004-05 were:

- 26.8 staff years; and
- \$4.2 million on an accrual basis.

Activities in 2004-05

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

- *Financial Performance of Government Trading Enterprises, 1998-99 to 2002-03* (July 2004)
- *Report on Government Services 2005*, 2 volumes (and on CD with supporting tables), January 2005; and
- *Report on Government Services 2005: Indigenous Compendium*, May 2005.

Review of Government Service Provision

The Review of Government Service Provision was established by the Prime Minister, Premiers and Chief Ministers in July 1993. 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.

As part of its Reconciliation Agenda, in 2000 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.

Report on Government Services

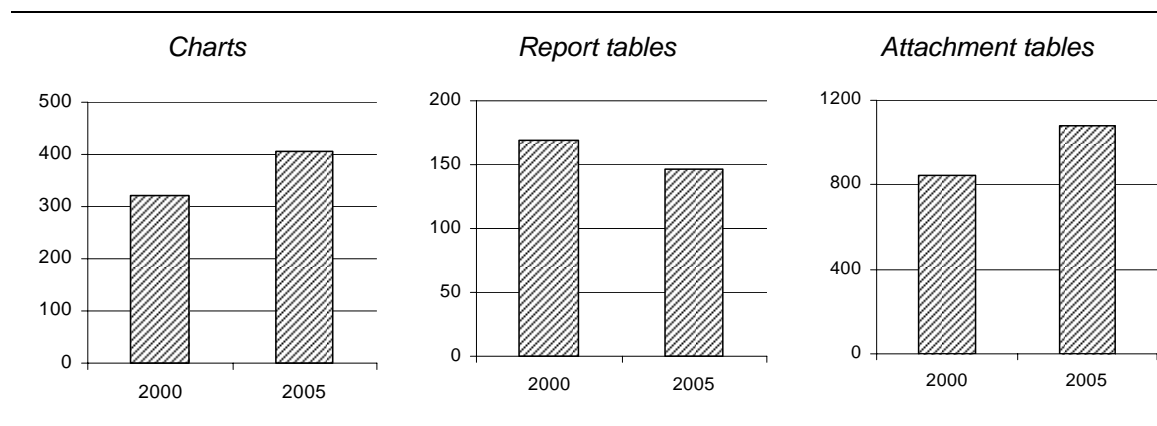
The tenth Report on Government Services was released in January 2005. Reporting is an iterative process, and the Review endeavours each year to build on developments of previous years. Since the Review published its first Report in 1995, there has been a general improvement in the data collected.

The Review is 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. The indicator interpretation boxes 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 first 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 was engaged in early 2005 to undertake work on these indicators.

The scope of reporting has expanded considerably in recent years (figure B.2). In particular, improvements were made to the scope of the 2005 Report through:

Figure B.2 Increased scope of reporting on government services
numbers



- 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 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’.

Particular enhancements to the 2005 Report included:

- improvements to the scope of reporting in the ‘Education preface’ through the inclusion of additional educational attainment data;
- perinatal, neonatal and fetal death rates by indigenous status were reported for the first time in the public hospitals chapter;
- the children’s services chapter used data from the ABS 2002 Survey of Child Care to report information on ‘demand for (additional) childcare’; and
- the protection and support chapter reported on the Supported Accommodation Assistance Program effectiveness indicator ‘client satisfaction’ on a comparable basis for the first time.

Table B.8 provides an overview of indicators reported on a directly comparable basis across jurisdictions in each service area for the 2005 Report.

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 2005 Report, which was released in May 2005, provides information that will complement the material in the new report. Improvements to the indigenous data within the 2005 Indigenous Compendium were made in education, health and community services chapters.

Table B.8 Indicators reported on a comparable basis, 2005 Report

<i>Service area/indicator framework</i>	<i>Indicators with data reported</i>	<i>Indicators with data reported on a comparable basis</i>	<i>Proportion comparable</i>	<i>Change since last year in indicators reported on a comparable basis</i>
	no.	no.	%	no.
<i>Education</i>				
School education	10	8	80	–
VET	19	14	74	–
<i>Justice</i>				
Police services	29	15	50	–
Court administration	6	3	50	–
Corrective services	12	10	83	1
Emergency management	16	2	13	–
<i>Health</i>				
Public hospitals ^a	11	5	45	-2
Maternity services	10	3	30	–
Primary and community health	20	20	100	–
Breast cancer	11	7	64	–
Mental health	8	4	50	–
<i>Community services</i>				
Aged care services	13	11	85	–
Services for people with a disability	13	8	62	2
Children's services	14	4	29	2
Child protection and out-of-home care	14	4	29	–
SAAP	11	5	45	1
<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	–

SAAP = Supported Accommodation Assistance Program. ^a Three indicators ('public hospital separation rates', 'separation rates by target group', and 'labour cost per casemix-adjusted separation') have been removed from the performance framework because they had limited usefulness as indicators of the performance of hospitals. The data were moved to the descriptive section of the chapter. – Nil or rounded to zero.

Overcoming Indigenous Disadvantage: Key Indicators

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 2003 Overcoming Indigenous Disadvantage report, with support from the Australian, State and Territory governments, set out, for the first time, a strategic framework for action in areas of indigenous disadvantage.

Since the release of the 2003 report, the Chairman of the Steering Committee and other members of the Review have conducted 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. The second *Overcoming Indigenous Disadvantage* report was prepared during 2004-05 and released on 12 July 2005.

The estimated cost to the Commission of assisting governments in the production of the *Report on Government Services*, the *Overcoming Indigenous Disadvantage* report and related Review activities in 2004-05 was around \$2.9 million (compared to \$2.6 million in 2003-04).

Performance monitoring of government trading enterprises (GTEs)

The Commission released its study on the financial performance of GTEs for the period 1998-99 to 2002-03 in July 2004. The subsequent report on a range of financial indicators for 83 enterprises covering the period 1999-2000 to 2003-04 was substantially complete in 2004-05 and published in July 2005. The findings of a three-year research program into GTE governance were also included in this report. The findings elaborate on issues raised in the Commission's recent NCP inquiry report.

International benchmarking

The Commission did not publish any benchmarking research in 2004-05.

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 ABS and the Australian Institute of Health and Welfare, and committees established under Ministerial Councils.

The Review consulted extensively during the course of producing the first Overcoming Indigenous Disadvantage report and engaged in ongoing consultation with indigenous organisations and communities, and governments, before and during preparation of the 2005 Overcoming Indigenous Disadvantage report. The Review also engaged an expert indigenous consultant to review drafts of the 2005 report before publication.

The Commission's quality assurance processes for its reporting on the financial performance of GTEs includes giving State and Territory Treasuries the opportunity to review drafts before publication. The Commission produced a Discussion Draft in order to test its findings on external governance at a workshop attended by some GTE board members and CEOs, academics and Australian and State government officials. The comments received at the workshop, which was held in March 2005, and subsequently in submissions, broadly supported the Commission's analysis and findings.

Timeliness

The 2005 Report on Government Services and its Indigenous Compendium, and the 2003-04 GTE financial performance monitoring report were completed on time. Publication of the 2005 Overcoming Indigenous Disadvantage report was postponed by six weeks, to July 2005, to allow the inclusion of key data after delays in their release by a data provider.

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.

- The generally positive feedback on the usefulness, credibility, relevance and timeliness of the Report from the May 2004 survey of users and contributors were reported in the Commission's 2003-04 Annual 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.

- A variety of performance information sourced to the 2005 (and earlier) government services reports was used in parliamentary proceedings by government and opposition members in parliaments during 2004-05.
 - In the Federal Parliament, data from the reports were used in relation to hospitals, education benchmarking, aged care and indigenous affairs.
 - In other parliaments, data from the reports were mentioned 86 times and were used in relation to elective surgery waiting times, education funding, recidivism, spending per person on criminal investigations, indigenous housing, children's services, emergency management services, police staffing numbers, the cost effectiveness of public hospitals, efficiency and effectiveness of health services, completion rates for reparation orders, vocational education and training, corrective services, court administration clearance rates, disability services, crime rates, and satisfaction with ambulance services.
- A number of journal articles 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 the *Medical Journal of Australia*; the Australian Institute of Health and Welfare *Bulletin*; *Just Policy*; *Education*; the *International Review of Administrative Sciences*; and the *Australian and New Zealand Journal of Criminology*.

Other indicators of usefulness from 2004-05 were:

- extensive media coverage of the 2005 Report on Government Services. There were more than 220 press articles drawing on the report and more than 180 mentions of it in electronic media in the period to 30 June 2005. More than 1590 bound copies and a further 106 CDs of the report were distributed by the Commission; and
- 11 760 external requests for the index page of the 2005 Report on Government Services on the Commission's website in 2004-05. The 2004 Report on Government Services continued to be accessed from the website by external parties — with over 12 100 requests throughout 2004-05. There were more than 40 400 external requests for the index pages of Review publications (excluding the Overcoming Indigenous Disadvantage report) in 2004-05.

Overcoming Indigenous Disadvantage: Key Indicators

The purpose of the Overcoming Indigenous Disadvantage report is to provide governments with information on key indicators of disadvantage. The 2003 report, released in November 2003, continued to be used throughout 2004-05. Evidence of its ongoing usefulness is demonstrated by the following feedback:

- The Australian, State and Territory governments are incorporating the indicator framework into their own policies, programs and monitoring in various ways. (The 2005 report included an appendix summarising how each jurisdiction was using the framework.) The report is also stimulating improvements in data collection, consistency and quality. Some States and Territories are using the indicator framework to prepare jurisdictional reports on indigenous outcomes for regular publication and jurisdictions are working with their agencies to improve data collection and quality.
- In February 2005 the Chairman of the Steering Committee and the Head of Review Secretariat responded to an invitation and provided testimony to the Senate Select Committee on the Administration of Indigenous Affairs on services to, and outcomes for, indigenous people based on data and analysis in the 2003 Overcoming Indigenous Disadvantage report and the 2005 Report on Government Services.
- In testimony before the Senate Select Committee on the Administration of Indigenous Affairs, the Aboriginal and Torres Strait Islander Social Justice Commissioner, Human Rights and Equal Opportunity Commission, stated in relation to programs targeting indigenous disadvantage that ‘the reports of the Productivity Commission are critically important to establish benchmarks for us to be able to measure the impacts’ (Calma 2005, p. 6).
- There were four mentions of the Overcoming Indigenous Disadvantage report in the Federal Parliament in 2004-05.
- The Convenor of the Review’s Indigenous Disadvantage Working Group and the Head of the Review Secretariat presented a paper on the report at the Indigenous Service Delivery Outcomes Conference in March 2005.
- In addition, the 2003 Indigenous Disadvantage Report was:
 - cited in articles in such journals as *Australia and New Zealand Health Policy* and the *Medical Journal of Australia*; and
 - accessed from the Commission’s website, with more than 6900 external requests in the period to June 2005.

Following release of the 2005 Overcoming Indigenous Disadvantage report:

- The Minister for Immigration, Multicultural and Indigenous Affairs welcomed the report in the following terms:

this report provides a general snapshot of where we are and how far we have to go. The data in the report identify both problem areas and where we are seeing improvements being made ... All up, the report presents a challenging message for all of us – governments, indigenous communities and leaders, and all Australians. (Vanstone 2005)

- The ACT Chief Minister (Stanhope 2005) and the Australian Medical Association (AMA 2005) both issued media releases referring to findings in the report.
- Media coverage was extensive with 25 printed newspaper articles, and 44 electronic media articles (radio, television or internet) in the immediate period following its release. A total of 2236 bound copies of the report and 2796 overviews were distributed by the Commission. Copies of the report and its overview were distributed by request to indigenous organisations.

Performance monitoring of government trading enterprises

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

- The Minister for Finance and Administration drew on specific findings in the Commission's most recent GTE report — on the rates of return made by Federal and State GTEs and their dividend payout ratios — in his National Press Club Address (Minchin 2005).
- The National Competition Council drew on the Commission's profitability data for government forestry businesses in its 2004 Assessment Report (NCC 2004a).
- Responses to the Commission's External Governance Workshop held in March 2005, as at an earlier workshop held in September 2003, indicated that participants found it a valuable exercise.
- The reports on the financial performance of GTEs attracted media attention through the year and in 2004-05 there were nearly 6500 external requests for the website pages of the 2004 and earlier reports.

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 2004-05*.

The objective of the Commission's regulation review activities is to promote regulation-making processes that, from an economy-wide 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 including, where appropriate, 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 2004-05 were:

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

Activities in 2004-05

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

In 2004-05 the Australian Government introduced 172 Bills and 2380 disallowable instruments into Parliament.

In the same period, the ORR received 851 new RIS queries (compared with 845 queries in 2003-04). Of these, the ORR advised that RISs were required in 167 cases. Of those proposals reported to have been made or tabled in 2004-05, the ORR identified 85 as triggering the Government's RIS requirements at the decision-making stage. It provided comments on the 71 RISs subsequently prepared.

As shown in table B.9, the number of RIS queries received has been relatively stable in the last three years, but there was a decline in the number of proposals finalised in 2004-05 that required a RIS. This suggests that the 9 October 2004 Federal election resulted in fewer significant regulations being made. Furthermore a large proportion of the Australian Government's recent regulatory activity has been focused on making minor amendments to existing arrangements, rather than in

introducing new, or making significant amendments to, existing regulation. Such minor and machinery regulation does not require preparation of a RIS, but nevertheless requires the ORR to carefully consider each proposal and provide advice on whether a RIS is required.

In 2004-05 the ORR also provided formal training on RISs and regulatory best practice to a total of 415 officials from a wide range of departments and agencies. This compares with 437 officials trained in 2003-04. RIS training was provided to 209 Australian Government, 14 State Government and 80 New Zealand Government officials, and to 112 officials assisting Ministerial Councils and national standard-setting bodies.

In addition, in advising Ministerial Councils and national standard-setting bodies on regulatory best practice, the ORR provided advice on 21 RISs which were considered by these decision-making bodies in the twelve months ending 31 March 2005 (compared to 36 RISs in the 12 months ending 31 March 2004). The ORR reported on regulation making by Ministerial Councils and national standard-setting bodies to the National Competition Council and to the Committee on Regulatory Reform, a Senior Officials group reporting to COAG.

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 monitoring and contributing to regulatory reform developments more broadly throughout Australia and internationally during 2004-05, the Head of the ORR:

- visited the OECD and UK Cabinet Office to deliver three presentations and discuss a range of regulatory review and reform mechanisms and processes;
- delivered a presentation to the APS Commission/Economic Society of Australia Symposium on Cost-Benefit Analysis;
- attended and delivered presentations to the annual meeting of State, Territory and New Zealand regulation review units in Perth, in October 2004; and
- provided input into the Australian Public Service Commission 'Foundation Project' booklet and internet resource.

The ORR also:

- hosted an officer from the Regulatory Impact Analysis Unit, Ministry of Economic Development, of the New Zealand Government for four weeks;
- commented on Treasury guidelines for preparing explanatory material for tax legislation;
- provided advice on regulatory impact analysis training, regulatory performance indicators and the role of the ORR to officials from the Flemish Regional Government in Belgium, the Republic of Korea, Bradford University and Illinois University;

Table B.9 Australian Government regulatory and RIS activities, 1999-2000 to 2004-05

	1999-2000	2000-01	2001-02	2002-03	2003-04	2004-05
	<i>no.</i>	<i>no.</i>	<i>no.</i>	<i>no.</i>	<i>no.</i>	<i>no.</i>
Regulations introduced						
Bills	159	169	207	174	150	172
Disallowable instruments	1832	1438	1711	1615	1538	2380
Total introduced	1991	1607	1918	1789	1688	2552
RIS workload						
Total number of new RIS queries received by the ORR	826	740	709	861	845	851
- of which, the ORR advised a RIS was required	266	171	175	132	174	167
Proposals finalised in 2004-05^a						
RISs required	207	157	145	139	114	85
RISs prepared	180	133	130	120	109	71

^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.

Source: ORR estimates.

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- in conjunction with State and Territory regulation review units, developed a web-forum, for sharing information relating to regulatory review;
 - had ongoing discussions with a wide range of business, community and other groups regarding regulation making and the RIS process; and
 - liaised on a variety of regulatory issues with the OECD, New Zealand, United Kingdom Cabinet Office and government officials from a range of countries, including Korea and Belgium.

The ORR provides information on its regulatory review activities through *Regulation and its Review*, part of the Productivity Commission's Annual Report suite of publications. *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 2003-04, which was released in November 2004, 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 value of effective and meaningful consultation in achieving high quality regulatory outcomes.

The ORR also provides information to government agencies and the public through a webpage linked to the Productivity Commission's website.

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.

In 2004-05 the ORR commenced an ongoing survey of officials preparing RISs to obtain feedback on how departments and agencies view the ORR's work performance and the quality of its service in providing advice on the Government's regulatory best practice requirements. The ORR dispatched 59 evaluation forms and received 27 responses — a response rate of 45 per cent. Fourteen respondents (52 per cent) rated the quality of the ORR's written and oral advice as 'excellent' while seven (26 per cent) rated it as 'good'. Six respondents (22 per cent) considered the ORR's service as 'satisfactory'. Ten respondents offered specific suggestions on how the ORR could improve the quality of its advice, including:

- being more flexible about the RIS requirements;
- having a better appreciation of 'political realities underlying regulatory action';

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- not seeking technical and financial information that is not readily available; and
 - not providing comments on second or third iterations of a draft RIS, which could have been provided on the first draft.

As in previous years, the ORR surveyed the 209 Australian Government officials who received training in regulatory best practice in 2004-05 and 154 responses were received — a response rate of 74 per cent. The responses indicate that the ORR training was well received, with 94 per cent rating the training as either ‘excellent’ or ‘good’.

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 their adequacy. However, where further redrafting is necessary, additional time may be needed to ensure an adequate standard is achieved. In practice, in 2004-05 the ORR provided formal feedback (comments on the first draft of the RIS) to departments and agencies, on average, 5.3 working days after RISs were received. Moreover, the ORR provided comments on 92 per cent of all (first draft) RISs received within two weeks.

During 2004-05 there were several instances where departments and agencies requested advice on their RISs within a few days and sometimes a few hours, often without prior notice or warning. In some cases, the ORR was not able to meet these urgent requests, as such short timeframes make it difficult to give proper consideration to all the relevant regulatory options and impacts. Such requests may indicate poor planning and development processes for regulation making 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 2004-05.

The ORR has also delivered all other outputs in a timely manner. For example, it prepared a report to the National Competition Council (NCC) on compliance with the COAG *Principles and Guidelines for National Standard Setting and Regulatory Action by Ministerial Councils and Standard-Setting Bodies*. This report, which covered compliance for the 12 months to the end of March 2005, was completed and delivered on time.

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.

- The ORR has sought to improve the quality of regulation making by gradually increasing the standard of analysis required in RISs. However, a significant source of non-compliance continues to be a failure by departments and agencies to prepare RISs when required.
 - While RISs were required for 85 regulatory proposals in 2004-05, only 71 were prepared. Of these, 68 were assessed as adequate at the decision-making stage (80 per cent compliance). This compares to a RIS compliance rate of 92 per cent in 2003-04.
 - Compliance for the 66 proposals that required a RIS at the tabling stage was 89 per cent (down from 95 per cent in 2003-04).
 - For significant regulatory issues, the RIS compliance rate in 2004-05 was 67 per cent (down from 94 per cent in 2003-04).
- Of the 71 proposals for which a RIS was prepared, in 10 cases the preferred option was modified during the policy development process between the first draft of the RIS sighted by the ORR and the final RIS considered by the decision maker. This supports the contention that consultation and transparency, both key elements of the Government's RIS process, are important factors in achieving better regulatory outcomes. It also illustrates the potential for the RIS process to add value to deliberations about regulatory problems and possible solutions.
- RISs tabled in the Parliament with explanatory memoranda and explanatory statements provide 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 people appearing before parliamentary committees have drawn on the content of RISs.

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- In 2004-05 the need for, and content of, RISs were raised in parliamentary discussions on 10 occasions. Most discussion focused on the analysis contained in the ‘impact’ and ‘consultation’ sections of RISs.
 - State and Territory government officials contacted the ORR on six occasions during 2004-05 to confirm that proposals complied with COAG RIS requirements, before proceeding with legislation in their State or Territory.

Indicators of the usefulness of the ORR’s regulation review activities and in promoting understanding of regulatory best practice are also found in assessments of its performance and use of its reports.

- In its 2004 NCP Assessment of the regulatory gatekeeping mechanisms of governments, the National Competition Council commented that:

the Australian Government’s gatekeeping arrangements comply with NCP obligations for effective gatekeeping. In particular, the ORR makes a significant contribution to improving regulatory quality and transparency by monitoring the compliance of departments with the government’s regulatory requirements. (NCC 2004a, p. 4.6)

The NCC was critical of the lack of a clear independent mechanism for advising the NSW Government on the likely impact of proposed regulations before introduction to Parliament. While the NSW Cabinet Office advises agencies on regulatory best practice, the NCC had reservations about its separation from the policy development process and the transparency of review mechanisms noting:

This is in contrast to the federal ORR which is located within the Productivity Commission — an independent statutory authority. Consideration should therefore be given to relocating the regulatory review function outside of the Cabinet Office. (NCC 2004a, pp. 4.7–4.8)

- In its analysis of business regulation reform proposals, the Business Council of Australia’s Action Plan extensively cited the 2003 Staff Working Paper, *Mechanisms for Improving the Quality of Regulations: Australia in an International Context*, as well as drawing on data and analysis in *Regulation and its Review* (various issues), Commission inquiry reports and speeches by the Commission’s Chairman on regulatory issues (BCA 2005a). (The Chairman responded to the BCA proposals in his speech at the ANU, ‘Regulation-making in Australia: Is it broke? How do we fix it?’, on 7 July 2005.)
- While not specifically mentioning ORR outputs, upon releasing the report *Compliance Costs Time and Money* in November 2004, the Australian Industry Group proposed that the regulation compliance burden be managed and reduced by: ‘Strengthening accountability under Regulation Impact Statements by making government departments more accountable through periodic reviews to assess how well departments anticipated the impact of any new regulation on business compliance’ (Ai Group 2004).

- In its 2005 pre-budget submission the Australian Chamber of Commerce and Industry drew on reporting in *Regulation and its Review*, proposed measures to address poor RIS compliance and policy design, and argued that the operation of ORR's equivalents in the States could be improved by giving them the same formal independence from government as accorded the ORR (box B. 4).
- Approximately 1500 printed copies of *Regulation and its Review 2003-04* were distributed in 2004-05, including to each Member of the House of Representatives and the Senate.

Box B.4 ACCI views on strengthening regulation assessment processes in Australia

In its 2005 pre-budget submission to the Australian Government, the Australian Chamber of Commerce and Industry stated:

ACCI proposes a number of recommendations to address the issue of poor RIS compliance and policy design. Firstly, greater education, skill development, resources and priority within agencies is needed. Secondly, the ORR, in conjunction with agency heads, needs to address the mentality within certain departments and agencies that RISs can be used as a means to justify regulation, as opposed to the original intention of validating the need for regulation. And thirdly, State counterparts of the ORR must be made more independent. The Commonwealth ORR, through its operation as an independent body, has formal independence from other Commonwealth departments and agencies. State ORR equivalents are currently co-located within policy departments such as the Premier's Department, State Development or Treasury. The Chamber considers that in order for these bodies to operate impartially and effectively, there must be clear lines of separation. (ACCI 2005a, p. 37)

The Chamber also stated that it supported recommendations in the 2003 Senate Employment, Workplace Relations and Education Committee's *Small Business Employment Report*, two of which related to the Commission and the RIS process:

- that the Productivity Commission be asked to report to COAG on the most appropriate body to monitor and manage a continuing program of cross-jurisdictional regulatory review and coordinate the rolling programs of regulatory review to be undertaken by all tiers of government; and
- that the RIS guidelines be amended so that agencies have to provide quantitative estimates of compliance costs, based on detailed proposals for implementation and administration, and that regular reviews be commissioned of the accuracy of compliance estimates in RISs for regulations with a major impact on business.

The ACCI noted that these Senate Committee recommendations had been 'effectively' rejected by the Government.

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- In 2004-05 there were just over 15 000 requests for the ORR website home page and 2450 requests for *Regulation and its Review 2003-04*. There were 3550 requests for *A Guide to Regulation* and 2400 requests for the *COAG Principles and Guidelines*. The RIS training package (1300 requests) and example RISs (2050 requests) were also accessed frequently.

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 2004-05 were:

- 0.5 staff years; and
- \$0.1 million on an accrual basis.

Activities in 2004-05

Complaints activity

The AGCNCO received four formal complaints during 2004-05 (table B.10). One complaint was carried forward from 2003-04 and, at the end of the financial year, one complaint was outstanding. Details of complaints which were investigated and preliminary investigations which did not proceed to report are contained in appendix D.

Table B.10 Formal competitive neutrality complaints, 1998-99 to 2004-05

<i>Activity</i>	<i>1998-99</i>	<i>1999-00</i>	<i>2000-01</i>	<i>2001-02</i>	<i>2002-03</i>	<i>2003-04</i>	<i>2004-05</i>
Written complaints received	6	7	5	2	1	9	4
Action:							
New complaints formally investigated	2 ^a	4	5 ^b	1	–	1	0
Complaints investigated but suspended	–	1	–	–	–	–	0
Complaints investigated and resolved through negotiation	–	–	1	1	–	1	0
Complaints not investigated	4	2	–	–	1	6	3
Reports completed	1	4	–	5 ^b	–	1	1
Complaints on hand (30 June)	–	–	5 ^b	–	–	1	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 2004-05.

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 2004-05 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.

The Office provides advice on all aspects of the implementation of competitive neutrality. However, in response to requests over the past year, the Office has provided a significant amount of advice to agencies implementing competitive neutrality as part of market testing exercises for information and communications technology services.

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.

As noted in previous reports, formal investigations can involve provision of significant amounts of data to the Office by both the complainant and the government business subject to complaint. In these situations the Office does not consider it is conducive to good outcomes to enforce a 90 day time limit on complaints. The EDI Post investigation and report fell into this category.

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.

The AGCNCO released its investigation of the Australian Valuation Office in May 2004. In line with the recommendation of the report, the AVO is negotiating to purchase professional indemnity insurance on a commercial basis. In addition, in its competitive neutrality investigation of the State Valuation Office released in

October 2004, the NSW Independent Pricing and Regulatory Tribunal quoted findings from the Office's analysis of professional indemnity insurance and suggested this is also an issue for the State Valuation Office (IPART 2004).

In response to its advice on implementing competitive neutrality as part of market testing exercises for outsourcing information and communications technology services, the AGCNCO understands that agencies adjusted the estimation of their in-house cost bases in line with suggestions made in the Office's advice.

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 two AGCNCO publications — on cost allocation and pricing, and rate of return issues — in assisting their implementation of competitive neutrality policy. Although released in 1998, these research papers continue to be in demand and use. For example, IPART (2004) referred to the cost allocation paper in its competitive neutrality investigation of the State Valuation Office. During 2004-05 there were more than 8200 external requests to the website for AGCNCO investigation reports and around 800 to 900 external requests for each of the AGCNCO research publications.

Output 5: Supporting research and activities and statutory annual reporting

While much of the Productivity Commission's research activity is externally determined, it has some discretion in meeting its legislative charter to undertake a supporting program of research and to report annually about matters relating to industry development and productivity, including assistance and regulation. 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 2004-05 were:

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

Activities in 2004-05

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 2003-04, delivered in early December 2004 but not tabled in Parliament until February 2005, which discussed the size and nature of the challenges facing Australia as its population ages, and the appropriate policy responses, especially in reducing impediments to labour supply and improving the efficiency, effectiveness and equity in Australia's health and aged care systems; and
 - two companion publications on regulatory developments in 2004-05 and on trade and assistance issues, released in November and December, respectively;
- draft and final supplements to the Commission's inquiry on NCP reforms, on modelling the impacts of infrastructure change over the 1990s;
- three Commission Research Papers;
- a Commission conference in November 2004 on quantitative tools and new modelling techniques that can help improve microeconomic reform policy analysis and decision making (the papers are to be published);
- the second Richard Snape Lecture, delivered by Anne O. Krueger, First Deputy Managing Director of the IMF, on 8 November 2004 and subsequently published;
- four Staff Working Papers; and
- other projects associated with inquiry and research support, technical research memoranda, assistance to other government departments, conference papers and journal articles.

The presentation by Anne Krueger was the second in a series of lectures in memory of Professor Richard Snape, the inaugural lecture having been given by Professor Max Corden. Professor 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.

Research proposals in 2004-05 were considered against the broad research objective outlined in chapter 2 and a set of guidelines emphasising:

- the absolute priority given to work commissioned by the Government and standing research responsibilities;

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

The research publications produced in the supporting research program in 2004-05 are listed in box B.5. Of particular note were projects that developed economic and modelling frameworks to improve the information base for the policy analysis of the impacts of NCP infrastructure reforms in the 1990s, of water issues and of tariff reduction proposals in WTO trade negotiations. Research projects underway at the end of the year are shown in box B.6.

Box B.5 Supporting research and annual reporting publications, 2004-05

Annual report suite of publications

Annual report 2003-04	Regulation and its review 2003-04
Trade & assistance review 2003-04	

Supplements to government-commissioned research reports

Modelling impacts of infrastructure industry change over the 1990s (draft)	Modelling impacts of infrastructure industry change over the 1990s (final)
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Commission research papers

ICT use and productivity: a synthesis from studies of Australian firms	Assistance to tourism: exploratory estimates
Trends in Australian agriculture	

Staff working papers

Responsiveness of demand for irrigation water: a focus on the southern Murray-Darling Basin	An integrated tariff analysis system: software and database
Modelling water trade in the southern Murray-Darling Basin	The growth of labour hire employment in Australia

2004 Richard Snape Lecture

Spreading prosperity and resisting economic divergence: the significance of Richard Snape's academic legacy (Anne O. Krueger)

Box B.6 Current supporting research projects

Technological and organisational complementarities in firm-level innovation	R&D: changing patterns and implications for growth
ICT and productivity: a sensitivity analysis	Water use in Australian agriculture and farm performance
Are stranded irrigation assets a problem?	Modelling urban water demand and trade
Incorporating externalities into the pricing of irrigation water	The state of non-traditional employment in Australia
The preference for imports – Armington elasticities and terms of trade effects in GE models	Implications of the Armington assumption for trade models
Estimating Armington trade elasticities for the Monash and USAGE models	An alternative to the Armington assumption for models of world trade
Using the Labour Input Loss Index to inform policy choices	Economic modelling for Australia and the USA (ARC Linkage Grant) *
The evolution of Australian enterprises 1990 to 2007 (ARC Linkage Grant) *	Assessing the social and fiscal policy implications of an ageing population (ARC Linkage Grant) *
The distributional impact of health outlays: developing the research and modelling infrastructure for policy makers (SPIRT Project) *	

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

The Commission sees value in the public good aspect of its research and promotes dissemination of its work through publications, internet access and presentations. Details of Commission Research Papers and the 80 presentations given by the Chairman, Commissioners and staff in the year are provided in appendix E.

An example from 2004-05 of the technical contribution made to other government departments is the participation of Commission staff in panels established by the Department of Foreign Affairs and Trade to assess tender applications for economic analysis of the impacts of prospective trade agreements with China, Malaysia and Japan. Appropriately, the assistance did not extend to the review of analytical assumptions or modelling results — activities which could be misconstrued as Commission endorsement of the modelling or policy direction.

Quality indicators

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

Research projects can involve consulting with key interested parties on the issues they view as important and obtaining access to information. For example, in preparing its exploratory estimates of assistance to tourism, the Commission consulted with officials from a dozen or more government agencies across jurisdictions and benefited from the technical assistance of staff from the ABS.

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. Generally, drafts of research reports are refereed externally. Referees are chosen both for their expertise on a topic and to reflect a range of views. For example, ABARE staff provided comments on a draft of the agricultural trends paper, and experts from the Melbourne Institute of Applied Economic and Social Research and from ACIRRT at the University of Sydney commented on an early draft of the Staff Working Paper on labour hire. Responding to referees' comments enhanced the quality of final research outputs.

A further example of the Commission's quality assurance processes and the quality of published output is provided by the Staff Working Paper, *Modelling Water Trade in the Southern Murray-Darling Basin*, which involved:

- participation in a consortium to develop modelling capacity to understand better the economic impacts of changes in water use at a regional level (other consortium members were the Centre of Policy Studies, the Victorian Primary Industries and Treasury and Finance departments and CSIRO Land and Water);
- two workshops with consortium members, ABARE and the Department of the Prime Minister and Cabinet to discuss model specifications and preliminary results;
- a seminar at the Victorian Department for Sustainability and Environment;
- presentation of papers at a Regional Modelling Workshop hosted by the Centre of Policy Studies and the Victorian Department Treasury and Finance; the 2004 Australian Conference of Economists; and the 2005 Australian Agricultural and Resource Economics Society Conference; and
- the acceptance and publication of the paper in *The Economic Record* in August 2005.

Further evidence of the quality and standing of the Commission's supporting research program this year was the acceptance by Assistant Commissioner Dean Parham in June 2005 of an invitation to join the executive committee of the Comparative Analysis of Enterprise Data (CAED) international network which focuses on the use of firm level data in economic research.

Timeliness

Of the publications listed in box B.5, around half were completed to the schedule set by the Commission. These included the annual report suite of publications and the modelling supplements to the NCP inquiry. Some research projects underway in 2003-04 were subsumed in the NCP modelling exercise.

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 a lower priority supporting research project 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

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

- The continuing usefulness of the Commission's stream of research on Australia's productivity performance is demonstrated by the widely based references to it. The Australian Government's 2005-06 Budget Papers referred to recent analysis of the role of reform in Australia's productivity revival (Parham 2004); the Victorian Premier drew on this and other Commission productivity analysis in his push for a third wave of national reform (Bracks 2005); and in a report for the Business Council of Australia, Access Economics (2005b) drew on

this body of research noting that one of the outputs, in particular, provided ‘an excellent discussion’ of the links between reform and productivity growth. The OECD’s latest economic survey of Australia referred to a dozen different outputs from the Commission’s productivity research program (OECD 2004b). There were 10 mentions of the Commission’s productivity analysis in the Federal Parliament in 2004-05.

- The 2005 Staff Working Paper, *The Growth of Labour Hire Employment in Australia*, was tabled by Unions NSW and employer bodies in proceedings before the NSW Industrial Relations Commission. The staff paper (Laplagne et al. 2005) was also used in submissions to the House of Representatives Committee inquiry on independent contracting and labour hire arrangements. That Committee’s report made extensive references to the paper, noting that it ‘provided valuable background’, and the Committee also used previous staff research on self-employed contractors (Waite and Will 2001). The Department of Employment and Workplace Relations (DEWR 2005) drew on both these staff papers in its discussion paper on independent contracting and a recent Victorian parliamentary committee report also used them extensively (EDC 2005).
- Papers from conferences organised or co-sponsored by the Commission under its supporting research program and published by it — on *Changing Labour Markets: Prospects for Productivity Growth* (1997), *Microeconomic Reform and Productivity Growth* (1998), *Policy Implications of the Ageing of Australia’s Population* (1999), the *Health Policy Roundtable* (2002) and on *Managed Competition in Health Care* (2002) — continue to inform current policy debate as evidenced by use in such recent policy documents prepared for the National Competition Council (NCC 2004b), the Victorian Government (Allen Consulting Group 2004), the Business Council of Australia (Access Economics 2005b), as well as the OECD (2004b).
- The Chairman’s speeches often receive media coverage and are used by others in policy analysis and debate including in parliament and, for example, by the Premier of Victoria (Bracks 2005) and peak business groups (such as in BCA 2005a).
- In addressing misconceptions about the link between exports and Australia’s current account deficit, the Prime Minister’s Exports and Infrastructure Taskforce (2005) cited the discussion of this issue in the Industry Commission’s annual report for 1994-95. (The Industry Commission was a predecessor of the Productivity Commission.)
- *Trade & Assistance Review*, part of the Commission’s suite of annual reporting, is used widely in discussion of industry assistance and trends is extensively cited (for example, in OECD 2004b) and the Commission’s analysis of some

globalisation issues in its 1999-2000 annual report was used by the Business Council of Australia in its position paper on offshoring and global outsourcing (BCA 2004). That BCA publication also used Commission research on skill and productivity (2002) and on trends in Australian manufacturing (2003).

- The Commission's trade-related work, especially on measuring barriers to services trade, continues to be used in the work of the Trade Directorate of the OECD. Other supporting research outputs referenced elsewhere in internal OECD papers during 2004-05 included the Commission's submissions to the Review of the Trade Practices Act (2002) and to the Hogan Review of Aged Care (2003) and a 1997 Industry Commission Staff Information Paper on land degradation.
- Examples of the use of supporting research outputs in the work of federal parliamentary committees and the Parliamentary Library are provided in tables B. 1 and B.2, respectively.

More generally, important means by which supporting research activities contribute to public debate are through media coverage, the dissemination of reports to key interest groups and ready access to reports on the Commission's website. The Commission Research Paper *Trends in Australian Agriculture*, for example, received more than 70 mentions in press and electronic media in the weeks following its release, with much coverage in regional media. To 30 June 2005 for the reports listed in box B.4, there were more than 15 000 external requests for the index pages on the Commission's website. There was a total of more than 31 300 external requests for speeches given by the Commission's Chairman.

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 2004-05 and previous years. It also reports on commissioned projects received since 30 June 2005.

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 2003-04 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					
5-2-03	Review of the <i>Disability Discrimination Act 1992</i>	AR 02-03	Report No. 30 signed 30-4-04	AR 03-04	page 169
23-4-04	Review of National Competition Policy Reforms	AR 03-04	Report No. 33 signed 28-2-05	page 161	page 162
31-8-04	Smash Repair and Insurance	AR 03-04	Report No. 34 signed 17-3-05	page 165	page 167
31-8-04	Australian Pigmeat Industry	AR 03-04	Report No. 35 signed 18-3-05	page 164	page 165
31-8-04	Private Cost Effectiveness of Improving Energy Efficiency	AR 03-04	Report No. 36 signed 31-8-05	report not released	
6-4-05	Conservation of Australia's Historic Heritage Places	page 156	in progress	na	na
Other commissioned projects					
28-8-03	Rules of Origin under the Australia–New Zealand Closer Economic Relations Trade Agreement	AR 02-03	Report completed 28-5-04	AR 03-04	page 169
17-2-04	Reform of Building Regulation	AR 03-04	Report completed 17-11-04	page 157	page 159
24-6-04	Economic Implications of an Ageing Australia	AR 03-04	Report completed 24-3-05	page 162	page 164
29-6-04	Australian and New Zealand Competition and Consumer Protection Regimes	AR 03-04	Report completed 16-12-04	page 159	page 161
31-8-04	Impacts of Advances in Medical Technology in Australia	AR 03-04	Report completed 31-8-05	page 167	
15-3-05	Australia's Health Workforce	page 153	in progress	na	na
16-3-05	Review of the Australian Consumer Product Safety System	page 155	in progress	na	na
25-7-05	Economic Impacts of Migration and Population Growth	page 156	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 2003-04 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.

Australia's health workforce

On 15 March 2005 the Treasurer, in response to a request by COAG, asked the Commission to undertake a research study to examine issues impacting on the health workforce including the supply of, and demand for, health workforce professionals, and propose solutions to ensure the continued delivery of quality health care over the next 10 years. The study is to be undertaken in the context of the need for efficient and effective delivery of health services in an environment of demographic change, technological advances and rising health costs. The Commission was asked to produce an issues paper by 31 May 2005, provide a draft report, and produce a final report by 28 February 2006. COAG subsequently asked for an earlier completion and the Commission's report is to be finalised by 23 December 2005.

In reporting on Australia's health workforce, the Commission is to:

- Consider the institutional, regulatory and other factors across both the health and education sectors affecting the supply of health workforce professionals, such as their entry, mobility and retention, including:
 - the effectiveness of relevant government programs and linkages between health service planning and health workforce planning;
 - the extent to which there is cohesion and there are common goals across organisations and sectors in relation to health workforce education and training, and appropriate accountability frameworks;
 - the supply, attractiveness and effectiveness of workforce preparation through VET, undergraduate and postgraduate education and curriculum, including clinical training, and the impact of this preparation on workforce supply;
 - workforce participation, including access to the professions, net returns to individuals, professional mobility, occupational re-entry, and skills portability and recognition;
 - workforce satisfaction, including occupational attractiveness, workplace pressure, practices and hours of work; and

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- the productivity of the health workforce and the scope for productivity enhancements.
 - Consider the structure and distribution of the health workforce and its consequential efficiency and effectiveness, including:
 - workforce structure, skills mix and responsibilities, including evolving health workforce roles and redesign, and the flexibility, capacity, efficiency and effectiveness of the health workforce to address current and emerging health needs, including indigenous health;
 - analysis of data on current expenditure and supply of clinical and non-clinical health workers, including the development of benchmarks against which to measure future workforce trends and expenditure; and
 - the distribution of the health workforce, including the specific health workforce needs of rural, remote and outer metropolitan areas and across the public and private sectors.
 - Consider the factors affecting demand for services provided by health workforce professionals, including:
 - distribution of the population and demographic trends, including that of indigenous Australians;
 - likely future pattern of demand for services, including the impact of technology on diagnostic and health services; and
 - relationship between local and international supply of the health workforce.
 - Provide advice on the identification of, and planning for, Australian healthcare priorities and services in the short, medium and long-term, including:
 - practical, financially-responsible sectoral (health, and education and training) and regulatory measures to improve recruitment, retention and skills-mix within the next ten years; and
 - ongoing data needs to provide for future workforce planning, including measures to improve the transparency and reliability of data on health workforce expenditure and participation, and its composite parts.

In doing so, the paper should take into account existing Australian research and overseas developments that have demonstrated success in providing a flexible response to emerging trends.

- Provide advice on the issue of general practitioners in or near hospitals on weekends and after hours, including the relationship of services provided by general practitioners and acute care.

Review of the Australian consumer product safety system

On 16 March 2005 the Parliamentary Secretary to the Treasurer requested the Commission to undertake a research study on the impacts of options for reforming Australia's general consumer product safety system. The system consists of the product safety provisions contained in the Trade Practices Act and equivalent provisions in State and Territory Fair Trading Acts, along with the administration and enforcement of these provisions and other non-regulatory activities conducted by governments to achieve consumer product safety objectives.

The primary purpose of the study is to inform the Review of the Australian Consumer Product Safety System currently being undertaken by the Ministerial Council on Consumer Affairs. The reform options to be examined in the study include those set out in the public discussion paper released by the Council on 27 August 2004. The options include:

- a general legal obligation for businesses to only market safe consumer products;
- a revised definition of unsafe goods;
- revisions to the regulatory coverage of services and second-hand goods;
- the provision of improved product safety information to businesses and consumers;
- new requirements for businesses to monitor and report on the safety of their products;
- the establishment of product hazard early warning information systems;
- the linking of product safety information systems;
- increased government and industry funding of product safety research;
- a requirement for businesses to recall unsafe products;
- a government power to audit product recalls;
- measures to harmonise product safety legislation, administration and enforcement; and
- measures to enhance the making of product safety regulation decisions by the Australian Government.

In undertaking the study the Commission is to:

- assess the extent to which Australia's consumer product safety system is able to achieve its objectives, as outlined in the public discussion paper. This includes assessing the system's ability to address market failures which affect the safety of consumer products in Australia.

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- examine the direct and indirect economic and social costs and benefits of each reform option, in addition to the costs and benefits of retaining the current consumer product safety system. This work is to include: examining the distribution of costs and benefits amongst businesses, consumers and governments; assessing the impacts on small businesses and families; and evaluating the net community impact of each option. The examination of costs and benefits is to include the impact on competition and international trade of each option, as well as their impact on economic integration between Australia and New Zealand.

The Commission was requested to report within ten months of commencing the study and to provide a draft report by July 2005.

Conservation of Australia's historic heritage places

On 6 April 2005 the Treasurer referred the policy framework and incentives for the conservation of Australia's historic built heritage places to the Commission for inquiry and report within 12 months. The Commission is to examine:

- the main pressures on the conservation of historic heritage places;
- the economic, social and environmental benefits and costs of the conservation of historic heritage places in Australia;
- the current relative roles and contributions to the conservation of historic heritage places of the Commonwealth and the State and Territory governments, heritage owners (private, corporate and government), community groups and any other relevant stakeholders;
- the positive and/or negative impacts of regulatory, taxation and institutional arrangements on the conservation of historic heritage places, and other impediments and incentives that affect outcomes;
- emerging technological, economic, demographic, environmental and social trends that offer potential new approaches to the conservation of historic heritage places; and
- possible policy and program approaches for managing the conservation of Australia's historic heritage places and competing objectives and interests.

Economic impacts of migration and population growth

On 25 July 2005 the Treasurer requested the Commission to undertake a research study on the impact of population growth, including migration, on Australia's productivity growth and to report within nine months.

The Commission is to:

- report on the nature of international migration flows over the last decade and the extent to which Australia has participated in them and, in particular, flows of skilled migrants;
- examine the impacts on skill levels in the Australian population generally, as well as within different industries and occupations, of skilled and unskilled migration;
- assess the relationship between migration, its different permanent and temporary categories, population growth, population and workforce diversity and productivity in Australia and its states and territories and regions (where possible) and assess likely future developments, quantifying impacts where possible and drawing on the experience of other OECD countries;
- identify the mechanisms through which the impacts of migration and population growth on productivity are transmitted;
- report on any legislative or other impediments which prevent Australia realising the potential productivity gains from migration and from effective use of Australia's population and workforce diversity; and
- consider the impact of migration and population growth on labour force participation and economic growth more broadly.

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 September 2005. It includes terms of reference for those projects commenced and completed in that period and, where available, government responses.

Reform of building regulation

Research Report completed 17 November 2004, released 1 December 2004.

The Commission's key findings and recommendations were:

- The building sector is subject to a diverse range of regulations by all levels of government. The Building Code of Australia (BCA), in particular, contains building standards aimed at achieving health, safety and amenity objectives.
- There has been work over many years to bring a national approach to building regulation. Progress has been made, particularly in:
 - reducing differences in mandatory technical requirements across jurisdictions;and

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- changing the BCA to performance-based requirements, rather than prescriptive requirements.
 - However, this reform work is far from complete and recent developments are undermining a national and soundly based system of building regulation. The future agenda for building regulation reform should include:
 - further reducing variations across jurisdictions;
 - better articulating the performance-based requirements;
 - examining ways to enhance administration, compliance and enforcement systems;
 - examining the BCA’s approach to property protection from fire, in dialogue with interested parties, in order to resolve differences;
 - examining ways to reduce the erosion of a national approach to building regulation caused by actions of local governments through their planning powers; and
 - applying rigorous analysis to incorporating environmental requirements in the BCA.
 - The Australian Government, as well as the State and Territory governments, should continue to be actively involved in building regulation reform (including funding).
 - A new Inter-Governmental Agreement should be negotiated by all nine governments, so as to:
 - clarify the Australian Building Codes Board’s mission statement and objectives of building regulation reform;
 - strengthen the commitment to national consistency;
 - affirm the importance of a whole-of-government approach to building regulation initiatives;
 - outline the future work agenda, drawing on recommendations contained in this study;
 - emphasise the importance of the Australian Building Codes Board giving priority to its core business;
 - strengthen the use of regulatory impact analysis; and
 - agree to shared and increased funding and removal of some charges for the BCA.

Government response

On release of the report, the Chairman of the Australian Building Codes Board noted that the Commission had identified a demanding reform agenda and that, together with refinements to the existing Inter Government Agreement, the Commission's report 'gives the Board a clear blueprint to progress building industry regulation reform' (Laver 2004). The Australian Building Codes Board has representation from all levels of government, as well as industry, and is charged with progressing national reform initiatives.

In a subsequent announcement on the in-principle agreement of the Australian, State and Territory governments to a new Inter-Governmental Agreement, the Minister for Industry, Tourism and Resources noted that this landmark arrangement followed the Commission's extensive review and the new Agreement supported the Commission's findings (Macfarlane 2005). Specifically:

- the new Inter-Government Agreement would provide continued funding and clear direction for the Australian Building Codes Board and strengthen the BCA — through reinforcement of the need to set minimum standards within the BCA; automatic adoption, by all jurisdictions, of amendments to the BCA; and annual reporting of variations and non-adoption of amendments to the BCA;
- the States and Territories would begin implementing measures to ensure local governments do not undermine the nationally consistent building code through their planning approval processes; and
- Ministers agreed as far as practicable to restrict deviations for geographical, geological and climate factors and where variations to the BCA are introduced, they will be subject to regulation impact assessment.

Australian and New Zealand competition and consumer protection regimes

Research Report completed 16 December 2004, released 13 January 2005.

The Commission's principal findings and recommendations were:

- There has already been significant convergence of Australia's and New Zealand's competition and consumer protection regimes, particularly by international standards.
- Consequently, the regimes are not significantly impeding businesses operating in Australasian markets.
- Major changes to the two regimes are not warranted at this stage.

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- Full integration, requiring identical laws and procedures and a single institutional framework, would have high implementation and ongoing costs, change the operation of the existing national regimes and achieve only moderate benefits.
 - Partial integration, involving retaining the two national regimes, but establishing a single system to handle certain matters having Australasian dimensions, also would be unlikely to achieve net benefits.
 - However, the long-term objective of a single economic market for Australia and New Zealand would be assisted by a package of measures involving a transitional approach to integration of the two regimes.
 - This package would improve the effectiveness and efficiency of the regimes in dealing with present day competition and consumer protection matters having Australasian dimensions.
 - The transitional integration package, while retaining national sovereignty for each jurisdiction, would include:
 - retaining, but further harmonising, the two sets of laws in relation to competition and consumer protection policy;
 - making more formal the policy dialogue between the two governments on competition policy;
 - providing scope for businesses to have certain approvals considered on a ‘single track’ (but with separate decisions);
 - enhancing cooperation between the two regulatory institutions (the Australian Competition and Consumer Commission and the New Zealand Commerce Commission), including in relation to enforcement and research;
 - providing for the investigative powers of the regulators to be used to assist the regulator in the other country;
 - enhancing the information sharing powers between regulators (safeguards should be included to ensure that confidential information shared between regulators can remain protected from disclosure); and
 - adding consideration of impediments to a single economic market to the scope of the proposed review of Australian consumer protection.
 - Implementation of the recommendations would provide a framework in which the competition and consumer protection regimes of Australia and New Zealand evolve as:
 - the Australasian business environment integrates further; and
 - the broader policy environment develops further as the two governments make progress towards the goal of establishing a single economic market.

Government response

In their joint statement of 17 February 2005, the Australian Treasurer and the New Zealand Minister for Finance broadly endorsed the work program that the Commission had recommended to more closely integrate the competition and consumer protection regimes of the two countries (Costello and Cullen 2005).

Review of national competition policy reforms

Inquiry Report No. 33 signed 28 February 2005, released 14 April 2005.

On 23 April 2004 the Treasurer referred national competition policy (NCP) reforms to the Commission for inquiry and report within nine months. The Commission subsequently sought and obtained an extension in its reporting date to 28 February 2005.

The Commission's key findings and recommendations were:

- NCP has delivered substantial benefits to the Australian community which, overall, have greatly outweighed the costs. It has:
 - contributed to the productivity surge that has underpinned 13 years of continuous economic growth, and associated strong growth in household incomes;
 - directly reduced the prices of goods and services such as electricity and milk;
 - stimulated business innovation, customer responsiveness and choice; and
 - helped meet some environmental goals, including the more efficient use of water.
- Benefits from NCP have flowed to both low and high income earners, and to country as well as city Australia — though some households have been adversely affected by higher prices for particular services and some smaller regional communities have experienced employment reductions.
- Though Australia's economic performance has improved, there is both the scope and the need to do better. Population ageing and other challenges will constrain our capacity to improve living standards in the future. Further reform on a broad front is needed to secure a more productive and sustainable Australia.
- In a number of key reform areas, national coordination will be critical to good outcomes. These areas — many of which have been encompassed by NCP — should be brought together in a new reform program with common governance and monitoring arrangements. Priorities for the program include:

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- strengthening the operation of the national electricity market;
 - building on the National Water Initiative to enhance water allocation and trading regimes and to better address negative environmental impacts;
 - developing coordinated strategies to deliver an efficient and integrated freight transport system;
 - addressing uncertainty and policy fragmentation in relation to greenhouse gas abatement policies;
 - improving the effectiveness and efficiency of consumer protection policies; and

 - introducing a more targeted legislation review mechanism, while strengthening arrangements to screen any new legislative restrictions on competition.
 - An ‘overarching’ policy review of the entire health system should be the first step in developing a nationally coordinated reform program to address problems that are inflating costs, reducing service quality and limiting access to services.
 - National action is also needed to re-energise reform in the vocational education and training area.
 - Reform is important in other key policy areas, including industrial relations and taxation, but there would be little pay-off from new nationally coordinated initiatives.
 - The Australian Government should seek agreement with the States and Territories on the role and design of financial incentives under new national reform programs.

Government response

The Treasurer stated that as the Commission’s report was intended to inform the COAG review of NCP arrangements later in 2005, there would be no formal government response to this report (Costello 2005b). The response would instead be the outcome of the COAG review.

Economic implications of an ageing Australia

Research Report completed 24 March 2005, released 12 April 2005.

The Commission’s main findings were:

- Australia faces a pronounced ageing of its population over the next 40 years. One quarter of Australians will be aged 65 years or more by 2044-45, roughly double the present proportion. The proportion of the ‘oldest old’ will increase even more.

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- In itself, population ageing should not be seen as a problem, but it will give rise to economic and fiscal impacts that pose significant policy challenges.
 - People aged over 55 years have significantly lower labour force participation rates than younger people. As more people move into older age groups, overall participation rates are projected to drop from around 63.5 per cent in 2003-04 to 56.3 per cent by 2044-45.
 - Hours worked per capita will be about 10 per cent lower than without ageing.
 - Assuming the average labour productivity performance of the past 30 years, per capita GDP growth will slump to 1.25 per cent per year by the mid-2020s, half its rate in 2003-04.
 - While taxation revenue will largely track GDP growth, government expenditure is likely to rise more rapidly, placing budgets under considerable pressure.
 - Although education and some welfare payments are projected to increase more slowly than GDP, government spending on health, aged care and pensions will grow at a faster rate.
 - The major source of budgetary pressure is health care costs, which are projected to rise by about 4.5 percentage points of GDP by 2044-45, with ageing accounting for nearly one-half of this.
 - In the absence of policy responses, the aggregate fiscal gap will be around 6.4 percentage points of GDP by 2044-45, with an accumulated value over the 40 years of around \$2200 billion in 2002-03 prices.
 - On past trends, much of this could be expected to be borne by the Australian Government, but there are significant potential burdens faced by State and Territory governments.
 - A range of policy measures will be needed to reduce the fiscal pressure from ageing and/or to finance the fiscal gap.
 - Plausible increases in fertility and net migration would have little impact on ageing trends.
 - Measures to raise productivity and participation would enhance income growth and the capacity to ‘pay’ for the costs of ageing, including through taxation. However their ability to alleviate fiscal pressure directly depends on the extent to which service demands and costs continue to rise with growth.
 - More cost-effective service provision, especially in health care, would alleviate a major source of fiscal pressure at its source.
 - Timely action would avoid a need for costly or inequitable ‘big bang’ interventions later. Population ageing can only be conceived as a crisis if we let it become one.

Government response

On release of the report, the Treasurer stated that it provided ‘an independent and comprehensive analysis of the economic impacts of ageing for all levels of government for the first time’ as well as ‘useful background information for future planning and policy development by all Australian governments, in the context of the projected ageing of the Australian population’ (Costello 2005a). In addition, the Government drew on the Commission’s projections of future fiscal pressures due to ageing and non-demographic health pressures, growth in GDP per person and the distribution of the fiscal burden between the Australian and State governments in its 2005-06 Budget (Costello and Minchin 2005).

Australian pigmeat industry

Inquiry Report No. 35 signed 18 March 2005, released 16 August 2005.

On 31 August 2004 the Treasurer referred the competitive situation and outlook for the Australian pigmeat industry (including both production and processing) for inquiry and report within five months. The reporting date was subsequently extended to 18 March 2005.

The Commission found that:

- Australia’s pig producing and processing sectors continue to experience significant structural change.
- Over the past six years, Australia has become increasingly integrated into world pigmeat markets, with both exports and imports generally rising strongly.
- From 1999 to 2002 most pig producers were profitable. Between mid-2002 and late 2003, however, many pig producers made financial losses and the market shares for Australian pigmeat products fell.
- Declining competitiveness between mid-2002 and late 2003 was due to lower pig prices in competitor countries, high feed costs due to drought and an appreciating Australian dollar. Profitability improved during 2004, with some pigmeat businesses reporting profits, but imports continued to rise and exports fell.
- Australia’s main competitive advantages internationally are its ‘clean, green’ image, disease free status and closeness to Asian markets. Australia’s main disadvantages are high feed costs and low economies of scale.
- In the long run, the international competitiveness of pigmeat businesses will be driven by sustainable cost advantages and/or product differentiation.

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- Imports of pigmeat into Australia do not benefit significantly from subsidies. Government assistance provided to pigmeat producers in Denmark and the United States is low. Assistance to Australian pigmeat producers is comparable to these countries. Somewhat more assistance (still low) is provided to pigmeat producers in Canada.
 - Governments could reduce some impediments to industry performance and to competitiveness by, for example, seeking reductions in overseas trade barriers and reviewing the impact of single-desk grain exporting arrangements in Australia.
 - Such actions are unlikely, however, to make a large improvement to the competitiveness of pigmeat businesses or insulate the industry from such short term factors as drought and fluctuating exchange rates.
 - Any increase in trade restrictions on imported frozen uncooked pigmeat would impose costs on pigmeat consumers, retailers and manufacturers, and may not be in the long term interests of pig producers or primary processors.
 - General government assistance is available to help Australian pigmeat businesses to adjust and further assistance is not warranted at this time.

Government response

The Government response:

- in effect, endorsed the bulk of the Commission's findings;
- noted the substantial financial grants to the pigmeat industry to help it adjust to market and climatic conditions of the past few years — assistance on top of the \$24 million adjustment package provided between 1998 and 2002; and
- importantly, did not commit to additional industry-specific assistance measures for the pigmeat industry (McGauran 2005).

Smash repair and insurance

Inquiry Report No. 34 signed 17 March 2005, released 18 August 2005.

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 and report within five months. The Commission subsequently sought and obtained an extension of its reporting deadline to 31 March 2005.

The Commission's principal findings and recommendations were:

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- Serious issues of dispute between the smash repair and insurance industries affect fair trading and transparency, and impact on efficiency. The situation has worsened in recent years as insurer power has concentrated.
 - Rationalisation and productivity improvement in the smash repair industry will continue in response to a wide range of industry and market factors, not just in response to actions by the four major insurers to reduce costs.
 - Preferred smash repairer (PSR) arrangements benefit insurers, consumers and many repairers. Inevitably, some repairers are disadvantaged. But PSR arrangements should not in principle adversely affect the quality and safety of repair. Nevertheless, some improvements can be made.
 - Insurers could, at little cost, enhance the transparency of PSR arrangements.
 - Provided probity and prudential requirements are met, PSR status should not be automatically terminated on sale or transfer of a repair business.
 - The disadvantages of industry-wide nationally agreed PSR criteria are likely to outweigh any advantages.
 - The commonly used quoting system known as *funny time, funny money* should be abandoned.
 - If times and hourly rates are used, they should reflect realistic times and rates. Parts, paint and significant consumables should be separately costed.
 - There is no justification for *regulating* for an industry standard hourly rate or *imposing* industry standard hours.
 - If an insurer specifies repair methods and/or parts, it should accept responsibility in writing for the quality and safety consequences of its requirements.
 - Repairers should only be required to guarantee their work for an agreed reasonable time. They should not be required to guarantee parts or paint for longer than the manufacturers' own warranties.
 - Current payment times appear commercially acceptable in the vast majority of cases.
 - Consumers wanting choice of repairer can choose a policy from one of the several insurers offering that choice. On this basis, consumers have restricted, but reasonable, choice of repairer. But insurers should clearly and accurately explain to consumers the choice options under their policies.
 - There is prima facie justification for the development of an industry-wide code as a cost effective way to improve the relationships between insurers and repairers.
 - However, the net benefits of a code depend critically on its scope and content.

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- Provided that its scope and content follow principles outlined in this report, the benefits for the community as a whole of an industry-wide code are likely to outweigh the costs, even if mandated.
 - If a voluntary code cannot be agreed between insurers and repairers within six months from release of the Government's decision on this report, a code should be mandated.

Government response

On release of the report, the Minister for Small Business and Tourism announced that the Government agreed with the Commission's key recommendations. In brief, the Government agreed:

- to work with the smash repair and insurance industries to develop a voluntary code of conduct along of the lines outlined by the Commission;
- that the code should include most of the matters identified by the Commission although, because of the complexities of moving to a new system of quoting, the *funny time, funny money* quotation system could continue where clearly specified by insurers in contractual arrangements;
- that the code should not attempt to specify or regulate on an industry-wide basis those matters identified by the Commission as being inappropriate for inclusion; and
- in the event that voluntary agreement between insurers and repairers not be reached within six months, and a voluntary code (in accordance with the Governments' response) between the four major insurers not be reached within a further three months, the Government would examine further regulatory options including imposition of a mandatory code under the Trade Practices Act (Bailey 2005).

Impacts of advances in medical technology in Australia

Research Report completed 31 August 2005, released 20 September 2005.

The Commission's key findings were:

- Advances in medical technology have brought large benefits but have also been a major driver of increased health spending in recent years.
- In many cases, increased expenditure on new medical technologies reflects improved treatment and a significant increase in the number of people treated.

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- Overall, advances in medical technology arguably have provided value for money — particularly as people highly value improvements in the quality and length of life — but the cost effectiveness of individual technologies in practice varies widely and for some is simply unknown.
 - Variations in cost effectiveness, and relatively low use by some demographic groups, suggest scope for expanding use of some technologies and possibly reducing use of others to increase net community benefits.
 - Better coordinated, more systematic health technology assessment (HTA) with transparent objectives, underpinned by the principle of enhancing overall community wellbeing, would be a good step forward. HTA can help to target use of new technologies and promote overall cost effectiveness of healthcare spending.
 - Evidence and needs based access to new technologies is preferable to existing, often blunt, rationing mechanisms.
 - Systematic reviews of efficacy and cost effectiveness of new technologies once they are in use could promote overall cost effectiveness of healthcare, without unduly delaying their introduction.
 - Greater procedural transparency and community involvement in HTA have the potential to foster greater acceptance of technology funding decisions and to help ensure that HTA is not used simply to restrain expenditure.
 - The next decade or so could see the emergence of revolutionary technological advances based largely on knowledge of the human genome. Many are expected to provide significant benefits to the Australian community, but at significant cost.
 - Such technological advances, interacting with (and encouraged by) increasing demand for health services driven by income growth, accelerating population ageing, community expectations that new technologies will be accessible to all, the commitment of doctors to offer the best-available treatments, and subsidised consumer prices, will make for a potent mix, placing increasing pressures on the private and public health systems.
 - These pressures underscore the need for better information about the costs and benefits of technology. But technology is only one input in healthcare. Problems related to technology use often reflect broader structural, incentive and resourcing issues in the health system.
 - There is a pressing need to explore what the community considers is an appropriate level of subsidised access to healthcare and the technology it embodies, and the institutional and incentive structures that will deliver it efficiently and equitably.

Government responses to reports from previous years

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

Research Report completed 28 May 2004, released 11 June 2004.

In their joint communiqué of 11 December 2004 following the 2004 CER Ministerial Forum, trade and economic Ministers from Australia and New Zealand announced their rejection of the Commission's recommendation that the basic form of CER Rules of Origin remain unchanged and that a change of tariff classification model not be used for origin determination under CER. Subject to final agreement on 'sensitive sectors', a change of tariff classification system would be adopted. Detailed proposals were to have been developed by the end of March 2005 (DFAT 2004).

Review of the Disability Discrimination Act 1992

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

On 27 January 2005 the Attorney-General announced that the Government had accepted a majority of the Commission's 32 recommendations either in full, in principle or in part (Ruddock 2005). Twenty-two of the Commission's recommendations were accepted in full (including nine accepted in principle); four recommendations were accepted in part; and six recommendations were rejected.

Many of the Commission's most significant recommendations were adopted in whole or in part. Amendments to the Disability Discrimination Act (DDA) would clarify the reasonable adjustment duty that was implied in the Act, but importantly, also strengthen and/or extend existing safeguard mechanisms. In particular, the 'unjustifiable hardship' test would (as recommended) be extended to all areas of the DDA. This would include education after enrolment (where the absence of this defence had created open-ended commitments for education institutions), and administration of government programs. The application of the test would be strengthened to ensure that adjustments should produce net benefits to the community and that the availability of financial and other assistance (to the respondent) should be considered.

Other notable reforms would include:

- Enabling industry to develop and have certified codes of conduct. Certification by the Human Rights and Equal Opportunity Commission (HREOC) would

mean that firms applying the code would be deemed to be complying with the DDA (the Attorney General has written to HREOC for proposals on how this could be implemented).

- Extension of the facility to develop standards for any area where discrimination is unlawful or to clarify the operation of exemptions.
- Clarification that disability standards will prevail over State and Territory legislation covering the same matter. This would help create greater certainty for business. In addition a proposal has been put to the States and Territories that they incorporate disability standards directly into their own anti-discrimination legislation.
- Giving complainants more time to lodge complaints with the Federal Court and making conciliation agreements enforceable in federal courts

The Government differed with the Commission's assessment of the desirability of parties to disability discrimination court cases bearing their own costs and of HREOC establishing a formal cooperative complaints handling arrangements with State and Territory anti-discrimination bodies, arguing that existing arrangements are sufficient. The Government also rejected the Commission's recommendations to review the Migration Act exemption to the DDA and to limit the application of the insurance and superannuation exemption. In regard to the latter, the Government preferred to rely on industry codes to meet the Commission's recommendations on disclosure rights in the case of unfavourable underwriting decisions. The Government stated that it would raise the issue with the Insurance Council of Australia before giving further consideration as to whether legislative amendment might be appropriate.

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 four formal complaints in 2004-05. Details of the action taken in relation to these complaints, and complaints on hand from the previous year, are summarised in this appendix.

Complaints formally investigated

EDI Post

This complaint was received in 2003-04.

EDI Post (EDI) is a division within Australia Post which provides a range of services including mailhouse operations. In its mailhouse activities EDI competes with a range of other businesses, and has around 3 to 5 per cent of the market.

Chandler Enterprises, a private company which provides mailhouse services, lodged a complaint against EDI Post in April 2004. Chandler alleged that EDI's pricing does not comply with competitive neutrality principles. It also alleged that EDI derives an advantage over its competitors through access to information about competitors' clients.

During the investigation, Australia Post provided information to the AGCNCO on a commercial-in-confidence basis that allowed it to examine EDI's financial performance over the past five years, the cost allocation method used to construct the underlying cost base and EDI's approach to setting prices. The AGCNCO released its investigation report (Investigation number 12) in June 2005.

The AGCNCO found that:

- EDI Post is setting prices that are in accordance with competitive neutrality principles; and
- there is no evidence that EDI Post has obtained information, from other areas of Australia Post on the major clients of competing mailhouses, which could provide it with a competitive advantage.

Consequently, the AGCNCO found that no further action was required in relation to this complaint.

Complaints not subject to formal investigation

Printing Industries Association of Australia

In July 2004, the Printing Industries Association of Australia (PIAA) wrote to the AGCNCO expressing concern about a number of issues. These included that mailhouse services provided by Australia Post (through EDI Post) were not complying with competitive neutrality and that the prices of printing services provided by Australia Post may not fully reflect costs.

The AGCNCO advised the PIAA that a complaint was already underway into mailhouse services. It also advised the PIAA that it would need to provide specific information in relation to printing services before the AGCNCO could take further action. The PIAA has not subsequently contacted the AGCNCO.

Australian Newsagents' Federation

The Australian Newsagents' Federation's (ANF) lodged a complaint against Australia Post in late-December 2004. Its concerns fell into two broad categories:

- that the pricing of Australia Post's bill payment, magazine distribution and retail stationary services does not reflect full cost attribution; and
- that Australia Post enjoys a range of other advantages over competitors such as lower distribution costs, reciprocal arrangements with large retailers, and uncommercial retail tenancy agreements.

Cross subsidies

Claims of cross subsidisation fall within the scope of matters investigated by the AGCNCO. However, in Australia Post's case, the competitive neutrality complaints mechanism is now not the only process by which such claims can be tested.

In November 2004 (well after the AGCNCO had commenced its investigation into EDI Post) the Government amended the *Australian Postal Corporation Act 1989* to require Australia Post to keep records to allow the ACCC to monitor whether Australia Post is cross subsidising its competitive activities. Known as the Record Keeping Rules (RKR) for Australia Post, these amendments originated from concerns first expressed by the ANF, among others, in 2000. The ACCC has reported that issue of the 'RKR should ensure that Australia Post is not using its monopoly power in letters to the detriment of competition in other markets' (ACCC 2005).

In relation to this complaint, the AGCNCO met with, and subsequently corresponded with, the ACCC, to determine whether the RKR would operate at a sufficiently disaggregated level to address the issues raised by the ANF. The ACCC indicated that separate information is to be provided by Australia Post for retail and financial services, as well as for a range of other competitive services. The ACCC has now issued the RKR, and Australia Post must report against these rules by November 2005.

Although the ACCC cannot investigate individual pricing claims, the AGCNCO considers that the outcome of the ACCC's monitoring process is likely to generate — on an ongoing basis — the same information as a competitive neutrality investigation. In light of the ACCC's monitoring processes, the AGCNCO did not conduct a separate investigation into the pricing of Australia Post's competitive services.

Other concerns

The ANF's other concerns related to retail tenancy terms, reciprocal arrangements with businesses such as Coles and Telstra, and lower distribution costs arising from its use of the postal network.

Competitive neutrality policy distinguishes between advantages that arise purely by virtue of government ownership and those that occur for other reasons, such as the size of the operation or access to a particular network. Competitive neutrality addresses only those advantages that arise solely because of government ownership. The AGCNCO found no evidence to suggest that the alleged advantages cited by

the ANF arise because of Australia Post's ownership by the Australian Government. For instance, it is common for large private businesses to negotiate rents in shopping centres that reflect the fact that they draw custom to the centre.

As such, the AGCNCO considered that these other issues raised by the ANF did not fall within competitive neutrality policy.

Sea Tow

Sea Tow Services Pty Ltd operates a 'road service at sea' which provides non-emergency breakdown services on the water. On 24 June 2005 Sea Tow wrote to the AGCNCO requesting that it investigate the commencement of similar services by the Australian Volunteer Coastguard and the Volunteer Marine Reserve.

The AGCNCO advised Sea Tow that the activities in question are not businesses owned by the Australian Government, and therefore are not matters that it can investigate.

Complaints subject to ongoing action

CBD Chauffeured Transport

In April 2005 CBD Chauffeured Transport lodged a complaint with the AGCNCO alleging that:

- ComCar had a number of regulatory advantages over potential private competitors; and
- ComCar's activities in relation to provision of vehicles for 'Guests of Government' did not comply with competitive neutrality policy.

ComCar is not currently deemed to be a business activity and is, consequently, not subject to competitive neutrality policy. The AGCNCO is continuing to work with the complainant, ComCar, the Department of the Prime Minister and Cabinet and the Department of Finance and Administration to assess whether ComCar should implement competitive neutrality for any aspect of its activities.

E Supporting research and related activities

The Commission's supporting research program encompasses a range of activities. This appendix provides brief summaries of Commission Research Papers and Staff Working Papers published during the year. It also lists the presentations given by the Chairman, Commissioners and staff to parliamentary committees, conferences and industry and community groups in 2004-05, as well as briefings to international visitors.

Research reports

ICT use and productivity: a synthesis from studies of Australian firms

July 2004

The origins of this research project lay in an invitation from the OECD to the Commission to participate in an international study of the uptake of information and communications technology (ICT) and its effects on productivity. The Commission initiated a joint project with the Australian Bureau of Statistics, the Department of Industry, Tourism and Resources and the (then) National Office for the Information Economy in order to take a more comprehensive approach that could draw on expertise in these different agencies.

The paper drew together the findings from different streams of work undertaken for the project, as well as the completed OECD study. The Commission's principal findings were:

- Compared with their overseas counterparts, Australian firms have been active in their uptake of ICT and successful in their efforts to turn it to productive advantage.
- Australian firms invested more in ICT, especially from the mid-1990s, as technological advances provided cheaper and readier access to more accurate, timely and useful information.
- The gains from use of ICT stem from the opportunities it provides firms:

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- to undertake existing tasks more quickly, cheaply and effectively by substituting ICTs for other inputs, especially labour; and
 - to improve multifactor productivity (the efficiency and effectiveness of input use) by using ICTs as a platform for innovation through new value-adding and efficiency-enhancing products, processes and organisational structures.
 - Many of these gains do not come automatically — from the mere purchase and installation of new hardware and software.
 - There can be costly and time-consuming adjustments, for example, in staff dislocation and (re)training.
 - Product, process and organisational innovations require investments in design, development and implementation.
 - Skilled staff and high-order management skills and qualities are needed if potential gains are to be realised.
 - The gains also depend on the accumulation of experience in and learning from the application of ICTs and from the investments in ICT-enabled innovations.
 - The acceleration in use of ICT in the 1990s raised the rates of growth in Australia's labour productivity and multifactor productivity.
 - Although the available estimates suggest that the acceleration in use of ICT contributed a relatively small amount to Australia's 1990s productivity acceleration, the estimated productivity gains (especially in multifactor productivity) are high by international standards.
 - Firms and industries differ in the intensity of their use of ICTs and in their realisation of productivity gains.
 - This is largely due to differences in the nature and amount of their investment in ICT-enabled innovation, in their access to skilled staff and management, and in their accumulation of learning and experience.
 - Countries differ in the intensity of ICT use and associated productivity gains.
 - This is largely due to differences in costs of using ICT, in the ability of firms to absorb new technology and in the policy and institutional environments in which firms operate.
 - Tapping ICT's future productivity potential is predominantly in the hands of firms.
 - Whilst specific issues require ongoing government attention, the strong performance of Australian firms suggests that additional widespread government support is not warranted. The main role for governments remains one of

ensuring that markets are competitive, firms have flexibility to adjust and to experiment, innovation is appropriately supported and needed skills are developed.

Assistance to tourism: exploratory estimates

April 2005

This research paper is the first comprehensive attempt to quantify the extent of assistance to tourism on a comparable basis to that for other Australian industries. A core function of the Commission, in common with its predecessor organisations, is to enhance the transparency of government support for industry by compiling and publishing assistance estimates in a meaningful form. Over the years, this work has broadened from a focus on tariffs and manufacturing, to include budgetary and other forms of assistance to that sector as well as to agriculture, mining and, most recently, services.

Unlike other service activities, tourism is not an industry in the conventional sense and, until recently, data on it that would enable the calculation of assistance estimates have been unavailable. That has changed with the development by the Australian Bureau of Statistics of the Tourism Satellite Account — a new collection of data on travel and tourism activity in Australia. Nevertheless, the estimates are called ‘exploratory’, because they have required some judgements and analytical innovations to overcome the conceptual and measurement difficulties entailed.

While care is needed in the interpretation of the results, the results show that:

- Tourism receives a lower rate of Australian Government assistance as measured by the Commission than the average for the manufacturing and primary sectors.
 - Assistance measures include destination marketing and support for high-profile cultural or sporting events, and funding for art galleries, national parks and transport.
- In total, the sector receives a diverse range of government assistance of around \$1 billion.
 - Most assistance has been provided by the States and Territories, averaging some \$780 million to \$960 million per annum between 2000-01 and 2002-03. Assistance provided by the States and Territories is estimated to have amounted to around 6.9 to 7.4 per cent of the tourism industry’s gross value added as measured by the Commission.
 - The Australian Government provided budgetary assistance to tourism of around \$230 million to \$260 million per annum, on average, over the three years

to 2002-03. The assistance provided by the Australian Government is estimated to have been equivalent to around 1.1 to 1.4 per cent of the tourism industry's gross value added as measured by the Commission.

Trends in Australian agriculture

June 2005

This research paper examines some of the key trends in Australia's agriculture sector over the last 20 years or so and is part of a series tracing developments in different sectors of the Australian economy. The key points were:

- Agriculture has undergone much change over the last few decades. Key drivers have been shifts in consumer demand, changes in government policies, technological advances and innovation, emerging environmental concerns and an unrelenting decline in the sector's terms of trade.
- While historically agriculture played a dominant role in the economy, its *relative* importance has declined in recent decades.
- That said, in *absolute* terms, real agricultural output has more than doubled over the four decades to 2003-04. And agricultural exports have almost tripled in value (real terms) since the mid-1970s.
- In 2003-04 the sector directly generated 4 per cent of GDP and employed 375 000 people or 4 per cent of the workforce. It looms larger in Australia's exports, accounting for around 22 per cent of total exports in 2003-04.
- Farms are much fewer and larger than 20 years ago. Production is increasingly concentrated on larger farms, accentuating the dual nature of the sector (with a few large commercial farms accounting for the majority of output and many farms accounting for a small share of output).
- Agriculture has become increasingly export oriented over the last two decades — around two-thirds of production is now exported. Exports have also become more diverse, with less reliance on traditional commodities such as wool and more on processed products such as wine, cheese and seafood.
- The agricultural workforce has a number of distinctive features, including: a high proportion of self-employed, family and casual workers; long job tenure; and a relatively old workforce with relatively low education levels and employee wages.
- The last two decades have seen an increase in the number of employees and a fall in employers and contributing family workers. The educational attainment of workers has also improved.

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- Off-farm employment has become increasingly important to maintaining family farm incomes. Since 1990, the proportion of farm families deriving income from off-farm wages and salaries increased from 30 to 45 per cent, with average earnings rising from \$15 000 to \$33 500 per year.
 - Agricultural productivity has exhibited strong growth over the last three decades — more than twice the rate achieved in Australia’s market sector as a whole.
 - Productivity growth has accounted for the entire increase in output by the agriculture sector over the last 30 years.
 - Performance within the sector has been mixed — over the last three decades the cropping industry recorded the highest productivity gains, and the sheep and sheep-beef industries the lowest.

Staff working papers

Note: The views expressed in staff working papers are those of the authors and do not necessarily reflect the views of the Productivity Commission. Staff working papers are available from the Commission’s website, but are not for quotation without the permission of the authors.

Responsiveness of demand for irrigation water: a focus on the southern Murray-Darling Basin

David Appels, Robert Douglas and Gavan Dwyer, August 2004

This paper is part of a suite of research related to water issues in Australia, including the effects of expanding water trade and the management of environmental externalities associated with the supply and use of irrigation water. It examined the demand for irrigation water in major irrigation districts in the southern Murray-Darling Basin — where the majority of irrigation in Australia occurs. The aim of the research was to gain insights into how irrigators in major agricultural industries — rice, dairy and horticulture — alter their use of water in the short and long run as utility charges and/or the market price of traded water change. The principal findings were:

- There is no single market for irrigation water in the southern Murray-Darling Basin. Water utility charges vary between districts. Prices of traded water (for both seasonal allocations and entitlements) vary temporally and spatially between irrigation districts (reflecting constraints to trade between irrigation districts).

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- Demand for irrigation water is relatively unresponsive to changes in the price of water at relatively lower prices in the short run, but becomes more responsive at higher prices, and in the long run.
 - Irrigator responsiveness depends on the total water needs of an irrigator's crop. These needs are first satisfied from rainfall, then from seasonal allocations, and finally by purchases of traded water.
 - Irrigator responsiveness to changes in water prices may vary substantially from year to year because of seasonal conditions locally and in the headwaters of the relevant catchment. Rainfall variability (and resultant variability of seasonal allocations) causes volatility in demand for, and prices of, traded irrigation water.
 - Irrigators' responses to changing water prices will vary because of past investment decisions and available substitution choices.
 - In the short run, rice growers tend to reduce the area planted to rice in years when they expect relatively low seasonal allocations. Dairy farmers have more substitution choices, such as purchasing fodder rather than irrigating their own pastures. Horticulturists with perennial crops may be relatively unresponsive to changing seasonal prices for irrigation water, because of the cost of replanting if part of their crop dies.
 - In the long run, irrigators may respond to rising water prices by adopting water saving technologies or by altering their mix of irrigated activities. At current prices, on-farm water savings alone are unlikely to justify investment in water saving technology. Water 'saved' by use of water saving technology is likely to be used to irrigate more land, or sold to other irrigators (in the absence of a mechanism to allocate it to other uses).
 - Substitution can occur between alternative irrigation activities, and between irrigated and non-irrigated activities. If a large number of irrigators choose to move from one activity to another, the change may affect commodity prices received in both the activity they leave (prices may go higher) and the one they enter (prices may go lower), and may affect land and water prices.

An integrated tariff analysis system: software and database

*Matthew Forbes, Jane Fry, Patrick Jomini and Alexandra Strzelecki,
November 2004*

The Commission and its predecessor organisations have had a longstanding involvement in the quantitative analysis of trade and assistance regimes. In the

context of market access negotiations in the Doha Development Round, various systematic approaches and formulas have been proposed to reduce tariffs.

The Integrated Tariff Analysis System (ITAS) has been developed by Commission staff to assist researchers in analysing proposals to reduce tariffs in non-agricultural markets. It is designed primarily for use by trade analysts and researchers, but also by negotiators who require an accessible way to assess the effects of different proposals.

The paper provides an overview of the structure of ITAS by:

- describing the raw data on tariffs and explaining how these data are converted into a form suitable for multi-country analysis of tariffs;
- outlining several tariff reduction formulas and explaining how they are used to calculate final tariff rates from initial rates;
- describing the resulting tariff data created by ITAS and the data summaries available; and
- outlining some ways in which ITAS could be extended to tariffs that affect agricultural trade and to include other countries or customs territories.

The CD accompanying the paper also includes an implementation of ITAS covering 19 importing countries and programs that are ready to be adapted to the needs of different users.

Modelling water trade in the southern Murray-Darling Basin

Deborah Peterson, Gavan Dwyer, David Appels and Jane Fry, November 2004

This paper also forms part of a suite of Commission research related to water issues. It examines the likely economic impacts of expanding water trade in the southern Murray-Darling Basin using TERM-Water, a ‘bottoms-up’ regional CGE model of the Australian economy. The key points of the analysis were:

- Markets for trading irrigation water enable water to be re-allocated to more productive uses — with gains to buyers and sellers. Water trade can also lessen the impact of reductions in irrigation water availability.
 - If markets for seasonal water allocations continue to develop, further productivity gains may be made even if trades in water entitlements remain constrained.
- A general equilibrium model provides preliminary analysis of the long-run regional and industry impacts of reductions of 10, 20 and 30 per cent in water availability in the base year in the southern Murray-Darling Basin, under

conditions of no trade, intraregional trade only, and both intraregional and interregional trade.

- The model estimates that moving from no trade to intraregional and interregional trade together more than halves the impact of the reductions in water on the gross regional product (GRP) of the southern Murray-Darling Basin.
 - Moving from no trade to intraregional trade lessens the impact by 35 to 42 per cent. Including interregional trade reduces it another 22 to 24 per cent.
- For a 10 per cent reduction, the model estimates:
 - without water trade, GRP declines by around 1 per cent (\$356 million in 2003);
 - with intraregional trade only, GRP declines by around 0.7 per cent;
 - with intraregional and interregional trade, GRP declines by around 0.5 per cent; and
 - with interregional trade, the Murrumbidgee and Murray regions in New South Wales become net exporters of water, while the northern Victorian regions and the Murray Lands region in South Australia become net importers.
- A 20 per cent reduction in water availability has more than double the effect on GRP of a 10 per cent cut, while a 30 per cent cut has an almost fourfold effect. The relative effects of expanding trade in all cases is similar.
- The 10 per cent reduction in irrigation water leads to an output decline in most industries. However, in most industries, declines in output are lower when intraregional and interregional trades are allowed. In the southern Murray-Darling Basin:
 - dairy industry output falls by 8 per cent under intraregional trade, and by 4 per cent under intraregional and interregional trade;
 - perennial horticulture industry output decreases by 1.4 per cent under intraregional trade, and by 0.7 per cent under intraregional and interregional trade;
 - rice industry output falls by 15 per cent under intraregional trade and by 20 per cent under intraregional and interregional trade; and
 - for each industry, there can be significant differences in effects across regions.
- In years with low water availability, water reductions would have a larger effect on GRP than if the cut had occurred in years with higher water availability.
- Short run analysis of the expansion of trade under variable seasonal allocations shows similar effects.
- This analysis does not take into account the impact of changes in water trade on environmental conditions such as salinity.

The growth of labour hire employment in Australia

Patrick Laplagne, Maurice Glover and Tim Fry, February 2005

The paper is part of an ongoing program of research into labour markets at the Commission to examine developments in employment relationships and the implications of these developments for the labour force and the Australian economy.

Prior to this paper, the relative merits of the arguments for and against labour hire employment could not be properly assessed because no clear or consistent measures of the level and growth of labour hire employment had been constructed, and information on why firms use labour hire was largely anecdotal or based on case studies which are not amenable to generalisation. This paper shed light on both these issues by: measuring the level and growth of labour hire employment using consistent, comparable and recent data; and identifying the factors influencing firms' use of labour hire. This allowed the analysis to connect the growth of labour hire employment between 1990 and 2002 with a number of changes having affected the Australian economy in that period.

The key points from the paper were:

- Labour hire employees numbered around 270 000 in 2002, equivalent to about 2.9 per cent of all employed persons.
- Labour hire employment grew strongly between 1990 and 2002. In workplaces with 20 or more employees:
 - the number of labour hire workers grew from 33 000 in 1990 to 190 000 in 2002, an increase of 15.7 per cent a year; and
 - the proportion of labour hire workers among all employees grew almost fivefold, from 0.8 per cent in 1990 to 3.9 per cent in 2002.
- The rapid growth of labour hire employment over the period can be attributed to how firms manage their workforce, rather than to changes in the economy's structure (that is, its composition in terms of industry and firm size).
- The following changes in operating environment contributed to firms' altering of their employment strategy in favour of labour hire workers.
 - *Changing industrial relations context:* in the period: there was a decline in the proportion of firms with 'closed union shops', a rise in enterprise bargaining, and an increase in the use of human resources managers. All three changes are likely to have contributed to an increase in the propensity of firms to use labour hire.

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- *Rising competitive pressures*: trade liberalisation and globalisation put increasing pressure on firms to be competitive. One way for firms to increase competitiveness is to optimise their use of labour. Labour hire employment helped some firms to achieve that objective.
 - In contrast, two changes occurring between 1990 and 2002 are likely to have slowed the growth of labour hire employment.
 - *The introduction of new technology*: contrary to expectations, new technology is associated with a lower likelihood of using labour hire.
 - *Changes in the economy's structure*: the slower growth of manufacturing and other intensive users of labour hire employment, relative to other sectors of the economy, slowed the growth of labour hire employment.

Table E.1 **Speeches and presentations by the Chairman, Commissioners and staff, 2004-05**

<i>Organisation/event</i>	<i>Topic</i>	<i>Date</i>
Gary Banks, Chairman:		
Leadership Roundtable, Melbourne	Economic reform: where to from here?	Jul 2004
IPAA Spotlight on Spring Street Seminar, Melbourne	Prospering in an ageing society — population, participation and productivity	Jul 2004
Australian Council for Infrastructure Development Infrastructure Exchange Forum, Sydney	Accessing and improving infrastructure service delivery	Aug 2004
Melbourne Institute Public Economics Forum, Canberra	The reform agenda for the next federal and state governments	Sep 2004
Burgmann College, ANU, Canberra	Bad public policy: causes and cures	Sep 2004
2004 Conference of Economists Business Symposium, Sydney	Implications of economic regulation for infrastructure investment	Sep 2004
National Farmers' Federation, Canberra	Economic reform and the rural sector	Nov 2004
Productivity Commission Conference, Quantitative Tools for Microeconomic Policy Analysis, Canberra	A Commissioner's perspective on economic modelling	Nov 2004
Economic Society (ACT) Annual General Meeting, Canberra	Economic implications of an ageing Australia — the Commission's draft report	Nov 2004
CEDA, Sydney	NCP and beyond: an agenda for national reform	Nov 2004
CEDA, Melbourne	NCP and beyond: an agenda for national reform	Dec 2004
Financial Sector Advisory Council Meeting, Melbourne	Best practice in regulation and the role of the ORR	Feb 2005
Senate Select Committee on the Administration of Indigenous Affairs, Canberra (with Robyn Sheen)	Overcoming indigenous disadvantage	Feb 2005

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Table E.1 (continued)

<i>Organisation/event</i>	<i>Topic</i>	<i>Date</i>
Department of Industry, Tourism and Resources SES Seminar, Canberra	Economic reform and growth: from whence the next wave?	Mar 2005
Australian Business Foundation Productivity and Innovation Roundtable, Sydney	Sustaining long-term growth in an ageing society	Mar 2005
RSCA Workforce Symposium 2005, Sydney	Sustaining long-term growth in an ageing Australia	Mar 2005
Centre for Corporate Public Affairs, Politics and Public Policy Review 2005, Canberra	Microeconomic reform: the Productivity Commission's agenda	Mar 2005
Melbourne Institute/Australian 3 rd Economic and Social Outlook Conference, Melbourne	Reform imperatives for an ageing Australia	Mar 2005
Australian Higher Education Industrial Association Conference, Brisbane	Higher education in an ageing society	Apr 2005
International CEO Forum, Sydney	A reform agenda for an ageing Australia	May 2005
The Reform Club Luncheon Forum, Sydney	Economic implications of an ageing population and national competition policy	May 2005
BTRE Transport Colloquium 2005, Canberra	Competing objectives in infrastructure regulation	May 2005
World Bank/IMF, Washington	Structural reform Australian-style: lessons for others?	May 2005
OECD, Paris	Structural reform Australian-style: lessons for others?	May 2005
OECD Round Table on Sustainable Development, Paris	Post-Kyoto greenhouse issues — discussant	June 2005

Commissioners:

2004 Local Government Association of Queensland Environment Conference, Cairns (Neil Byron)	The role of local government in environmental management and natural resource management	Jul 2004
JobFutures National Forum, Sydney (Robert Fitzgerald)	Productive players in our social economy — challenges choices and opportunities for the not-for-profit sector	Jul 2004
3 rd World Congress of the International Society for Business, Economics and Ethics, Melbourne (Neil Byron)	Building a green utopia?	Jul 2004
ABARE Regional Outlook Conference, Sale, Victoria (Neil Byron)	Impacts of native vegetation legislation — the Commission's draft report	Jul 2004
Nonprofit Governance and Management Centre Building Better Boards National Conference 2004 (Robert Fitzgerald)	Critical challenges and vital choices for nonprofit boards	Jul 2004
Australian Communications Authority Spectrum Strategy Seminar, Canberra (Neil Byron)	Importance of economic instruments in spectrum management	Aug 2004
Collins Club, Melbourne (Philip Weickhardt)	Australian firms venturing abroad — is a branch office economy inevitable?	Sep 2004
Australian Building Codes Board Meeting, Sydney (Tony Hinton)	Building regulation reform – the Commission's Draft Report	Sep 2004
Australian Council for International Development Conference, Canberra (Robert Fitzgerald)	Critical choices for charities in a contested environment and expanding social economy	Sep 2004
Australasian Aquaculture 2004 Conference, Sydney (Neil Byron)	Environmental regulation of aquaculture in Australia	Sep 2004
National Industry and Government Liaison Committee, Canberra (Tony Hinton)	Building regulation reform — the Commission's Draft Report	Sep 2004
IPAA/DVC Conference, Melbourne (Robert Fitzgerald)	Measuring community strength	Oct 2004

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Table E.1 (continued)

<i>Organisation/event</i>	<i>Topic</i>	<i>Date</i>
Queensland Council of Social Service Statewide Conference, Brisbane (Robert Fitzgerald)	A critical analysis of the role and function of community organisations — trends, challenges, strengths and future good ideas	Nov 2004
Environment Business Australia Summit, Sydney (Mike Woods)	National competition policy — externalities and market based solutions	Nov 2004
Asia-Pacific Microtechnology & Nanotechnology Commercialisation Forum, Melbourne (Helen Owens)	Impact of advances in medical technology on healthcare expenditure	Dec 2004
International Quality and Productivity Centre Conference, Indigenous Service Delivery Outcomes, Darwin (Robert Fitzgerald)	Key findings for overcoming indigenous disadvantage through improved service delivery	Mar 2005
Melbourne Institute/Australian 3 rd Economic and Social Outlook Conference, Melbourne (Helen Owens)	Technological change in medicine — an opportunity or threat for Australia's health system	Apr 2005
Biennial Conference of the Institute of Foresters of Australia, Mt Gambier, SA (Neil Byron)	Re-invigorating forestry — an international perspective	Apr 2005
Agriculture and Food Policy Reference Group, Canberra (Neil Byron)	Applying economic principles and market-based tools to natural resource management	May 2005
National Reconciliation Planning Workshop, Canberra (Robert Fitzgerald)	Measuring success in reconciliation — discussant	May 2005
National Water Commission Workshop, Canberra (Neil Byron)	Information needs for water resources management	June 2005

Staff

International Symposium on Forecasting, Sydney (Paul Gretton & Jyothi Gali)	Effects of ICT use on the performance of Australian firms: evidence from a business longitudinal data set	Jul 2004
Asia Pacific Productivity Conference 2004, Brisbane (Dean Parham)	ICT: An enabler or driver of Australia's productivity growth?	Jul 2004
Asia Pacific Productivity Conference 2004, Brisbane (Paul Gretton)	Effects of ICT use on the performance of Australian firms: evidence from a business longitudinal data set	Jul 2004
Inter-departmental Task Force on Increasing the Supply of Housing for Low Income Victorians, Melbourne (Chris Sayers)	Implications of the First Home Ownership Inquiry findings for the supply of low-cost housing	Jul 2004
Productivity: Performance, Policies and Prospects Workshop, Wellington, NZ (Dean Parham)	How do NZ and Australia compare?	Jul 2004
2004 Insurance Council of Australia Conference, Canberra (Stephen Rimmer)	Impact of regulation — weighing up the pros and cons	Aug 2004
Public Service Commission Cost Benefit Analysis Symposium, Canberra (Stephen Rimmer)	Application of cost-benefit analysis to regulatory proposals	Sep 2004
Department of Industry, Tourism and Resources, Canberra (Paul Gretton and Tom Nankivell)	Seminar on the Commission's approach to measuring assistance to tourism	Aug 2004
APEC High Level Conference on Structural Reform, Tokyo (Robert Kerr)	Structural reform in Australia	Sep 2004
	Automotive industry policy	Sep 2004
Property Council of Australia, SA Division Meeting, Adelaide (Jonathan Pincus)	The Productivity Commission's recent report on housing affordability	Sep 2004
4 th Biennial Regional Modelling Workshop, Melbourne (David Appels)	Water trade in the southern Murray-Darling Basin	Sep 2004

(continued next page)

Table E.1 (continued)

<i>Organisation/event</i>	<i>Topic</i>	<i>Date</i>
33 rd Conference of Economists, Sydney (David Appels)	CGE modelling of water trade	Sep 2004
2004-05 Australian Labour Market Research Workshop, Perth (Patrick Laplance, Maurice Glover & Tim Fry)	The growth of labour hire employment in Australia	Dec 2004
2004-05 Australian Labour Market Research Workshop, Perth (Patrick Laplance)	Enterprise agreements and other determinants of labour productivity	Dec 2004
OECD Trade and Structural Adjustment Project Technical Workshop, Paris (Lisa Gropp)	Comments on OECD working draft paper — an Australian perspective	Feb 2005
Victorian Council of Social Sciences Window on Economics, Melbourne (Steven Bailey)	Economics for people in advocacy roles in the non-profit sector — discussant	Feb 2005
Australian Malaysia Free Trade Agreement Conference, Melbourne (Lisa Gropp)	Regulation in Australia	Mar 2005
NCOSS Measuring Social Performance Seminar, Sydney (Robyn Sheen)	Approaches to measuring performance — Review of Government Service Provision	Mar 2005
Economics Faculty seminar, Monash University, Melbourne (Jonathan Pincus)	Fiscal equalisation: some questions of design	Mar 2005
OECD Secretariat, Paris (Stephen Rimmer)	Use of regulation impact analysis in Australia and the role of the ORR	Mar 2005
OECD, Paris (Stephen Rimmer)	Indications of regulatory quality: an Australian perspective	Mar 2005
RMIT University Seminar, Melbourne (Maurice Glover)	Staff Working Paper on labour hire — econometric results	Mar 2005
UK Cabinet Office, London (Stephen Rimmer)	Use of regulation impact analysis in Australia and the role of the ORR	Apr 2005
CPA Health Sector Conference, Melbourne (Ralph Lattimore)	Implications of an ageing Australia	Apr 2005

Victorian VET Research and Planning Network Forum, Melbourne (Ralph Lattimore)	Implications of an ageing Australia	Apr 2005
Department of Industry Tourism and Resources Seminar, Canberra (Ralph Lattimore)	Implications of an ageing Australia	May 2005
Parliamentary Library Vital Issues Seminar, Canberra (Ralph Lattimore & Stuart Wilson)	Implications of an ageing Australia	May 2005
Land and Water Australia's Social and Institutional Water Research Priorities Workshop, Canberra (Deborah Peterson)	Water markets, rights and registers – discussant	May 2005
4 th Annual Health Insurance Summit, Sydney (Lisa Gropp)	Future advances in medical technology — implications for private health insurance	June 2005
8 th Annual Australian Institute of Judicial Administration Tribunals Conference, Sydney (Herb Plunkett)	Issues in developing a national workers' compensation framework	June 2005
Hewitt Associates Seminar, Sydney (Ralph Lattimore)	Implications of an ageing Australia	June 2005
Australian Council for Children and Parents Workshop, Headline Indicators – How Achievable? Canberra (Lawrence McDonald)	Developing headline indicators — lessons from the report on Overcoming Indigenous Disadvantage	June 2005
Melbourne Institute Public Economics Forum, Canberra (Ralph Lattimore)	Labour force participation in an ageing Australia	June 2005

Table E.2 Visits from international organisations and foreign delegations 2004-05

<i>Organisation/delegation</i>	<i>Briefing/discussion purpose of visit</i>	<i>Date and location</i>
Member of the French Union pour un Mouvement Populaire and of the Regional Council of Greater Paris	Role and functions of the Commission	Jul 2004 (M)
Prime Minister Koizumi's Council on Economic and Fiscal Policy/Tokyo University	Commission activities	Jul 2004 (C)
ASEAN Secretariat	Role and functions of the Commission and competition policy developments in Australia	Jul 2004 (C)
Malaysian National Productivity Corporation	Role and functions of the Commission	Jul 2004 (M)
Delegation from the Development Research Centre of the State Council of the Peoples Republic of China	Regulatory issues and Commission activities	July 2004 (C)
Delegation from the Vietnam Ministry of Agriculture and Rural Development	Role and functions of the Commission and policy development processes	Aug 2004 (M)
Delegation from the Office of Industrial Economics, Thai Ministry of Industry	The Commission's experience in using computable general equilibrium models	Sep 2004 (C)
Brazilian Ministry of Foreign Relations	Role and functions of the Commission	Nov 2004 (C)
NZ Ministry of Economic Development	Respective research activities	Nov 2004 (C)
UK Department for Culture, Media and Sport	Information and communications technologies and related issues	Nov 2004 (C)
APEC delegation from China, Indonesia, Philippines, Papua New Guinea, Thailand and Vietnam	Role and functions of the Commission	Nov 2004 (M)
Chilean Ambassador	Role and functions of the Commission	Nov 2004 (C)
Delegation from the Danish Ministry of Finance	Regulatory review and reforms processes including the use of RISs	Dec 2004 (C)
Fondation Nationale Entreprise et Performance (France)	Performance monitoring of GTEs and government service provision by the Commission	Dec 2004 (M)
Prime Minister's Research Committee (Vietnam)	Role and functions of the Commission	Feb 2005 (C)

Chilean visitors	Role and functions of the Commission	Feb 2005 (C)
International Energy Agency	The Commission's inquiry on energy efficiency	Mar 2005 (C)
UK Department of Trade	The Commission's Integrated Trade Analysis System and analysis of rules of origin in preferential trade agreements	Mar 2005 (C)
Senior business and trade editors, United Arab Emirates, Saudi Arabia and Kuwait	Trade and corporate governance issues and economic reforms	Mar 2005 (C)
Korean Development Institute	The Commission's report on first home ownership, regulatory reform and competitiveness issues	Mar 2005 (M)
NZ Ministry of Economic Development	Approaches to microeconomic reform	Apr 2005 (C)
NZ Department of Labour	Productivity issues in Australia and New Zealand	Apr 2005 (C)
Member of the National Assembly, Republic of Korea	Regulatory reform issues	May 2005 (C)
NZ Ministry of Research, Science and Technology	Issues arising from the proposed revision to the Oslo Manual to guide collection of innovation data	May 2005 (C)
Illinois University	Comparative regulatory systems and corporate governance issues	May 2005 (C)
2005 IMF Mission	Economic reform issues	Jun 2005 (M)
Delegation of senior public servants from the Shanghai Municipal Government	Role and functions of the Commission and microeconomic reform issues	Jun 2005 (C)
Institute of Economics of the Polish Academy of Science	Role and functions of the Commission	Jun 2005 (C)

(C) Canberra (M) Melbourne

F Publications

This appendix provides a list of Commission reports and papers completed in 2004-05. It also lists staff working papers, the views of which do not necessarily reflect those of the Commission. The Commission has a comprehensive website providing public access to nearly all of its publications. The availability of printed copies is detailed on the website.

Government-commissioned projects

Inquiries and commissioned research studies — draft reports

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

- *Reform of Building Regulation*, Draft Research Report, 27 August 2004
- *Australian and New Zealand Competition and Consumer Protection Regimes*, Draft Research Report, 20 October 2004
- *Review of Part X of the Trade Practices Act 1974: International Liner Cargo Shipping*, Draft Report, 22 October 2004
- *Review of National Competition Policy Reforms*, Discussion Draft, 27 October 2004
- *Smash Repair and Insurance*, Draft Report, 18 November 2004
- *Economic Implications of an Ageing Australia*, Draft Research Report, 25 November 2004
- *Australian Pigmeat Industry*, Draft Report, 15 December 2004
- *Energy Efficiency*, Draft Report, 21 April 2005
- *Impacts of Medical Technology in Australia*, Progress Report, 19 April 2005
- *The Health Workforce*, Issues Paper for COAG, 3 June 2005

Inquiries and commissioned research studies — final reports

Upon release by the Australian Government, copies of final reports can be obtained from the Commission's publications agent, Pirion/JS McMillan and the Commission's website. The dates listed are signing dates. Publications marked with an asterisk (*) were completed in 2004-05, but had not been released at 30 June 2005.

- *Reform of Building Regulation*, Research Report, 17 November 2004
- *Australian and New Zealand Competition and Consumer Protection Regimes*, Research Report, 16 December 2004
- *Review of Part X of the Trade Practices Act 1974: International Liner Cargo Shipping*, Inquiry Report No. 32, 23 February 2005*
- *Review of National Competition Policy Reforms*, Inquiry Report No. 33, 28 February 2005
- *Smash Repair and Insurance*, Inquiry Report No. 34, 17 March 2005*
- *Australian Pigmeat Industry*, Inquiry Report No. 35, 18 March 2005*
- *Economic Implications of an Ageing Australia*, Research Report, 24 March 2005

Performance reporting

Steering Committee for the Review of Government Service Provision

The Commission acts as the Secretariat for the COAG Steering Committee. Except where indicated, copies of these publications are available from the Commission's publications agent Pirion/JS McMillan and from the Commission's website. Publications produced in 2004-05 and many Secretariat reports from previous years are also available on compact disk.

- *Financial Performance of Government Trading Enterprises 1998-99 to 2002-03* (July 2004)
- *Report on Government Services 2005, Volume 1: Education, Justice, Emergency Management* (January 2005)
- *Report on Government Services 2005, Volume 2: Health, Community Services, Housing* (January 2005)
- *Report on Government Services 2005: Indigenous Compendium* (May 2005)

Competitive neutrality complaints

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

- *EDI Post*, AGCNCO Report No. 12, 7 June 2005

Supporting research and annual reporting

Unless otherwise indicated, copies of reports are available from the Commission's publications agent Pirion/JS 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 2003-04* (30 November 2004)
- *Regulation and its Review 2003-04* (16 November 2004)
- *Trade & Assistance Review 2003-04* (22 December 2004)

Supplements to government-commissioned projects

- *Modelling Impacts of Infrastructure Industry Change over the 1990s*, Supplement to Discussion Draft on *Review of National Competition Policy Reforms*, 2 December 2004
- *Modelling Impacts of Infrastructure Industry Change over the 1990s*, Supplement to the final report on *Review of National Competition Policy Reforms*, Inquiry Report No. 33, 28 February 2005
- *Economic Implications of an Ageing Australia: Data*, Projection models and data used in the preparation of the Commission's Research Report, 12 April 2005 (available on the Commission's website)
- *Economic Implications of an Ageing Australia: Technical Papers*, 12 April 2005 (available on the Commission's website)

Commission research papers

- *ICT Use and Productivity: A Synthesis from Studies of Australian Firms* (July 2004)
- *Assistance to Tourism: Exploratory Estimates* (April 2005)
- *Trends in Australian Agriculture* (June 2005)

Chairman's speeches

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

- *NCP and beyond: an agenda for national reform* (December 2004)
- *Structural reform Australian-style: lessons for others?* (June 2005)

Richard Snape Lecture

The second Richard Snape Lecture was held on 8 November 2004. Lectures reflect the views of the presenter and not necessarily those of the Commission.

- *Spreading Prosperity and Resisting Economic Divergence: The Significance of Richard Snape's Academic Legacy*, Anne O. Krueger (published February 2005)*

Staff working papers

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

- *Responsiveness of Demand for Irrigation Water: A Focus on the Southern Murray-Darling Basin*, David Appels, Robert Douglas and Gavin Dwyer (August 2004)
- *An Integrated Tariff Analysis System: Software and Database*, Matthew Forbes, Jane Fry, Patrick Jomini and Alexandra Strzelecki (November 2004)
- *Modelling Water Trade in the Southern Murray-Darling Basin*, Deborah Peterson, Gavan Dwyer, David Appels and Jane Fry (November 2004)
- *The Growth of Labour Hire Employment in Australia*, Patrick Laplagne, Maurice Glover and Tim Fry (February 2005)

Other publications

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

- *The Productivity Commission: A Quick Guide*
- *pc update*, a quarterly newsletter on Productivity Commission activities, covers key events on the work program, major activities, publications released, website and other news (Issue 25, July 2004; Issue 26, September 2004; Issue 27, January 2005; Issue 28, April 2005)

G Financial statements

This appendix presents the audited financial statements for the Productivity Commission for 2004-05. The statements have been prepared on an accrual accounting basis.

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INDEPENDENT AUDIT REPORT

To the Treasurer

Scope

The financial statements and Chairman's responsibility

The financial statements comprise:

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

of the Productivity Commission for the year ended 30 June 2005.

The Productivity Commission's Chairman is responsible for preparing financial statements that give a true and fair presentation of the financial position and performance of the Productivity Commission, and that comply with accounting standards, other mandatory financial reporting requirements in Australia, and the Finance Minister's Orders made under the *Financial Management and Accountability Act 1997*. The Productivity Commission's Chairman is also responsible 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 have 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.

Independence

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

Audit Opinion

In my opinion, the financial statements of the Productivity Commission:

- (a) have been prepared in accordance with the Finance Minister's Orders made under the *Financial Management and Accountability Act 1997*; and
- (b) give a true and fair view of the Productivity Commission's financial position as at 30 June 2005 and of its performance and cash flows for the year then ended, in accordance with:
 - (i) the matters required by the Finance Minister's Orders; and
 - (ii) applicable accounting standards and other mandatory financial reporting requirements in Australia.

Australian National Audit Office



Allan M. Thompson
Executive Director

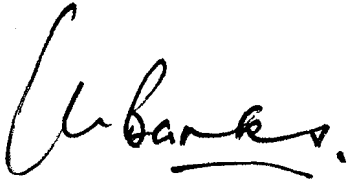
Delegate of the Auditor-General

Canberra
9 August 2005

Statement by the Chairman and Chief Finance Officer

Certification

In our opinion, the attached financial statements for the year ended 30 June 2005 are based on properly maintained financial records and give a true and fair view of the matters required by the Finance Minister's Orders made under the *Financial Management and Accountability Act 1997*, as amended.



Gary Banks
Chairman



Harry Tys
Chief Finance Officer

4 August 2005

Statement of Financial Performance

For the year ended 30 June 2005

		2005	2004
	Note ^a	\$'000	\$'000
Revenues from ordinary activities			
Revenues from government		28,293	24,346
Goods and services	5A	314	231
Revenues from sale of assets	5B	4	12
Resources received free of charge		<u>34</u>	<u>33</u>
Revenues from ordinary activities		<u>28,645</u>	<u>24,622</u>
Expenses from ordinary activities			
Employees	6A	19,690	19,135
Suppliers	6B	6,102	5,756
Depreciation and amortisation	6C	548	775
Write-down of assets	6D	4	8
Value of assets sold	5B	<u>—</u>	<u>15</u>
Expenses from ordinary activities		<u>26,344</u>	<u>25,689</u>
Net operating surplus (deficit) from ordinary activities		<u>2,301</u>	<u>(1,067)</u>
Net credit to asset revaluation reserve		<u>—</u>	<u>1,076</u>
Total changes in equity other than those resulting from transactions with the Australian Government as owner	10	<u>2,301</u>	<u>9</u>

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

Statement of Financial Position

As at 30 June 2005

	Note ^a	2005 \$'000	2004 \$'000
ASSETS			
Financial assets			
Cash		210	958
Receivables	7	<u>6,346</u>	<u>3,498</u>
Total financial assets		<u>6,556</u>	<u>4,456</u>
Non-financial assets			
Infrastructure, plant and equipment	8A	1,580	1,920
Intangibles	8B	29	49
Prepayments		<u>186</u>	<u>296</u>
Total non-financial assets		<u>1,795</u>	<u>2,265</u>
Total Assets		<u>8,351</u>	<u>6,721</u>
LIABILITIES			
Provisions			
Employees	9	<u>7,052</u>	<u>7,186</u>
Total provisions		<u>7,052</u>	<u>7,186</u>
Payables			
Suppliers		<u>187</u>	<u>724</u>
Total payables		<u>187</u>	<u>724</u>
Total Liabilities		<u>7,239</u>	<u>7,910</u>
Net Assets		<u>1,112</u>	<u>(1,189)</u>
EQUITY			
Contributed equity	10	1,711	1,711
Reserves	10	1,172	1,172
(Accumulated deficits)	10	<u>(1,771)</u>	<u>(4,072)</u>
Total Equity		<u>1,112</u>	<u>(1,189)</u>
Current assets		6,742	4,752
Non-current assets		1,609	1,969
Current liabilities		3,573	4,386
Non-current liabilities		3,666	3,524

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

Statement of Cash Flows

For the year ended 30 June 2005

	Note ^a	2005 \$'000	2004 \$'000
OPERATING ACTIVITIES			
Cash received			
Appropriations		24,588	24,346
Cash transferred from the Official Public Account (OPA)		1,000	–
Goods and services		345	254
Net GST received from ATO		<u>678</u>	<u>476</u>
Total cash received		<u>26,611</u>	<u>25,076</u>
Cash used			
Employees		19,028	18,523
Suppliers		<u>8,143</u>	<u>5,826</u>
Total cash used		<u>27,171</u>	<u>24,349</u>
Net cash from (used by) operating activities	11	<u>(560)</u>	<u>727</u>
INVESTING ACTIVITIES			
Cash received			
Proceeds from sale of property, plant and equipment		<u>4</u>	<u>12</u>
Total cash received		<u>4</u>	<u>12</u>
Cash Used			
Purchase of property, plant and equipment		<u>192</u>	<u>315</u>
Total cash used		<u>192</u>	<u>315</u>
Net cash from (used by) investing activities		<u>(188)</u>	<u>(303)</u>
Net increase (decrease) in cash held		(748)	424
Cash at the beginning of the reporting period		<u>958</u>	<u>534</u>
Cash at the end of the reporting period		<u>210</u>	<u>958</u>

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

Schedule of Commitments

As at 30 June 2005

	Note ^a	2005 \$'000	2004 \$'000
BY TYPE			
Other commitments			
Operating leases		10,379	4,537
Other		<u>971</u>	<u>195</u>
Total other commitments		11,350	4,732
Commitments receivable		<u>(1,032)</u>	<u>(649)</u>
Net commitments by type		<u>10,318</u>	<u>4,083</u>
BY MATURITY			
Operating lease commitments			
One year or less		2,000	2,322
From one to five years		6,952	2,215
Over five years		<u>1,427</u>	<u>–</u>
Total operating lease commitments		<u>10,379</u>	<u>4,537</u>
Other commitments			
One year or less		331	195
From one to five years		567	–
Over five years		<u>73</u>	<u>–</u>
Total other commitments		<u>971</u>	<u>195</u>
Commitments receivable			
One year or less		(212)	(448)
From one to five years		(684)	(201)
Over five years		<u>(136)</u>	<u>–</u>
Total commitments receivable		<u>(1,032)</u>	<u>(649)</u>
Net commitments by maturity		<u>10,318</u>	<u>4,083</u>

<i>Nature of Lease</i>	<i>General description of leasing arrangement</i>
Leases for office accommodation	Lease payments are subject to fixed annual increase in accordance with the lease agreement.
Agreements for the provision of motor vehicles to Senior Executive Officers	Lease payments are fixed at the commencement of each vehicle lease. Vehicles are returned on lease expiry.

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

Notes to and forming part of the Financial Statements for the Year Ended 30 June 2005

Note	Description
1	Objectives of the Productivity Commission
2	Summary of Significant Accounting Policies
3	Adoption of Australian 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
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.

The Commission's one outcome 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.

The continued existence of the Commission in its present form and with its present programs is dependent on Government policy and on continuing appropriations by Parliament for the Commission's administration and programs.

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 2005;
- 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 (other than unquantifiable or remote contingencies, which are reported at Note 16).

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.

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.

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 2003-04 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 2003-04.

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 2004-05.

(b) *Interest*

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets. No interest was received in 2004-05.

(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) and annual 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 2005.

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 in respect of accrued pay at 30 June 2005.

2.6 Leases

A distinction is made between finance leases and operating leases. Finance leases effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to ownership of leased non-current assets. In operating leases, the lessor effectively retains substantially all such risks and benefits.

Where a non-current asset is acquired by means of a finance lease, the asset is capitalised at the present value of minimum lease payments at the beginning of the lease term and a liability recognised at the same time and for the same amount. The discount rate used is the interest rate implicit in the lease. Leased assets are amortised over the period of the lease. Lease payments are allocated between the principal component and the interest expense. The Commission has no finance leases.

Operating lease payments are expensed on a basis that is representative of the pattern of benefits derived from the leased assets. The net present value of future net outlays in respect of surplus space under non-cancellable lease agreements is expended in the period in which the space becomes surplus.

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).

Revaluation basis

Land, buildings, plant and equipment are carried at fair value, being revalued with sufficient frequency such that the carrying amount of each asset class is not materially different, at reporting date, from its fair value. Valuations undertaken in each year are as at 30 June.

Fair values for each class of asset are determined as shown below:

<i>Asset class</i>	<i>Fair value measured at</i>
Leasehold improvements	Depreciated replacement cost
Plant and equipment	Market selling price

The Commission's revaluation policy and frequency of revaluations is in accordance with the Finance Minister's Orders.

Impairment

The Commission's property, plant and equipment assets are carried at up-to-date fair value and consequently are not subject to impairment testing.

Intangible assets, which comprise acquired computer software for internal use, are carried at cost and have been assessed for indications of impairment. Where indicators of impairment exist, the asset is written down to the higher of its net selling price and, if the entity would replace the asset's service potential, its depreciated replacement cost. All software assets were assessed for indicators of impairment at 30 June 2005. None were found to be impaired.

Depreciation and amortisation

Depreciable property, plant and equipment assets are written-off to their estimated residual values over their estimated useful lives to the Commission using, in all cases, the straight-line method of depreciation. 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:

	<i>2005</i>	<i>2004</i>
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 8C.

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 Australian 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 Australian Equivalents to International Financial Reporting Standards (AEIFRS). The International Financial Reporting Standards 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, including reporting periods ending on 30 June 2005.

The purpose of issuing AEIFRS is to enable Australian reporting 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 with AEIFRS will be able to make an explicit and unreserved statement of compliance with International Financial Reporting Standards (IFRS) as well as a statement that the financial report has been prepared in accordance with Australian Accounting Standards.

AEIFRS contain certain additional provisions which will apply to not-for-profit entities, including Australian Government agencies. Some of these provisions are in conflict with IFRS and therefore the Commission will only be able to assert that the financial report has been prepared in accordance with Australian Accounting Standards.

AAS 29 *Financial Reporting by Government Departments* will continue to apply under AEIFRS.

Accounting Standards AASB 1047 *Disclosing the Impacts of Adopting Australian Equivalents to International Financial Reporting Standards* requires that the financial statements for 2004-05 disclose:

- an explanation of how the transition to the AEIFRS is being managed;

-
- narrative explanations of the key policy differences arising from the adoption of AEIFRS;
 - any known or reliably estimateable information about the impacts on the financial report had it been prepared using AEIFRS; and
 - if the impacts of the above are not known or reliably estimateable, a statement to that effect.

The purpose of the Note is to make these disclosures.

Management of the transition to AASB equivalents to IFRSs

The Commission has taken the following steps for the preparation towards the implementation of AEIFRS:

- The Commission's Audit Committee is tasked with oversight of the transition to and implementation of AEIFRS. The Chief Finance Officer is formally responsible for the project and reports regularly to the Audit Committee on progress against the formal plan approved by the Committee.
- The plan requires the following key steps to be undertaken and sets deadlines for their achievement:
 - All major accounting policy differences between current AASB standards and AEIFRS were identified by 30 November 2004.
 - No system changes were necessary to be able to report under the AEIFRS, including the capture of data under both sets of rules for 2004-05.
 - An AEIFRS compliant balance sheet as at 30 June 2005 was also prepared during the preparation of the 2004-05 statutory financial reports.
 - The 2004-05 Balance Sheet under AEIFRS will be reported to the Department of Finance and Administration in line with their reporting deadlines.
- The plan also addresses the risks to successful achievement of the above objectives and includes strategies to keep implementation on track to meet deadlines.

Major changes in accounting policy

The Commission believes that the first financial report prepared under AEIFRS (ie, at 30 June 2006), will be prepared on the basis that the Commission will be a first time adopter under AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*. Changes in accounting policies under

AEIFRS are applied retrospectively ie, as if the new policy had always applied except in relation to the exemptions available and prohibitions under AASB1. This means that an AEIFRS compliant balance sheet has to be prepared as at 1 July 2004. This will enable the 2005-06 financial statements to report comparatives under AEIFRS.

A first time adopter of AEIFRS may elect to use exemptions under paragraphs 13 to 25E. When developing the accounting policies applicable to the preparation of the 1 July opening balance sheet, no exemptions were applied by the Commission.

Changes to major accounting policies are discussed in the following paragraphs.

Management's review of the quantitative impacts of AEIFRS represents the best estimates of the impacts of the changes as at reporting date. The actual effects of the impacts of AEIFRS may differ from these estimates due to:

- continuing review of the impacts of AEIFRS on Commission operations;
- potential amendments to the AEIFRS and AEIFRS Interpretations; and
- emerging interpretation as to the accepted practice in the application of AEIFRS and the AEIFRS Interpretations.

Property plant and equipment

It is expected that the 2005-06 *Finance Minister's Orders* will continue to require property plant and equipment assets to be valued at fair value in 2005-06.

Impairment of intangibles and property, plant & equipment

The Commission's policy on impairment of non-current assets is at Note 2.10.

Under AEIFRS these assets will be subject to assessment for impairment and, if there are indications of impairment, an assessment of the degree of 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 assets which would be replaced if the Commission were deprived of them.

An impairment assessment of the Commission's assets indicated that no adjustments will be required.

Decommissioning, restoration and make-good

In assessing accommodation leases for the preparation of the opening balance sheet, the Commission has an obligation for make-good in its leases of its Melbourne and Canberra premises. Present value of the estimated costs of make-good at the expiration of the leases is \$700,000.

Employee benefits

The provision for long service leave is measured at the present value of estimated future cash outflows using market yields as at the reporting date on national government bonds.

The 2003-04 Financial Report noted that the AEIFRS standards may require the market yield on corporate bonds to be used. The AASB has decided that a deep market in high quality corporate bonds does not exist and therefore national government bonds will be referenced.

AEIFRS require that annual leave that is not expected to be taken within 12 months of balance date is to be discounted. After assessing the staff leave profile, the Commission expects that material amounts of the annual leave balance will not be taken in the next 12 months. Consequently, the non-current annual leave balance has been discounted.

Financial instruments

AEIFRS include an option for entities not to restate comparative information in respect of financial instruments in the first AEIFRS report. It is expected that Finance Minister's Orders will require entities to use this option. Therefore, the amounts for financial instruments presented in the Commissions' 2004-05 primary financial statements are not expected to change as a result of the adoption of AEIFRS.

The Commission will be required by AEIFRS to review the carrying amounts of financial instruments at 1 July 2005 to ensure they align with the accounting policies required by AEIFRS. It is expected that the carrying amounts of financial instruments held by the Commission will not change as a result of this process.

Reconciliation of total equity as presented under previous Australian Generally Accepted Accounting Principles (AGAAP) to that under AEIFRS:

	30 June 2005	30 June 2004
	\$'000	\$'000
Total equity under previous AGAAP	1,112	(1,189)
Employee provisions – discounting of non-current annual leave provision	<u>127</u>	<u>118</u>
Total equity under AEIFRS	<u>1,239</u>	<u>(1,071)</u>

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 – Goods and services

	2005	2004
	\$'000	\$'000
Goods and Services		
– to related entities	13	14
– to external entities	<u>301</u>	<u>217</u>
Total sales of goods and services	<u>314</u>	<u>231</u>

Note 5B – Net gains (losses) from disposal of infrastructure, plant and equipment

	2005	2004
	\$'000	\$'000
Infrastructure, plant and equipment		
Proceeds from disposals	4	12
Net book value of assets disposed	<u>–</u>	<u>15</u>
Net gain or (loss) from disposal of infrastructure, plant and equipment	<u>4</u>	<u>(3)</u>

Note 6 Operating expenses

Note 6A – Employee expenses

	2005	2004
	\$'000	\$'000
Wages and salaries	15,684	14,956
Superannuation	2,737	2,668
Leave and other entitlements	324	498
Separation and redundancies	427	409
Other employee expenses	<u>447</u>	<u>546</u>
Total employee benefits expense	19,619	19,077
Worker compensation premiums	<u>71</u>	<u>58</u>
Total employee expenses	<u>19,690</u>	<u>19,135</u>

Note 6B – Suppliers expenses

	2005	2004
	\$'000	\$'000
Goods and services		
– from related entities	317	376
– from external entities	3,716	3,254
Operating lease rentals	<u>2,069</u>	<u>2,126</u>
Total supplier expenses	<u>6,102</u>	<u>5,756</u>

Note 6C – Depreciation and amortisation

	2005	2004
	\$'000	\$'000
Depreciation		
– Infrastructure, plant and equipment	528	755
Amortisation		
– Intangibles – computer software	<u>20</u>	<u>20</u>
Total depreciation and amortisation	<u>548</u>	<u>775</u>

Note 6D – Write-down of assets

	<i>2005</i>	<i>2004</i>
	\$'000	\$'000
Non-financial assets		
Plant & equipment – write-down on disposal	<u>4</u>	<u>8</u>
Total write-down of assets	<u>4</u>	<u>8</u>

Note 7 Financial assets

Receivables

	<i>2005</i>	<i>2004</i>
	\$'000	\$'000
Appropriations receivable – undrawn	6,130	3,425
Goods and Services	134	2
GST receivable	<u>82</u>	<u>71</u>
Total receivables	<u>6,346</u>	<u>3,498</u>
Receivables (gross) are aged as follows:		
Current	6,346	3,498

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

Note 8A – Infrastructure, Plant and Equipment

	2005	2004
	\$'000	\$'000
Leasehold improvements		
Leasehold improvements – at fair value	1,269	1,269
Accumulated amortisation	<u>(224)</u>	<u>–</u>
Total leasehold improvements	<u>1,045</u>	<u>1,269</u>
Plant and equipment		
Plant and equipment at cost	–	1,849
Accumulated appreciation	<u>–</u>	<u>(1,216)</u>
	<u>–</u>	<u>633</u>
Plant and equipment – at 1998-2001 valuation (deprival)	–	626
Accumulated depreciation	<u>–</u>	<u>(608)</u>
	<u>–</u>	<u>18</u>
Plant and equipment – at fair value	2,529	–
Accumulated depreciation	<u>(1,994)</u>	<u>–</u>
	<u>535</u>	<u>–</u>
Total plant and equipment	<u>535</u>	<u>651</u>
Total infrastructure, plant and equipment	<u>1,580</u>	<u>1,920</u>

Note 8B – Intangibles

	2005	2004
	\$'000	\$'000
Intangibles		
Computer software at cost	559	559
Accumulated amortisation	<u>(530)</u>	<u>(510)</u>
Total intangibles	<u>29</u>	<u>49</u>

Note 8C – Reconciliation of the opening and closing balances of infrastructure, plant and equipment

<i>Item</i>	<i>Leasehold improvements</i>	<i>Plant and equipment</i>	<i>Total infrastructure</i>	<i>Intangibles</i>	<i>Total</i>
	\$'000	\$'000	\$'000	\$'000	\$'000
As at 1 July 2004					
Gross book value	1,269	2,475	3,744	559	4,303
Accumulated depreciation/amortisation	(—)	(1,824)	(1,824)	(510)	(2,334)
Opening net book value	<u>1,269</u>	<u>651</u>	<u>1,920</u>	<u>49</u>	<u>1,969</u>
Additions by purchase	—	192	192	—	192
Depreciation/amortisation expense	(224)	(304)	(528)	(20)	(548)
Write-downs	—	(4)	(4)	—	(4)
As at 30 June 2005					
Gross book value	1,269	2,528	3,797	559	4,356
Accumulated depreciation/amortisation	(224)	(1,993)	(2,217)	(530)	(2,747)
Closing net book value	<u>1,045</u>	<u>535</u>	<u>1,580</u>	<u>29</u>	<u>1,609</u>

In 2003-04, leasehold improvements revaluations were conducted by independent valuers M. Lancellotte, AAPI and R. Rixon, AAPI, ASIA of the Australian Valuation Office. Plant and equipment assets which were previously valued at 'deprival' and 'cost' are now valued at fair value which is not considered to be materially different from the carrying amount at balance date.

Note 9 Provisions

Employee provisions

	2005	2004
	\$'000	\$'000
Salaries and wages	328	692
Annual leave	2,549	2,367
Long service leave	4,166	4,024
Superannuation	9	103
Aggregate employee entitlement liability	<u>7,052</u>	<u>7,186</u>
Current	3,386	3,662
Non-current	3,666	3,524

Note 10 Equity

<i>Item</i>	<i>Accumulated results</i>		<i>Asset revaluation reserve</i>		<i>Contributed Equity</i>		<i>Total Equity</i>	
	2005	2004	2005	2004	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Opening balance as at 1 July	(4,072)	(3,005)	1,172	96	1,711	1,686	(1,189)	(1,223)
Net surplus/deficit	2,301	(1,067)	–	–	–	–	2,301	(1,067)
Net revaluation increment	–	–	–	1,076	–	–	–	1,076
Contributions by owner:								
Appropriations (equity injection)	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	25	<u>–</u>	25
Closing balance as at 30 June	<u>(1,771)</u>	<u>(4,072)</u>	<u>1,172</u>	<u>1,172</u>	<u>1,711</u>	<u>1,711</u>	<u>1,112</u>	<u>(1,189)</u>

Note 11 Cash flow reconciliation

	2005	2004
	\$'000	\$'000
Reconciliation of net surplus to net cash from operating activities		
Net surplus (deficit)	2,301	(1,067)
Depreciation/Amortisation	548	775
Loss (profit) on sale of non-current assets	(4)	3
Write-down of assets	4	8
Decrease (increase) in receivables	(2,848)	(22)
Decrease (increase) in prepayments	110	(19)
Increase (decrease) in employee liabilities	(134)	612
Increase (decrease) in suppliers liability	(537)	422
Increase (decrease) in other liabilities	–	(10)
Increase (decrease) in contributed equity	<u>–</u>	<u>25</u>
Net cash from (used by) operating activities	<u>(560)</u>	<u>727</u>

Note 12 Appropriations

Note 12A – Acquittal of authority to draw cash from the Consolidated Revenue Fund (CRF) for Ordinary Annual Service Appropriations

	2005	2004
	\$'000	\$'000
Balance carried forward from previous period	4,358	3,934
Unspent prior year appropriations – ineffective s 31 ¹	<u>(2,089)</u>	<u>(1,823)</u>
Adjusted balance carried from previous period [A]	<u>2,269</u>	<u>2,111</u>
Appropriation Act (No 1)	24,588	24,203
Appropriation Act (No 3)	<u>3,705</u>	<u>143</u>
Sub-total annual appropriation [B]	<u>28,293</u>	24,346
Appropriations to take account of recoverable GST (FMAA s 30A) [C]	678	476
30 June 2005 variation – s 31 ² [D]	<u>2,438</u>	<u>2,089</u>
Total appropriations available for payments [A+B+C+D]	33,678	29,022
Cash payments made during the year (GST inclusive) [E]	<u>(27,363)</u>	<u>(24,664)</u>
Balance of authority to draw cash from the CRF for ordinary annual service appropriations [A+B+C+D+E]	<u>6,315</u>	<u>4,358</u>
<i>Represented by:</i>		
Cash at bank and on hand	210	958
Receivables – appropriations held in the OPA	<u>6,105</u>	<u>3,400</u>
Total	<u>6,315</u>	<u>4,358</u>

¹ Under Section 31 of the *Financial Management and Accountability Act 1997* (the FMA Act), the Minister for Finance may enter into a net appropriation agreement with an agency Minister. Appropriation Acts nos. 1 and 3 (for the ordinary annual services of government) authorise the supplementation of an agency's annual net appropriation by amounts received in accordance with its Section 31 agreement, eg receipts from charging for goods and services.

One of the conditions that must be satisfied under Section 31 of the FMA Act in order for an annual net appropriation to be increased lawfully in this way is that the agreement is made between the Finance Minister and the agency Minister or by officials expressly delegated (where permitted) or authorised by them. An agency's Chief Executive is taken to be so authorised.

The Acting Branch Manager, Department of Finance and Administration and the Assistant Commissioner, Corporate Services, Productivity Commission executed the Commission's Section 31 agreement covering the period July 1999 to February 2005. Whilst the Commission has operated and recorded Section 31 monies as though an effective agreement existed, the Commission did not have an express delegation or authority for signing the agreement, with the result that its agreement was ineffective and it did not have control over Section 31 monies. Prior to July 1999 there is doubt as to whether the Commission's Section 31 agreements were effective because the Commission's signatory may not have had an express delegation or authority for signing the agreements.

The Commission's current Section 31 agreement was made on 24 February 2005 between its Chief Executive Officer and the Division Manager, Budget Group, Department of Finance and Administration. Acknowledging the ineffectiveness of the prior agreement, this agreement was varied on 24 June 2005, with effect from 30 June 2005, to capture retrospectively all monies that were subject to the ineffective prior agreement.

Accordingly:

- amounts disclosed in previous financial years as available for spending under the Commission's departmental outputs appropriations up to 30 June 2004 were overstated by \$2,089,000;
- the 30 June 2005 variation to the Commission's agreement increased its appropriation by the amount of affected receipts for 2004-05 of \$349,000 to a total of \$2,438,000;
- no spending occurred without the authority of the Parliament and accordingly there was no breach of Section 83 of the Constitution.

A year-by-year analysis of overstatement of the output appropriations is given below.

	1998-99	Total Pre- accrual budgeting	1999-00	2000-01	2001-02	2002-03	2003-04	Sub- Total	2004-05	Total 1/7/99 to 30/6/05
Receipts affected	102	102	559	464	457	343	266	2,089	349	2,438
Unspent	102	102	559	464	457	343	266	2,089	349	2,438
Amount spent without appropriation	-	-	-	-	-	-	-	-	-	-

² This amount represents receipts of \$2,438,000 appropriated by the variation of 30 June 2005.

Note 12B – Acquittal of authority to draw cash from the Consolidated Revenue Fund (CRF) for other than Ordinary Annual Services Appropriations

	2005	2004
	\$'000	\$'000
Balance carried forward from previous year	25	–
Appropriation Act (No 4)	<u>–</u>	<u>25</u>
Total appropriations available for payments	25	25
Cash payments made during the year	<u>(–)</u>	<u>(–)</u>
Balance of authority to draw cash from the CRF for other than ordinary annual services appropriations	<u>25</u>	<u>25</u>
Represented by:		
Receivables – appropriations held in the OPA	<u>25</u>	<u>25</u>

Note 13 Reporting of outcome

Note 13A – Net cost of outcome delivery

	2005	2004
	\$'000	\$'000
Operating expenses	<u>26,344</u>	<u>25,689</u>
Operating revenue		
Goods and services	314	231
Revenue from disposal of assets	<u>4</u>	<u>15</u>
Total external revenues	<u>318</u>	<u>246</u>
Net cost of outcome	<u>26,026</u>	<u>25,443</u>

Note 13B – Major classes of revenues and expenses by output

	Output 1		Output 2		Output 3		Output 4		Output 5		Total	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Expenses												
Employees	9,775	9,971	3,175	2,229	2,105	2,085	81	135	4,554	4,715	19,690	19,135
Suppliers	2,942	3,104	1,011	714	534	473	22	32	1,593	1,433	6,102	5,756
Depreciation and amortisation	272	404	88	90	59	84	2	6	127	191	548	775
Other	2	12	1	3	–	3	–	–	1	5	4	23
Total expenses	12,991	13,491	4,275	3,036	2,698	2,645	105	173	6,275	6,344	26,344	25,689
Funded by:												
Revenues from government	13,952	12,787	4,591	2,877	2,898	2,508	113	163	6,739	6,011	28,293	24,346
Sales of goods and services	155	122	51	27	32	23	1	2	75	57	314	231
Other non-taxation revenues	19	23	6	6	4	5	–	–	9	11	38	45
Total revenues	14,126	12,932	4,648	2,910	2,934	2,536	114	165	6,823	6,079	28,645	24,622

Outcome 1, and the five contributing outputs, are described in Note 1. Net costs shown include intra-government costs that are eliminated in calculating the actual Budget outcome.

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.

	2005	2004
The number of executives who received or were due to receive total remuneration of \$100,000 or more:		
\$100,000 to \$110,000	1	2
\$110,000 to \$120,000	2	1
\$140,000 to \$150,000	2	–
\$150,000 to \$160,000	1	5
\$160,000 to \$170,000	2	2
\$170,000 to \$180,000	4	6
\$180,000 to \$190,000	3	4
\$190,000 to \$200,000	3	–
\$200,000 to \$210,000	1	–
\$210,000 to \$220,000	1	–
\$220,000 to \$230,000	1	1
\$230,000 to \$240,000	2	1
\$240,000 to \$250,000	1	1
\$250,000 to \$260,000	1	2
\$290,000 to \$300,000	1	1
\$310,000 to \$320,000	<u>1</u>	<u>–</u>
	<u>27</u>	<u>26</u>
Aggregate amount of total remuneration of executives shown above	\$5,182,577	\$4,717,084
Aggregate amount of separation and redundancy payments during the year to executives shown above	\$165,886	\$14,491

Note 15 Remuneration of auditors

	2005	2004
Financial statement audit services are provided free of charge to the Commission. The value of the services provided was:	\$33,500	\$32,500

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 Specific disclosures

No expenses and/or provisions in relation to each of the following compensation and debt relief mechanisms were made during the reporting period:

- (a) act of grace payments, pursuant to subsection 33(1) of the *Financial Management and Accountability Act 1997* (FMA Act);
- (b) waivers of debt owing to the Australian Government (being amounts that the entity would, but for the waiver, have been entitled to receive on behalf of the Australian Government);
 - (i) pursuant to subsection 34(1) of the FMA Act; and
 - (ii) pursuant to other legislation, which must be specified;
- (c) payments under the Compensation for Detriment caused by Defective Administration (CDDA) Scheme;
- (d) payments under approved ex-gratia programs, the nature of which must be identified; and
- (e) payments in special circumstances relating to APS employment pursuant to section 73 of the *Public Service Act 1999* (PS Act).

Note 18 Average staffing

The average staffing level is in respect of all employees of the Commission, including Holders of Public Office.

	2005	2004
Average staffing level numbers	192	190

Further information on staffing levels is provided in Appendix A of the Annual Report.

Note 19 Financial instruments

Note 19A – Terms, conditions and accounting policies

<i>Financial Instrument</i>	<i>Accounting Policies and Methods (including recognition criteria and measurement basis)</i>	<i>Nature of underlying instrument (including significant terms & conditions affecting amount, timing and certainty of cash flows)</i>
Financial Assets	Financial assets are recognised when control over future economic benefits is established and the amount of the benefit can be reliably measured.	
Cash	Deposits are recognised at their nominal amounts.	The Commission maintains its bank accounts with the Reserve Bank of Australia at call. Monies in the Commission's bank accounts are swept into the Official Public Account nightly.
Receivables	These receivables are recognised at the nominal amounts due less any provision for bad and doubtful debts. Collectability of debts is reviewed at balance date. Provisions are made when collection of the debt is judged to be less rather than more likely.	All receivables are with both entities related and external to the Commission. Credit terms for external entities are generally net 30 days.
Financial Liabilities	Financial liabilities are recognised when a present obligation to another party is entered into and the amount of the liability can be reliably measured.	
Trade creditors	Creditors and accruals are recognised at their nominal amounts, being the amounts at which the liabilities will be settled. Liabilities are recognised to the extent that the goods or services have been received (and irrespective of having been invoiced).	The majority of creditors are entities that are not part of the Commonwealth legal entity.

Note 19B – Interest rate risk

	Note	Floating Interest Rate		Fixed Interest Rate		Non Interest Bearing		Total		Effective Interest Rate ^a	
		2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	%	%
Financial assets											
Cash at bank		–	–	–	–	210	958	210	958	n/a	n/a
Receivables	7	–	–	–	–	<u>6,346</u>	<u>3,498</u>	<u>6,346</u>	<u>3,498</u>	n/a	n/a
Total financial assets		–	–	–	–	<u>6,556</u>	<u>4,456</u>	<u>6,556</u>	<u>4,456</u>		
Total assets		–	–	–	–	<u>8,351</u>	<u>6,721</u>	<u>8,351</u>	<u>6,721</u>		
Financial liabilities											
Suppliers		–	–	–	–	<u>187</u>	<u>724</u>	<u>187</u>	<u>724</u>	n/a	n/a
Total financial liabilities		–	–	–	–	<u>187</u>	<u>724</u>	<u>187</u>	<u>724</u>		
Total liabilities		–	–	–	–	<u>7,239</u>	<u>7,910</u>	<u>7,239</u>	<u>7,910</u>		

^a Weighted average.

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 2000-2005 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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