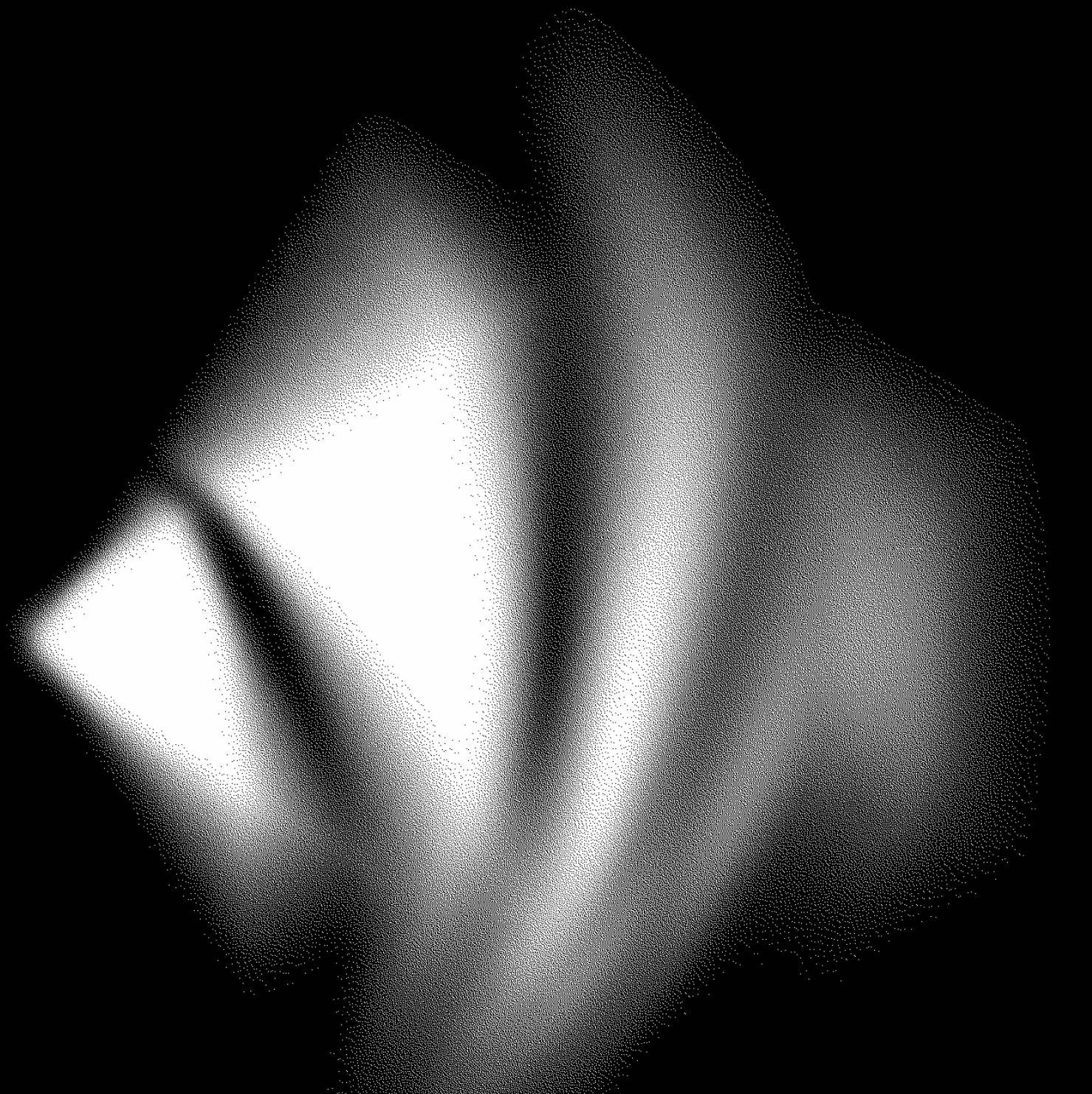




Australian Government  
Productivity Commission

# Annual Report 2005-06

Productivity  
Commission  
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**The Productivity Commission**

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

The Commission's independence is underpinned by an Act of Parliament. Its processes and outputs are open to public scrutiny and are driven by concern for the wellbeing of the community as a whole.

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



18 October 2006

The Treasurer  
Parliament House  
CANBERRA ACT 2600

Dear Treasurer

We submit to you the Productivity Commission's annual report for 2005-06. 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

Gary Potts  
Commissioner

Neil Byron  
Commissioner

Judith Sloan  
Commissioner

Robert Fitzgerald  
Commissioner

Philip Weickhardt  
Commissioner

Steven Kates  
Commissioner

Michael Woods  
Commissioner



## Chairman and Commissioners



Gary Banks (Chairman), Judith Sloan and Robert Fitzgerald



Mike Woods and Neil Byron



Steven Kates and Philip Weickhardt

Absent: Tony Hinton and Gary Potts

## **Acknowledgments**

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

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# Contents

<b>Abbreviations</b>	<b>X</b>
<b>CHAPTERS</b>	
<b>1 Progressing the national reform agenda</b>	<b>1</b>
Pay-offs from further reform	1
How does the NRA measure up?	6
Key issues going forward	14
<b>2 Review of Commission activities and performance</b>	<b>19</b>
Overview	20
Year in review	23
Transparent and consultative processes	31
Feedback on the Commission's work	39
Policy and wider impacts	41
Associated reporting	47
<b>A Management and accountability</b>	<b>51</b>
<b>B Program performance</b>	<b>83</b>
<b>C Government commissioned projects</b>	<b>145</b>
<b>D Competitive neutrality complaints</b>	<b>175</b>
<b>E Supporting research and related activities</b>	<b>179</b>
<b>F Publications</b>	<b>201</b>
<b>G Financial statements</b>	<b>207</b>
<b>Compliance Index</b>	<b>81</b>

---

## **Attachments**

A1	Commissioner and employee statistics	70
A2	Commonwealth Disability Strategy: outcomes against mandatory performance indicators	73
A3	Consultancies	76
A4	Freedom of Information Statement	78
A5	Compliance index	81
C1	Amended procedures for safeguard inquiries by the Productivity Commission	171

<b>References</b>	<b>241</b>
-------------------	------------

<b>Index</b>	<b>249</b>
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## **BOXES**

1.1	NCP at a glance	2
1.2	The Productivity Commission's proposed agenda from its review of NCP	4
1.3	The NRA at a glance	7
1.4	The best-practice regulation making and review framework	10
1.5	The Australian Government's response to the Regulation Taskforce	11
1.6	The outcome framework for the human capital stream	13
2.1	Commission publications in 2005-06	21
2.2	Compliance with RIS guidelines in 2005-06	28
2.3	Open and transparent processes are integral to the Commission's work	32
2.4	Support for Commission activities: some recent examples	40
B.1	Performance indicators for Commission outputs	87
B.2	The longer term influence of Commission reports	89
B.3	Charter of the Office of Regulation Review	126
B.4	Supporting research and annual reporting publications, 2005-06	138
B.5	Supporting research projects underway at 30 June 2006	139

## **FIGURES**

2.1	References received	23
2.2	Website hits	39
2.3	Mentions of the Commission in Australian parliaments	45
A.1	Productivity Commission structure and senior staff, 30 June 2006	52



---

B.1	Productivity Commission outcome/output framework 2005-06	84
B.2	Comparability of indicators	117

## **TABLES**

A.1	Financial and staffing resources summary	54
A.2	Performance bonuses payable for 2005-06	62
A1.1	Chairman and Commissioners, 30 June 2006	70
A1.2	Part-time Associate Commissioners, 30 June 2006	70
A1.3	Employees by location and gender, 30 June 2006	70
A1.4	Employees by employment status and gender, 30 June 2006	71
A1.5	Employees by level and reason for separation, 2005-06	72
B.1	Use of Commission outputs in recent parliamentary committee reports	93
B.2	Parliamentary Library use of Commission outputs in 2005-06	95
B.3	Program of public inquiries and other government-commissioned projects	100
B.4	Public inquiry and other commissioned project activity, 2001-02 to 2005-06	101
B.5	Cost of public inquiries and other commissioned projects completed in 2005-06	102
B.6	Direct administrative expenditure on public inquiries and other government-commissioned projects, 2001-02 to 2005-06	102
B.7	Impact of Commission inquiry reports on policy making	108
B.8	Indicators reported on a comparable basis, 2006 Report	118
B.9	Australian Government regulatory and RIS activities, 2001-02 to 2005-06	127
B.10	Formal competitive neutrality complaints, 2001-02 to 2005-06	133
C.1	Stage of completion of commissioned projects and government responses to Commission reports	146
E.1	Speeches and presentations by the Chairman, Commissioners and staff, 2005-06	192
E.2	Visits from international organisations and foreign delegations, 2005-06	199

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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
AIHW	Australian Institute of Health and Welfare
ANAO	Australian National Audit Office
ANU	Australian National University
APS	Australian Public Service
BCA	Business Council of Australia
COAG	Council of Australian Governments
CRC	COAG Reform Council
CSIRO	Commonwealth Scientific and Industrial Research Organisation
GDP	Gross domestic product
ESD	Ecologically Sustainable Development
GTEs	Government trading enterprises
IMF	International Monetary Fund
NCP	National competition policy
NRA	National Reform Agenda
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
WTO	World Trade Organization

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# 1 Progressing the national reform agenda

The Council of Australian Governments is embarking on a new National Reform Agenda (NRA). Improvements in Australia's living standards over the next decade and beyond will depend, to a significant degree, on the success of the competition, regulatory and human capital streams of reform embodied in the NRA. The challenges facing Australia's governments in progressing the NRA are threefold. First, governments must agree, in the near future, on a robust governance framework that provides effective leadership and monitoring of their performance in delivering reform. Second, to be effective, the NRA's implementation arrangements must establish agreed outcomes, specific actions and clear milestones. Third, the financial arrangements associated with the NRA should not only recognise the fiscal revenue gains from reforms but also the differential expenditure requirements, including the need to address transitional issues and facilitate adjustment.

## Pay-offs from further reform

In February 2006, the Council of Australian Governments (COAG) endorsed a new National Reform Agenda (NRA) directed at further improving the performance of the Australian economy and the living standards of the community. The competition, regulatory and human capital streams of the NRA build on, and significantly extend, the scope of the successful National Competition Policy reform framework (COAG 2006a).

In this annual report, the Commission examines the scope of the NRA and highlights a number of issues which will need to be resolved in order to realise its potential in coming years.

## The NCP experience

A key factor underpinning the National Competition Policy (NCP) Agreement of 1995 was the recognition by Australian governments, from the mid-1980s, that Australia's living standards were being impaired by domestic policy settings.

---

Earlier reforms had reduced barriers at the borders and subjected our traded industries to greater international competition. This in turn exposed performance problems in other parts of the economy. Notable among these were inefficiencies in infrastructure industries dominated by public monopoly suppliers, costly regulation of many product markets, and rigidities in the labour market which impaired enterprise innovation, competitiveness and productivity growth.

From the late 1980s, some governments individually started to tackle these problems. However, the Independent Committee of Inquiry into Competition Policy in Australia (1993) demonstrated that effective implementation of many of the reforms required a more coordinated approach. Hence, in April 1995, governments committed themselves to the NCP (box 1.1). While originally envisaged as a six year program, it was subsequently extended to 2005.

In April 2004, the Australian Government asked the Productivity Commission to review the impacts of NCP and report on further opportunities for gains to the Australian economy from removing impediments to efficiency and from enhancing competition. This was designed to help inform COAG's own review of NCP and decisions about future reforms (PC 2005a).

The Commission concluded that the NCP had been a landmark achievement, yielding substantial benefits, although it was not without some costs and defects. Among other things, NCP had:

- contributed to a surge in productivity growth and associated strong growth in household incomes;

**Box 1.1 NCP at a glance**

The National Competition Policy reform framework encompassed two broad streams.

- A general stream which provided for: the extension of the anti-competitive conduct provisions of the *Trade Practices Act 1974* to previously excluded businesses; reforms to government businesses to make them more commercially focused and expose them to competitive pressure; regulatory arrangements to provide secure third-party access to essential infrastructure services and guard against the possibility of overcharging by monopoly service providers; and a process for reviewing, and, as appropriate, modifying a wide range of legislation which restricted competition.
- A sector-specific stream which incorporated previously agreed reform programs and subsequently agreed extensions to these programs for the electricity, gas, water and road transport sectors. Where relevant, the general stream reforms also applied to this stream.

- 
- reduced the prices of key goods and services;
  - stimulated business innovation, customer responsiveness and choice; and
  - helped meet some environmental goals, including the more efficient use of water.

Productivity and price changes in key infrastructure sectors during the 1990s — to which NCP and related reforms directly contributed — were found by the Commission to have increased Australia’s GDP by some 2.5 per cent or \$20 billion compared to a ‘no change’ base case. (This analysis excluded the effects of other reforms, such as extending the reach of the *Trade Practices Act 1974* and the Legislation Review Program, which would have yielded additional gains.) Significant contributors to the projected increase in GDP were productivity improvements and price changes in telecommunications and electricity (reflecting the significance of these sectors to both businesses and households) and port and rail freight services (reflecting their importance to the traded goods sector). Increases in GDP boosted tax revenues and enhanced the capacity of governments to finance services such as education and health.

The benefits of NCP have also been spread across the community. Benefits were found to have flowed to both low and high income households and to country as well as city Australia. For example, the Commission’s modelling indicated that of 57 regions across Australia, all but one experienced a net income gain.

International observers have reaffirmed the positive assessment of the benefits of Australia’s NCP reforms. For example, the OECD (2005a) suggested that Australia had become a model for other countries in the way it had created a ‘competitive culture’ through its structural reforms across the economy.

## **The need and scope for further reform**

In the face of a number of challenges facing Australia, further reform is not only desirable as a means of boosting our economic performance, but also as a way of lessening emerging constraints on our capacity to improve community living standards in the future. Some of the major challenges facing Australia are now well-recognised, and include:

- the ageing of Australia’s population, which will present considerable economic and fiscal pressures as workforce growth falls and public spending on health and aged care rises (Australian Treasury 2002 and PC 2005a,b);
- the further integration of the world’s economies, which will bring both new opportunities and additional competitive pressures; and
- the need to promote sustainable resource use.

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There is also widespread evidence of opportunities for further reform. Notwithstanding improvements to Australia's economic performance in recent years, the Commission's review of NCP pointed to performance gaps in a number of areas where further nationally coordinated reforms could provide substantial pay-offs to the community (box 1.2).

Moreover, while Australia experienced a surge in productivity growth during the 1990s (relative both to its own past performance and that of other OECD countries), there remain significant productivity gaps relative to other high income countries. For example, Australia's level of GDP per hour worked is currently around 80 per cent of that of the United States. Australia's industry mix and population density explain some of this gap (Parham and Dolman 2006). Even so, if Australia's labour

**Box 1.2 The Productivity Commission's proposed agenda from its review of NCP**

- In a number of reform areas, national coordination will be critical to good outcomes. These areas — some of which were encompassed by NCP — should be brought together in a new reform program with common governance and monitoring arrangements. Priorities for the new program include:
  - strengthening the operation of the national electricity market;
  - enhancing water allocation and trading regimes 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 for this sector to address problems that are inflating costs, reducing service quality and limiting access to services.
- National action is needed to re-energise reform in the vocational education and training area.
- A future review could identify areas of natural resource management (beyond water and greenhouse gases) where the pay-offs from new nationally coordinated reform could be high.
- While reform is important in other areas, including industrial relations and taxation, there would be less pay-off from new nationally coordinated initiatives in these areas.

---

productivity gap with the United States — still below the world’s highest levels — could be halved, gross average annual household incomes would be about 10 per cent higher than current levels.

Work commissioned by the Business Council of Australia (BCA) goes further and suggests that by building on existing reforms to promote strong growth over the next 20 years, Australia could become the third most prosperous country in the developed world in terms of GDP per capita (Access Economics 2005). The additional reform areas identified by the BCA (2005a, 2006c) include workplace relations, taxation, a further round of competition policy reform, business regulation, planning and provision of infrastructure and federal-state reforms (including notably health and education).

Preliminary economic modelling by the Victorian Government indicates that, while the completion of unfinished business under NCP would yield useful benefits, larger gains are potentially available from a wider agenda covering further reductions in red tape burdens, improvements to health and education, and tackling barriers to workforce participation and productivity (Bracks 2005).

Modelling work currently being undertaken by the Commission for COAG, while also still preliminary, suggests that the economic gains from further reform under the NRA could be large, with both competition-related and other reform areas making important contributions to potential benefits. For example, if reducing the regulatory burden lowered compliance costs by one fifth from conservatively estimated levels, a cost saving of around \$7 billion (0.8 per cent of GDP) would be achievable (PC 2006d forthcoming).

Quantifying the potential benefits of reforms directed at human capital is particularly challenging. In the case of NRA, this is exacerbated by a lack of specificity about actual reform initiatives at this stage (see below) — including initiatives to increase public expenditure on health, education and training to improve the work-readiness of the population. As such, simulations can only be exploratory in nature and provide only broadly indicative results. That said, if an improvement in health sector productivity of around 5 per cent could be achieved, this would represent a cost saving of the order of \$4 billion (or about 0.4 per cent of GDP). The Commission’s modelling suggests that the potential impacts on GDP of policy-related improvements in workforce participation and productivity could be greater again. It also supports COAG’s view that further reforms, including in human capital related areas, have the potential to yield gains at least comparable to those associated with the NCP (COAG 2006a).

---

## How does the NRA measure up?

In October 2005, with deliberations by governments on a possible successor to NCP still occurring, the Commission convened a roundtable on *Productive Reform in a Federal System*. As noted in the published proceedings:

There was a feeling expressed by participants that there was currently a rare opportunity for progressing economic reform at a national level, both in relation to completing unfinished business under NCP and to embracing new initiatives discussed at the June 2005 meeting of COAG. (PC 2006a, p. 14)

In the event, the subsequent COAG meeting (February 2006) laid important foundations for further national reform in the years ahead. In their Communiqué, Heads of Government declared:

This was a historic meeting with significant outcomes. All governments have seized a unique opportunity to work together to deliver a substantial new National Reform Agenda ... (COAG 2006a, p. 1).

### A wide ranging program

The NRA is wide-ranging and ambitious. It lays down some challenging objectives for reform within its 'human capital' stream, along with more specific initiatives in the competition and regulatory reform streams to complete and build on the NCP (box 1.3).

The three streams focus on areas where nationally coordinated reforms are needed to meet the emerging challenges facing Australia and to improve living standards well into the future.

COAG's reform agenda also includes a number of initiatives which, while not formally part of the NRA, or only partially linked to it, are generally consistent with its underlying policy aims. For example, 'the better health for all Australians' package, the health workforce initiatives and the proposed national electronic health records system, complement initiatives envisaged in the health sub-stream of the NRA. Similarly, as a complement to the education and training sub-stream, there are initiatives to develop a national approach for apprenticeships, recognise training and skill qualifications and address skills shortages.

In addition, there are initiatives outside the COAG framework that are likely to be complementary with the human capital stream of the NRA. For example, the Australian Government is considering further reforms aimed at removing inefficiencies and work-incentive problems in the tax system, including by improving its interface with social support programs.



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### Box 1.3    **The NRA at a glance**

The National Reform Agenda comprises three streams — competition, regulatory reform and improvements to human capital.

- The *competition* stream involves reforms in the areas of energy, transport, infrastructure and planning and climate change.
- The *regulatory reform* stream comprises two distinct sets of initiatives. The first is designed to promote best-practice regulation making and review. The second focuses on reducing the regulatory burden in ‘hot spots’ where overlapping and inconsistent regulatory regimes are impeding economic activity.
- The *human capital* stream covers three areas — health, education and training, and work incentives.
  - The health element comprises two distinct parts. The first is aimed at improving workforce participation and productivity by reducing the incidence of chronic disease in the population. The second seeks to improve the delivery of health services and to modify specific purpose health payments where they cause perverse outcomes.
  - The education and training element seeks to equip more people with the skills needed to participate in the workforce. Four areas have been targeted: early childhood development; literacy and numeracy; transitions from school to further education or work; and adult learning.
  - The workforce incentives element is designed to increase workforce participation by improving incentives for those groups with the greatest potential to raise their participation rates: people on welfare, the mature aged, and women.

Beyond this, any assessment of how the NRA ‘measures up’ needs to take into account the different stages of development of the three reform streams. Indeed, recognising this, governments have tailored the reform framework to reflect the characteristics of particular areas. Where there is broad agreement on the desired outcomes, specific reform proposals have been developed. Where the underlying problems and potential reform options are less clear, the reform framework provides for further investigation to clarify the problems and identify solutions.

### **The ‘competition stream’: building on NCP**

Most of the reform proposals within the competition stream of the NRA — notably in energy, transport, and infrastructure regulation and planning — draw on well-established reform principles and seek to build on programs advanced under NCP.

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### *Further energy market reforms*

In the case of energy, initiatives to promote the development of a fully national electricity transmission grid, address structural issues affecting the ongoing efficiency of the sector, and secure transparent and effective financial arrangements to support the energy market, could yield considerable productivity gains and lower energy prices for users. COAG has established the Energy Reform Implementation Group to report back on proposals for progressing reform in these areas by the end of the year. Other initiatives associated with the Ministerial Council of Energy reform program, developed in response to the Parer review (COAG 2002), offer the prospect of additional benefits. However, as foreshadowed by COAG, further detailed developmental work needs to be undertaken to progress this program. It is crucial that this work be well-managed and closely monitored to ensure that governments follow through with the implementation of these reforms, thus avoiding the slippage that has characterised energy reform over the past decade.

### *A national approach to transport reform*

The transport component of this stream exemplifies the differentiated approach to progressing reform referred to above. The move to a more integrated inter-modal framework for assessing reform options within the transport sector represents an improvement over the fragmented approach applied under NCP.

Where there is broad agreement on desired outcomes of the transport reform agenda, COAG has agreed to expedite implementation. Examples include the proposed harmonisation and reform of road and rail regulation in the areas of safety and performance-based standards for innovative vehicles, and the strengthening of coordination for transport planning and project appraisal processes to ensure the best use of public investment resources. Securing timely and effective implementation in practice, however, will be a test for jurisdictional cooperation.

Other less settled parts of the transport reform agenda have been singled out for further analysis to secure a better understanding of the problems and to identify effective reform remedies. Examples include the reviews initiated by COAG to assist it in developing efficient pricing regimes for road and rail infrastructure and tackling urban traffic congestion. In its Discussion Draft on *Road and Rail Freight Infrastructure Pricing*, the Commission did not find compelling evidence of inter-modal price distortions. However, it found significant potential efficiency benefits from more market-oriented pricing and institutional reforms, as well as scope to achieve productivity gains in both road and rail freight from regulatory and other reforms (PC 2006b).

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### *Nationally consistent regulation of nationally-significant infrastructure*

The Competition and Infrastructure Reform Agreement offers a simpler, nationally consistent system of regulation for nationally-significant infrastructure covering ports, railways and other export-related infrastructure. The declared willingness of the Australian Government to legislate for a single regulator of export infrastructure if the proposed arrangements prove ineffective, should provide a discipline on the relevant parties to progress reform. However, the value to be gained from the agreed five-yearly reporting by each jurisdiction on the state of their economic infrastructure remains to be seen, with the first batch of reports due by end-January 2007.

### *Examine remaining restrictions on competition*

The competition stream of the NRA also needs to target unfinished business associated with the legislation review program under NCP. At the time of the Commission's review, around 20 per cent of proposed reviews were either yet to be conducted, or involved outcomes deemed by the National Competition Council to be inconsistent with NCP principles (PC 2005a).

Amongst these outstanding reviews, a number fall within the jurisdiction of the Australian Government, including the scheduled review of anti-dumping legislation and an examination of cabotage restrictions. Priority should also be given to undertaking the previously recommended 'second round' review of the single desk marketing arrangements for export wheat and the second round review of pharmacy regulation. In the case of the former, the Australian Government has indicated, as part of its response to the report of the Regulation Taskforce (2006), that it will consider this issue following the release of the report of the Inquiry into Certain Australian Companies in relation to the UN Oil-for-Food Programme (Costello 2006c). In the case of the latter, it would be desirable for the review to cover all of the restrictions on competition in the pharmacy sector and for the review to be conducted in time to inform negotiations for the 2010 Australian Community Pharmacy Agreement.

### **The regulation stream: seeking best practice**

There are two elements to the regulation stream of the NRA: one designed to promote best practice regulation-making and review processes; and a second which seeks to address the problems caused by overlapping and inconsistent regulatory regimes across governments.

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The new best-practice framework proposed under the NRA provides for the establishment of more effective mechanisms for the assessment of new and existing regulation (box 1.4). The agreement establishes some important principles, but appropriate follow-up action will be needed to ensure that the agreed framework operates as envisaged.

**Box 1.4 The best-practice regulation making and review framework**

To promote best-practice regulation and review outcomes, COAG agreed in February 2006 that all governments will:

- establish and maintain effective arrangements to maximise the efficiency of new/amended regulation and avoid unnecessary compliance costs and restrictions on competition;
- undertake targeted public annual reviews of existing regulation to identify priority areas where reform would provide significant net benefits to businesses and the community;
- improve regulatory consistency across jurisdictions or reduce duplication and overlap, including in the role and operation of regulatory bodies; and
- in principle, aim to adopt a common framework for benchmarking, measuring and reporting on the regulatory burden.

The continuing challenge is to ensure that new regulation is subject to rigorous assessment of need, with appropriate cost-benefit analysis of alternatives, including the option of choosing not to regulate further. While existing processes include provision for the preparation of regulation impact statements (RIS), compliance with their requirements has varied greatly both within and across jurisdictions. Importantly, it has tended to be lowest for more significant or contentious regulation, where good process is most needed (Regulation Taskforce 2006).

Entrenching good process through procedural and institutional means is the key to better regulation. In this respect, the Australian Government, in its response to the report of the Regulation Taskforce, has endorsed a number of significant initiatives (box 1.5). Most importantly, it has undertaken that regulatory proposals that do not comply adequately with (strengthened) RIS requirements — as independently assessed by the new Office of Best Practice Regulation — will not proceed to Cabinet or other decision makers. If effectively implemented, this should elevate considerably the discipline on regulation-making at the Commonwealth level, and provide a useful model for the States and Territories. At the same time, to facilitate take-up and a smooth transition to the new arrangements, the Office of Best Practice Regulation will be providing training and assistance to all government agencies.

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**Box 1.5      The Australian Government's response to the Regulation Taskforce**

In its final response to the Regulation Taskforce's Report — *Rethinking Regulation* — in August this year, the Australian Government accepted in full or part 158 of the 178 recommendations made by the Taskforce.

The recommendations included 99 proposed reforms to specific areas of regulation, 51 regulatory reviews for action by either the Australian Government or COAG and 28 proposals for systemic reforms to improve regulation-making and enforcement.

Importantly, the Government also emphasised the need to tackle the underlying causes of bad regulation:

A key step the Government is taking towards reducing the regulatory burden is in ensuring that systems are in place to guard against the introduction of unnecessary regulation and improve the quality of existing and new regulation. ... Government ministers will ensure that these strengthened processes are implemented in their respective portfolios. (Costello 2006c, p. 2)

- The Government endorsed the overarching principles of good regulatory process identified by the Taskforce and agreed to 'raise the bar' on the analytical and procedural requirements on regulation-makers, including the development of a whole of government policy on consultation.
- The Government is mandating the use of a 'Business Cost Calculator', to quantify the business compliance costs of proposed regulatory options.
- The Office of Regulation Review is to have its role enhanced as the Office of Best Practice Regulation. It will work with government agencies to help ensure that new regulation meets the more stringent tests.

The Australian Government noted that it will seek COAG agreement for the improved regulation-making framework to be applied to ministerial councils. The Government also affirmed the importance of COAG members actively working, through the regulatory reform stream of the NRA, to address overlaps and inconsistencies in a number of regulatory 'hot spots'.

Sources: Costello (2006c) and Regulation Taskforce (2006).

The regulatory reform stream also includes an element directed at reducing the burden associated, in particular, with overlapping and inconsistent regulatory regimes in so-called 'hot spots', the costs of which were highlighted by the Regulation Taskforce. COAG has nominated ten areas as initial priorities for action: rail safety; occupational health and safety; national trade measurement; chemicals and plastics; development assessment arrangements; building regulation; environmental assessment and approvals processes; business name, Australian Business Number and related business registration processes; personal property securities; and product safety regulation (COAG 2006a,b). Ongoing leadership and monitoring of progress by COAG will be important if the mixed results from similar

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cross-jurisdictional or national reviews under the legislation review program of the NCP are to be avoided.

At the Commonwealth level, in addition to the wide-ranging review conducted by the Regulation Taskforce, the Productivity Commission will undertake more targeted annual reviews. Reviews are also underway or foreshadowed in other jurisdictions. For example, the Independent Pricing and Regulatory Tribunal is undertaking a review of the burden of existing regulation in New South Wales and released a draft report in July 2006 (IPART 2006).

### **Challenges of the 'human capital' stream**

The third stream of the NRA, which focuses on human capital, is arguably the most ambitious. It comprises eleven aspirational outcomes in three areas — health, education and training and work incentives — directed at lifting the participation and productivity of Australia's workforce (box 1.6).

#### *Scope for improvement*

Analysis of Australia's performance in these areas, relative to the better performing OECD countries, highlights significant scope for improvement.

- Australia's mortality rates for a number of chronic diseases are relatively high compared to various other developed nations. For example, for colorectal cancer, Australia has the third highest mortality rate. And, in the areas of coronary heart disease and diabetes, Australia ranks near the middle (AIHW 2005).
- Data from the OECD reveal scope to improve education and training outcomes in Australia. For example, while the average test scores for literacy, maths and science of Australia's 15 year olds are significantly above the OECD average, we have a longer tail of lower achievement than do most other countries. Importantly, Australia's secondary school completion rates are well below average. Among 30 OECD countries, Australia ranked 20<sup>th</sup> on this measure in 2003, with just over 75 per cent of the population aged 25 to 34 having completed an upper secondary education (OECD 2005b).
- Labour force data for OECD countries, corrected by the Commission for inter-country differences in statistical reporting practices, indicates potential for raising Australia's participation rate.
  - In 2004, Australia's total labour force participation rate (64.9 per cent) was below that of six other OECD countries including Canada (67.3 per cent), New Zealand (66.8 per cent) and the United States (65.1 per cent).

- 
- In the same year, Australia’s participation rate for females aged 25-54, at 72.1 per cent, was below that of 19 other OECD countries while for males aged 25-54 Australia’s participation was below 22 other OECD countries (PC 2006d,e).

Performance measures for each indicative outcome, together with independent assessment and transparent reporting arrangements, would create the preconditions for an effective accountability mechanism. Over time it would also facilitate the development of a valuable information base to encourage ‘yardstick’ competition. If progressed along these lines, this aspect of the human capital stream would have

**Box 1.6 The outcome framework for the human capital stream**

Eleven ‘indicative outcomes’ were agreed to by COAG in July 2006 in the areas of health, education and training, and work incentives.

*Health outcomes*

- Significantly improve the proportion of children that are born healthy (subsidiary outcome: the gap between indigenous and non-indigenous children is closed).
- Reduce the proportion of the working age population not participating and/or under-participating in paid employment due to illness, injury or disability.
- Reduce the incidence of preventable chronic disease and serious injury among the working age population.
- Reduce the prevalence of key risk factors that contribute to chronic disease.
- Increase the effectiveness of the health system in achieving health outcomes.

*Education and training*

- Significantly improve the proportion of children acquiring the basic skills for life and learning (subsidiary outcome: the gap between indigenous and non-indigenous children is closed).
- Increase the proportion of young people meeting basic literacy and numeracy standards, and improve overall levels of achievement.
- Increase the proportion of young people making a smooth transition from school to work or further study.
- Increase the proportion of adults who have skills and qualifications needed to enjoy active and productive working lives.

*Work incentives*

- Improve overall workforce participation, with a particular focus on target groups, in a manner consistent with the long-term interests of the individual and the economy, giving due regard to productivity.
- Increase the provision of flexible working arrangements within the workforce, in a manner consistent with the long-term interests of the individual and the economy.

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some parallels with the existing performance monitoring arrangements for government-provided services, and there would be advantages in developing the potential synergies between the evaluation frameworks (SCRGSP 2006).

### *Developing effective programs*

The biggest immediate challenge is to develop specific reform proposals and their implementation plans. This will take time. It involves areas of public policy where there are different perspectives on appropriate policy responses and information gaps on costs relative to benefits. Beyond this, many reform initiatives in the health and education and training areas are likely to have very long lead times before any demonstrable pay-offs are realised. The development of effective reform proposals will inevitably require careful analysis and review. It will also be important to build flexibility into the policy development process to allow for experimentation and innovation.

## **Key issues going forward**

The successful development and delivery of reforms under the NRA will demand a considerable collaborative effort by Australian governments, given the broad scope and differing stages of development of the various reform streams. Looking to 2007 and beyond, and drawing on lessons from NCP, three issues are of particular importance:

- establishing a robust governance framework;
- developing effective implementation arrangements; and
- clarifying the role of financing arrangements in the reform process.

### **Establishing a robust governance framework**

The successful development and implementation of the NRA will depend on the strength of its overarching governance arrangements — including the need for effective leadership from COAG and related implementation bodies — and the quality of its review and assessment processes. The National Competition Council has observed:

... while the *reform agenda* is more important than any particular institution ... the *institutional framework* drives the content, and determines the success, of the reform agenda. (NCC 2004, p. 2)



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In its review of NCP, the Commission identified several crucial elements, which are of direct relevance to the NRA:

- clearly specified reform objectives and principles, including effective public interest tests;
- agreed implementation timetables;
- independent monitoring and public reporting on progress;
- adequate resourcing of key coordinating/decision making and assessment bodies; and
- mechanisms to lock-in reforms.

COAG will need to provide leadership at two levels. First, in setting broad objectives or desired outcomes and developing and clearly specifying associated reform proposals. Second, in ensuring that there are effective arrangements for the implementation of such policy initiatives against agreed milestones.

In some areas of the NRA, COAG has devolved responsibility for developing specific reform proposals to other bodies such as ministerial councils. Experience with similar arrangements under the NCP has highlighted the importance of governments providing such bodies with adequate guidance on their expected roles and establishing adequate accountability mechanisms. These bodies, in turn, need to provide clarity about the development and implementation of reform and have effective processes in place for achieving a national approach.

The diverse nature of the NRA places a premium on distinguishing between areas where desired outcomes and beneficial reforms can be readily identified, compared with areas where the direction and specifics of reform are less clear. For the former, the priority should be to settle implementation frameworks relatively quickly. For the latter, there is likely to be an important role for review mechanisms to aid policy development. In particular, the development of effective reform proposals in the human capital stream is likely to depend on the quality of analytical inputs and on review processes to address information gaps and assess the relative merits of alternative approaches.

Experience with NCP demonstrates that transparent and independent assessment mechanisms reinforce the reform process. They create pressures on governments to adhere to agreed reforms, lessening the risk of reform slippage or backsliding. Further benefits include the sharing of experiences across jurisdictions and assisting in fine-tuning the implementation processes. The assessment process needs to be adequately resourced if it is to contribute effectively to progressing the NRA.

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Important in this regard is the creation by COAG of a new independent high-level body — the COAG Reform Council (CRC) — to monitor progress and assess the performance of governments in meeting their reform commitments under the NRA (COAG 2006a).

In July 2006 COAG agreed on an extension to the CRC's role. Specifically, it agreed that, following consideration of reform proposals by COAG, there would be an independent assessment of the relative costs and benefits of each proposal by the CRC.

Assessments would give due regard to economic, demographic, geographic and other differences between jurisdictions. Each jurisdiction would retain full discretion as to how they act upon the assessment from the CRC. The CRC would draw on the work of the Commission in assessing the potential benefits of the NRA. (COAG 2006b, p. 9)

Given the need for the economic and social effects of proposed reforms to have been taken into account by COAG in identifying appropriate ways forward, it follows that referrals to the CRC would be primarily concerned with the fiscal implications and, in particular, the distribution of consequent changes to revenue and expenditure. These can be expected to vary significantly, depending on the nature of the reform program. For example, the States are responsible for delivery of health services, while the funding and financial responsibility of health services partly rests with the Commonwealth. Reform in this area offers a cost saving through the more efficient delivery of health services, but is likely to represent a proportionately larger gain to the States. On the other hand, reforms to reduce regulatory burdens on business have the potential to induce widespread improvements in the productivity of labour, with proportionately larger gains in GDP and associated taxation revenue flowing back to the Commonwealth.

The Commission's work in assessing the potential economic effects of the NRA should prove useful to the new CRC, primarily in terms of the updated and refined modelling framework now available (PC 2006d). The results from this work, however, are likely to be too broad-brush to guide useful assessments of the fiscal implications of specific reform programs. Further work would be needed. The most important task is to understand the likely effects of a given reform program on productivity or labour participation, as necessary inputs in evaluating the economy-wide outcomes. Ideally, such analysis would need to be conducted before reform proposals are developed for COAG's consideration.

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## **Developing effective implementation arrangements**

As with NCP, progress in the NRA is likely to be shaped by the effectiveness of the implementation plans for specific reforms. In several areas of the NRA, most notably the human capital stream, there is a considerable way to go.

Effective implementation demands agreement on outcomes and reform commitments as well as on specific actions and milestones. The reform effort needs to be focused on areas where the pay-offs are likely to be highest. The provision of some flexibility in how jurisdictions develop their approaches to broadly agreed reforms is also desirable, provided the overarching principles are clear.

Weaknesses in some of these areas caused several problems for the NCP. For example:

- lack of specificity in relation to water and road transport led to considerable delays in advancing their reform agendas; and
- the absence of clear guidelines in relation to coverage and priority-setting gave rise to several problems for the legislation review program. These included anomalies across jurisdictions in the listing of relevant legislation, the inappropriate scheduling of some reviews relative to the significance of the anti-competitive restrictions involved, and the under-utilisation of joint or national reviews of some regulations.

Another lesson from the NCP experience is that, where a reform agenda includes challenging elements, monitoring of outcomes yields information that can be used to refine reform commitments and priorities, as well as to modify reform strategies. Monitoring or oversight arrangements, however, should also be sufficiently rigorous to encourage governments to progress reforms.

## **The role of financial arrangements**

In its review of NCP, the Commission concluded that the ‘competition payments’ from the Commonwealth to the States had played a useful role in sustaining progress. Looking towards a future reform agenda, it judged that there were four rationales for making some payments to the States and Territories:

- returning ‘revenue dividends’ from some of the reforms (a vertical fiscal imbalance argument) — though the goods and services tax would reduce the magnitude of the revenue transfers involved;

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- recognising that reforms would be undertaken in some areas, such as health care, where funding and delivery responsibilities are shared between governments — which could require concomitant adjustments in fiscal transfers;
  - using financial incentives to help ameliorate transitional costs, or adverse distribution effects from reform, that were not adequately addressed by generally available income support and other mechanisms; and
  - making payments to help leverage reforms that, in the face of opposition from vested interests, might otherwise be put in the ‘too hard basket’.

The funding arrangements for the NRA, as agreed at COAG’s February 2006 meeting, envisage consideration of payments to State and Territory governments on a case-by-case basis, once specific implementation plans have been developed. This approach recognises that the rationale for, and value of, any such payments, depends on the underlying nature of the benefits and costs of specific reform proposals, with the CRC providing information on the fiscal implications.

These should not be confined to income-related effects on the level and distribution of tax revenue gains from reform, but also encompass differential expenditure requirements. As noted above, these may include expenditures to address transitional issues or to facilitate adjustment. These are matters on which the CRC could also usefully help inform COAG’s deliberations. Ultimately, however, political judgements will be required, including about the desirability of achieving additional reform leverage through fiscal means in particular cases.

## **Summing up**

The NRA represents a wide-ranging and ambitious reform agenda. It offers significant potential for further improving the performance of the Australian economy and the living standards of the community in coming years. The realisation of this potential, however, will require a considerable commitment from all of Australia’s governments. While the last two COAG meetings have established a promising foundation, much more remains to be done.

Three matters are essential to securing future progress: establishing a robust governance framework for the NRA; developing effective implementation plans for the first tranche of reforms; and settling the financial arrangements in support of the reform process. How these are resolved will shape the ability of the NRA to deliver the significant gains that are potentially available from a further round of nationally coordinated reform.

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## 2 Review of Commission activities and performance

### **Some highlights from 2005-06**

- reports on Australia's health workforce; the private cost effectiveness of energy efficiency; conservation of historic heritage; Australia's consumer product safety system; the role for market mechanisms in improving rural water use and environmental outcomes; and the economic impacts of migration
- the Commission's 2005 reports on national competition policy and on the economic implications of an ageing population assisted in shaping COAG's National Reform Agenda
- governments accepted many of the Commission's findings and recommendations on Australia's health workforce and the private cost effectiveness of improving energy efficiency and the Ministerial Council on Energy endorsed key recommendations in the Commission's 2004 report on the gas access regime
- the report of the Taskforce on Reducing Regulatory Burdens on Business, which was headed by the Commission's Chairman, with a number of staff seconded to its secretariat

### **Areas of focus for 2006-07**

- completion of current inquiries and government-commissioned research spanning waste management; road and rail freight infrastructure pricing; science and innovation; price regulation of airport services; Australia's standards and laboratory accreditation bodies; Tasmanian freight subsidies; and cross-jurisdictional frameworks for benchmarking, measuring and reporting on the regulatory burden on business
- references foreshadowed by the Government including Australia's consumer policy framework; chemicals and plastics regulation; local government revenue streams; and the first of the annual reviews of regulatory burdens
- establish the Office of Best Practice Regulation within the Commission as a 'one-stop shop' for departments and regulatory agencies in meeting the Australian Government's stricter requirements for regulation making
- assist the Steering Committee for the Review of Government Service Provision in progressing the 2007 report on Overcoming Indigenous Disadvantage
- assist COAG Senior Officials to assess the potential economic and revenue impacts of the new National Reform Agenda
- organise a conference on the implications for public policy of behavioural economics

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## 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, in pursuing this objective, has five broad categories of 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.

The breadth and volume of the Commission's work are indicated by the reports it published in 2005-06 (box ). A variety of social and environmental issues, each with significant economic dimensions, is evident in completed projects on Australia's health workforce, Indigenous disadvantage, heritage, Australia's consumer product safety system, rural water use, the economic impacts of migration and waste management. Similarly, ongoing projects include those on road and rail freight infrastructure pricing and on science and innovation.

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**Box 2.1 Commission publications in 2005-06**

***Public inquiries (draft reports)***

Conservation of Australia's historic heritage places      Waste management

***Public inquiries (final reports)***

Private cost effectiveness of improving energy efficiency      Conservation of Australia's historic heritage places

***Government-commissioned research studies (draft reports)***

Australia's consumer product safety system      Australia's health workforce  
Economic impacts of migration and population growth      Rural water use and the environment

***Government-commissioned research studies (final reports)***

Impacts of advances in medical technology in Australia      Australia's health workforce  
Australia's consumer product safety system      Economic impacts of migration and population growth

***Supplements to government-commissioned studies***

Impacts of advances in medical technology in Australia: technical papers

***Performance reporting***

Review of patient satisfaction and experience surveys conducted for public hospitals in Australia (consultant's report)      Report on government services 2006: education, health, justice, emergency, management, community services and housing  
Feedback on the report on government services 2004      Overcoming indigenous disadvantage: key indicators 2005  
Report on government services 2006: indigenous compendium      Overcoming indigenous disadvantage: key indicators 2005 overview  
Financial performance of government trading enterprises 1999-00 to 2003-04

***Annual report suite of publications***

Annual report 2004-05      Regulation and its review 2004-05  
Trade & assistance review 2004-05

***Commission research papers***

The role of non-traditional work in the Australian labour market

***Conference/workshop proceedings***

Quantitative tools for microeconomic policy analysis      Productive reform in a federal system  
Productivity perspectives 2006

(continued next page)

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Box 2.1 (continued)

**Chairman's published speech**

Structural reform Australian-style: lessons for others?

**Staff working papers**

The Armington Model

Armington elasticities and terms of trade effects in global CGE models

Stranded irrigation assets

Irrigation externalities: pricing and charges

Econometric modelling of R&D and Australia's productivity

**Consultants' reports**

Quantitative modelling at the Productivity Commission

Measuring the contributions of productivity and terms of trade to Australia's economic welfare

**2005 Richard Snape Lecture**

Will Asian mercantilism meet its Waterloo? (Martin Wolf)

A continuing feature of the Commission's work program is its involvement with Australia's jurisdictions in specific projects and standing research responsibilities. For example, the health workforce study was undertaken following a request by the Council of Australian Governments (COAG); the Commission's review of Australia's consumer product safety system and reform options was to inform the Ministerial Council on Consumer Affairs' own review; the study on rural water use was undertaken to assist jurisdictions meet their commitments under the National Water Initiative; and COAG asked that the Commission develop proposals for the efficient pricing of road and rail freight infrastructure. The Commission's standing research obligations encompass cross-jurisdictional reporting on the performance of government services, indicators of Indigenous disadvantage and the performance of government trading enterprises. And, under its supporting research activities in 2005-06, the Commission published proceedings of the roundtable it had convened on productive reform in a federal system.

Current and prospective projects continue the trend. The Commission is devoting considerable resources to investigating the potential economic and revenue impacts of the new National Reform Agenda so as to help governments better understand the scale and distribution of anticipated impacts. In August 2006 the Commission was asked to assess the feasibility of developing cross-jurisdictional performance indicators and reporting frameworks to assist COAG implement its in-principle decision to adopt a common framework for benchmarking, measuring and reporting on the regulatory burden on business. In addition, the Australian Government has publicly foreshadowed that the Commission will be asked to report on Australia's



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consumer policy framework (for consideration by the Ministerial Council on Consumer Affairs); on chemicals and plastics regulation (for consideration by a COAG ministerial taskforce); and on local government revenue streams.

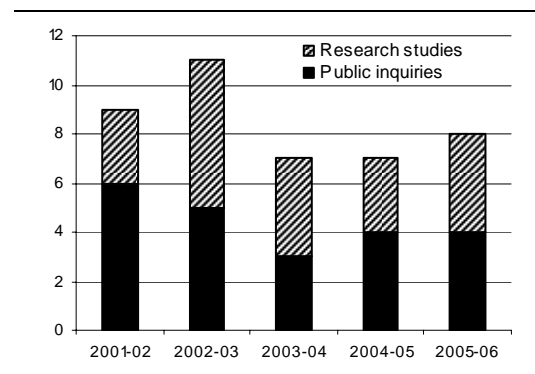
## Year in review

The Productivity Commission's objective of better informing public policy development 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 2005-06 were as follows.

### Public inquiries and other commissioned studies

The Commission had six public inquiries and seven government-commissioned research studies underway at some time during 2005-06. In addition to completing five references from the previous year, it received eight new projects, continuing the broad span of policy issues and the mix between inquiries and research studies evident in recent years (figure 2.1).

Figure 2.1 References received number



The Commission completed two inquiries commenced in the previous financial year: one concerning the economic and environmental potential offered by energy efficiency improvements which are cost effective for individual producers and consumers; and the other on the policy and regulatory framework and incentives for the conservation of Australia's historic heritage places.

Four new inquiries were commenced in 2005-06.

- The inquiry on waste management and resource efficiency sought the Commission's advice on strategies to address market failures associated with the generation and disposal of waste such that economic, environmental and social outcomes for the community are enhanced.
- At COAG's request, the Commission is examining options and timeframes for introducing economically efficient road and rail freight infrastructure pricing, non-price barriers to competition and the efficient operation of road and rail transport, and distributional impacts of any changes it proposes, especially for regional and remote communities.

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- In March 2006 the Commission was asked to report on the merits and weaknesses of current arrangements for subsidising containerised and bulk shipping between the mainland and Tasmania and to provide recommendations on an appropriate future approach and/or arrangements.
  - In the review of price regulation of airport services, the Commission is assessing how well the price monitoring regime — introduced following the Commission's 2002 review — has worked and whether it, or some other form of prices oversight, should continue after 2007.

During 2005-06 the Commission finalised three government-commissioned research studies commenced in the previous year — on the impacts of advances of medical technology, Australia's health workforce and a review of the Australian consumer product safety system. In addition, the Commission commenced and completed in the year an examination of the impacts that migration and population growth have on Australia's productivity and economic growth. The other three studies commenced in 2005-06 were on:

- rural water use and the environment — an examination of the feasibility of establishing market mechanisms to provide incentives for greater investment in rural water-use efficiency and for dealing with environmental externalities;
- standard setting and laboratory accreditation — an assessment of the efficiency and effectiveness of these services in Australia and of the Australian Government's relationship with both Standards Australia and the National Association of Testing Authorities, Australia; and
- science and innovation — an investigation of the economic, social and environmental impacts of public support for science and innovation in Australia, major impediments to the operation of the innovation system and the scope for improvements in the frameworks used to decide where and how public funding should be allocated.

Further information on public inquiries and the commissioned research studies undertaken by the Commission during 2005-06 and, where available, government responses to reports, is provided in appendices B and C.

Two further notable developments in 2005-06 concerned safeguard inquiry procedures for the Commission and the Taskforce on Reducing the Regulatory Burdens on Business.

In June 1998 the Australian Government gazetted general procedures for safeguard inquiries by the Productivity Commission, consistent with Australia's obligations under the World Trade Organization Agreement on Safeguards. The Commission is designated as Australia's 'competent authority' for safeguard measures. The

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gazetted notice was reproduced in the Commission's annual report for 1997-98 (attachment C1). On 5 October 2005 the Government gazetted amendments to those general procedures in order to comply with the provisions of the Australia–United States Free Trade Agreement, the Singapore–Australia Free Trade Agreement and the Thailand–Australia Free Trade Agreement. The 2005 Gazette Notice is reproduced in attachment C1 to this annual report.

On 12 October 2005 the Prime Minister and Treasurer announced the establishment of a Taskforce on Reducing the Regulatory Burdens on Business, chaired by Gary Banks, Chairman of the Productivity Commission. Other members of the Taskforce were Rod Halstead (corporate law expert with Clayton Utz), Richard Humphrey (former Managing Director of the Australian Stock Exchange), and Angela MacRae (consultant to small business and Chairman of the Independent Contractors Association of Australia). The Taskforce was assisted by a small, whole-of-government secretariat resourced from the Office of Small Business, the Productivity Commission and five departments (Prime Minister and Cabinet; Treasury; Industry, Tourism and Resources; Health and Ageing; and Employment and Workplace Relations). The Taskforce reported on 31 January 2006.

Although the Commission provided the Taskforce's chairman, five secretariat members and other assistance, the Taskforce did not operate under the provisions of the Productivity Commission Act. The Government accepted, in full or part, 158 of the 178 recommendations made by the Taskforce (box 1.5). Details on the Taskforce, submissions to it, its report and the Australian Government's response can be found on the Taskforce website ([www.regulationtaskforce.gov.au](http://www.regulationtaskforce.gov.au)).

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

The Commission has been providing the Secretariat to the Steering Committee for the Review of Government Service Provision since 1993. The collaborative efforts of more than 80 Commonwealth, State and Territory government agencies contribute to the Steering Committee's two major outputs: the *Report on Government Services* and the *Overcoming Indigenous Disadvantage: Key Indicators* report. In addition, the Secretariat is a member or observer of many 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.

The *Report on Government Services 2006* was the eleventh report in this series. The Report provides comparative information on the performance of 14 government services that contribute to the wellbeing of Australians — spanning education, health, justice, community services, emergency management and housing. These

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services collectively account for around \$90 billion of government recurrent expenditure, equivalent to nearly 11 per cent of gross domestic product.

The Review strives for continuous improvement. The 2006 Report included new indicators for children's services, services for people with a disability and corrective services. There was also improved reporting on aspects of school education and public hospital services for Indigenous Australians. An Indigenous Compendium was released by the Steering Committee in May 2006, providing an easily accessible collation of Indigenous data from the 2006 Report.

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. COAG set two core objectives for this reporting:

- to inform Australian governments about whether policy programs and interventions are achieving improved outcomes for Indigenous people, and
- to be meaningful to Indigenous people themselves.

Two editions of the report *Overcoming Indigenous Disadvantage: Key Indicators* have now been released, in November 2003 and July 2005. Both reports confirmed the existence of significant Indigenous disadvantage across an array of areas — the single most telling indicator being a 17 year gap in life expectancy between Indigenous people and the rest of the population. A large gap is also apparent in all of the headline indicators and most of the strategic change indicators. The 2005 report found some areas of improvement since the 2003 report, but also several areas of deterioration. Data limitations meant that no conclusions could be drawn in many areas, although this situation should improve in future reports.

Following the release of the 2005 report, consultations were held with Indigenous people and governments across the country to ensure the ongoing usefulness of reporting. Feedback from these consultations will assist in the production of the next *Overcoming Indigenous Disadvantage: Key Indicators* report, due for release in mid-2007.

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 2005-06. The 2005 report, released in July 2005, presented the findings of a three-year work program on external governance arrangements for GTEs and identified some areas of deficiency.

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The Commission's 2006 report, released in July 2006, included the first outputs of a new research program on the capital management of GTEs, initially covering capital structures and equity withdrawals. Capital structures were examined because of their importance in influencing incentives for management to maximise shareholder returns and operational efficiency. Equity withdrawals have been governments' dominant instrument for capital restructuring in recent times, but they have been controversial because of claims that the withdrawals have been to the detriment of GTE balance sheets and the services GTEs provide.

Further information on performance reporting activities in 2005-06 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

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Ministerial Councils and national standard-setting bodies. The ORR provided formal RIS training on regulatory best practice to 367 officials from a wide range of departments and agencies in 2005-06.

On 15 August 2006 the Treasurer announced a number of decisions in response to recommendations made in the Report of the Taskforce on Reducing Regulatory Burdens on Business (Costello 2006c). As part of the Australian Government's new regulatory reform agenda, the Office of Regulation Review will have its role and responsibilities enhanced and become the Office of Best Practice Regulation.

**Box 2.2 Compliance with RIS guidelines in 2005-06**

The Productivity Commission is required to report annually on compliance with the Government's Regulation Impact Statement (RIS) requirements. Its report for 2005-06 reveals that:

- The Australian Government made about 2650 regulations. The ORR provided advice on 948 regulatory proposals, of which 128 proposals require preparation of a RIS. About 3 per cent of all new regulations made in 2005-06 required preparation of a RIS.
- Overall, the compliance of departments and agencies in 2005-06 with the RIS requirements at the decision-making stage of regulatory policy development was lower than in previous years:
  - adequate RISs were prepared for 71 per cent of 96 regulatory proposals (compared to 80 per cent in 2004-05 and 92 per cent in 2003-04).
- Twenty one departments and agencies were required to prepare RISs. Of these, 10 were fully compliant (compared to 10 of 19 in 2004-05).
- In 2005-06 eight RISs were required at the decision-making stage for regulatory proposals that the ORR identified as having a more significant impact on business and/or the community. In seven cases, RISs were prepared. In each case, the RIS prepared was assessed against the Government's criteria as inadequate.
- Compliance by Ministerial Councils and national standard-setting bodies with COAG's RIS requirements at the decision-making stage was 76 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 2005-06 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 2005-06* (PC 2006c).

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The Office of Best Practice Regulation will have a central role in facilitating the Government's strengthened RIS processes which will include, where appropriate, a requirement for enhanced cost-benefit and risk analysis. The Office of Best Practice Regulation will provide departments and agencies with assistance, advice and training regarding the new arrangements, including the application of cost-benefit and risk analysis of regulatory proposals. Responsibility for the Government's Business Cost Calculator, which is used to estimate regulatory compliance burdens on business, is to be transferred from the Department of Industry, Tourism and Resources to the Office of Best Practice Regulation. The new arrangements are to be introduced from October 2006.

### **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 2005-06, with a complaint from 2004-05 the subject of further investigation. Four complaints did not proceed beyond preliminary investigation and one complaint fell within the jurisdiction of the ACT Government and was referred to its Independent Competition and Regulatory Commission.

The Office also provides informal advice on, and assists agencies in, implementing the competitive neutrality requirements. It provided advice around four times a week, on average, to government agencies or in response to private sector queries during 2005-06.

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 on the effects of assistance and regulation, and has a wider information role in promoting

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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, business, community and environmental groups, and academics.

In July 2005 the Commission notified its intention for the supporting research program over the following two years to give greater emphasis to the sustainability of productivity growth, where sustainability is broadly conceived to include fiscal, economic, and environmental aspects. The program includes work on:

- productivity performance and its determinants;
- environmental and resource management, especially of water;
- labour markets (including social dimensions); and
- the development of economic models and frameworks to aid the analysis of policies and trends, and of impediments to sustained improvements in living standards.

During 2005-06 the Commission published research on water policy issues, R&D and productivity, and non-traditional forms of employment, as well as trade modelling framework issues (box 2.1). Under its supporting research program the Commission also made available the proceedings of three conferences — on productive reform in a federal system; quantitative tools for microeconomic policy analysis; and productivity analysis, measurement and policy perspectives.

Consistent with its intention to ensure economic models and frameworks assist the Commission and other researchers analyse major policy proposals, in November 2005 supporting research resources were committed to updating the Monash Multi-Regional Forecasting (MMRF) model. The resources and urgency accorded the project were significantly upgraded following COAG agreement in February 2006 to a substantial new National Reform Agenda embracing human capital, competition and regulatory reform streams and a request that the Commission report to COAG Senior Officials on the potential economic and revenue impacts of the National Reform Agenda by 30 November 2006. The Commission is also collaborating with the COAG Energy Reform Implementation Group on modelling the potential impacts of further reforms.

Further information on the Commission's supporting research activities and publications in 2005-06 is provided in appendix E. This also details the 94 presentations given by the Chairman, Commissioners and staff during the year to



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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 22 international delegations and visitors during 2005-06, 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 2005-06 it met with more than 150 people, organisations or groups; held 26 days of public hearings; and received more than 650 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 nevertheless provides opportunities to obtain feedback on its analytic framework and preliminary findings and, where applicable, draft recommendations. For example, the Commission received around 600 submissions to these studies in 2005-06, more than half of which were in connection with the health workforce study. Visit programs and targeted roundtable discussions provide opportunities to engage with key participant groups on the issues of concern to them and to gain feedback on the Commission's analysis.

The nature of the Commission's consultative and transparent processes in the past year is illustrated in box 2.3. These examples also demonstrate initiatives to ensure that the views and experiences of people living in regional areas are taken into account. Further evidence of the Commission's commitment to transparency are the release on its website of: four technical papers covering modelling and estimation issues and otherwise unpublished data in connection with its final report on the

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**Box 2.3 Open and transparent processes are integral to the Commission's work**

The Commission seeks to facilitate public participation in, and the transparency of, its inquiries and commissioned research studies to the maximum extent possible.

For its *health workforce study* the Commission:

- included a brief overview of relevant issues and some specific questions for interested parties to consider in its initial circular inviting public submissions;
- provided a more detailed issues paper in June 2005 that also served as a progress report to COAG;
- consulted extensively with a wide cross-section of interested parties in all States and Territories, convened roundtables with allied health professionals and the professional colleges, and visited a number of rural and remote centres and Indigenous communities including those at Woorabinda (Central Queensland), and Hermannsburg and the Tiwi Islands (Northern Territory); and
- released a Position Paper in September 2005 outlining its preliminary analysis and reform proposals and, to obtain targeted feedback, organised roundtables in Campbelltown (Western Sydney), Melbourne, Brisbane, Canberra and Alice Springs (Northern Territory).

In its *heritage inquiry*, the Commission:

- held initial informal discussions with a wide range of heritage industry stakeholders to gain background information and an appreciation of heritage issues;
- between July and August 2005, conducted an initial round of public hearings in all the capital cities, with a further round held in January and February 2006 to discuss its Draft Report;
- held more than 60 meetings covering each State and Territory, including regional visits in New South Wales (Bathurst, Cowra, Canowindra, Orange and Blayney) and Victoria (Ballarat, Bendigo and Castlemaine); and
- so as to better inform its policy analysis, undertook a voluntary survey of all local councils given their pre-eminent role in conservation policy for most historic heritage, and achieved an overall response rate of almost 75 per cent.

For its *economic impacts of migration and population growth study* the Commission:

- hosted a workshop in August 2005 to discuss estimation approaches with a range of Australian Government departments, industry bodies and academics with expertise in migration and labour markets; and
- following release of its Position Paper, convened two roundtables in February 2006 — the first in Canberra for Australian Government departments and academics and a second in Melbourne for the States and Territories, the Business Council of Australia and the Australian Council of Trade Unions.

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impacts of medical technology; the consultancy report undertaken by the Centre of Policy Studies for the Commission's final report on the economic impacts of migration and population growth; and a consultant's report on transaction costs in water markets and environmental policy instruments undertaken for the Commission's study of rural water use.

## **Enhancing its own research capabilities**

The Commission continues to involve outside policy advisers and researchers in its work. Roundtables, workshops and other forums provide valuable opportunities to utilise wider sources of expertise in its inquiries and research. From time to time the Commission also utilises specialist external expertise. Examples from the past year include:

- In July 2005 the Commission convened a roundtable of some 15 organisations including government agencies, industry, clinicians, health technology assessment agencies and healthcare consumer bodies to discuss future technological advances and the implications of these for health technology assessment. The Commission also drew on specialist expertise in the case studies it undertook on medical technology impacts.
- For its review of the Australian consumer product safety system, the Commission convened a roundtable meeting with injury experts in October 2005 to exchange ideas on the appropriate measurement of injury incidence and cost.
- In connection with its study on the empirical impacts of migration and population growth, the Commission contracted the Centre of Policy Studies at Monash University to undertake general equilibrium modelling. In November 2005 the Commission asked three independent experts to review and report on its modelling, and that of the Centre of Policy Studies, and their comments were included in the final report. The Commission was also able to draw on alternative modelling undertaken by Econtech for the Department of Immigration and Multicultural Affairs.
- As one of a number of sources of information used to inform its study, *Rural Water Use and the Environment: The Role of Market Mechanisms*, the Commission contracted The Allen Consulting Group to help identify information on the nature and scale of transaction costs associated with water markets, and the likely transaction costs that could be anticipated in developing markets to address environmental externalities.
- The supporting research project, *Econometric Modelling of R&D and Australia's Productivity Growth*, tapped external expertise via a reference group comprising representatives of four Australian Government departments, the

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Australian Bureau of Statistics, the Australian Taxation Office, CSIRO and academics from the Australian National University and the Australian Defence Force Academy. In addition, an econometrics expert advised on modelling strategy and implementation.

- The Commission engaged consultants in order to identify improvements in practical welfare measurement beyond the conventional average income or GDP per capita measure and to gauge the welfare contributions of productivity and the terms of trade. The resultant report, *Measuring the Contributions of Productivity and Terms of Trade to Australia's Economic Welfare*, was released by the Commission in March 2006.

The Commission also involves outside policy advisers and researchers through hosting or co-sponsoring conferences or roundtables on topics of policy interest. Two such conferences were held in 2005-06.

- In October 2005 the Commission convened a roundtable of senior government officials, consultants, academics, and representatives from industry and community groups to focus on the challenge of securing better policy outcomes from Australia's federal system of government. Participants examined some generic issues associated with federal systems and their operation in principle and practice; explored opportunities for improving outcomes in the key areas of health, the labour market and freight transport; and exchanged views on useful ways of advancing productive reform in our federal system. The Commission published the proceedings in April 2006 so as to enable wider dissemination and consideration of the ideas and insights that emerged from the roundtable.
- In conjunction with the ABS, the Commission sponsored the Productivity Perspectives 2006 conference in March 2006. The previous conference was held in December 2004 and it provides a regular forum for statisticians, analysts and commentators to examine Australia's productivity performance from measurement, analytical and policy perspectives. This year's conference covered international economic developments from the perspectives of productivity, competitiveness and employment creation; explored recent trends in Australia; and canvassed the outlook for productivity growth and future directions in measurement and analysis. Conference presentations and associated materials were published on the Commission's website.

The Commission is organising its major roundtable conference for 2006-07 on the implications for public policy of insights gained from behavioural economics and related approaches. Questions concerning 'consumer behaviour' have featured prominently in such Commission references as gambling, energy efficiency and consumer product safety, and its forward inquiry program promises further work involving how individuals respond to market and non-market opportunities.

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The Commission continued its Visiting Researcher Program which seeks to attract established researchers with an outstanding research record in areas closely related to the Commission's main research themes. Visiting Researchers share their knowledge with Commission staff and contribute to the work of the Commission as well as to the vigour of its intellectual life. Emeritus Professor Peter Lloyd (formerly of Melbourne University) and Dr Geoff Edwards (formerly Associate Professor at La Trobe University) continued their participation in the program in 2005-06.

The Commission invites external speakers to participate in its seminar program so as to enhance its knowledge and skill set across a broad range of economic policy issues, including social and environmental. These seminars provide another way of encouraging intellectual debate within the Commission and improving networks with academic and other experts.

### **Research program consultations**

The Commission regularly holds external consultations with Australian Government agencies, peak employer bodies, unions, environmental and community 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 are 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 help set 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. Details on individual projects are updated on the Commission's website during the year.

Supporting research consultations were held in February 2005, and again in July 2006. The latest series of consultations will inform current consideration of directions for the supporting research program which is expected to be finalised around November 2006.

### **Research collaboration**

The Commission participates in collaborative research projects with academic institutions. Partners in such research projects in 2005-06 were:

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- 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 AIHW); 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 Families, Community Services and Indigenous Affairs);
  - 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.

During the year the Commission also collaborated with the Australian Bureau of Statistics in the analysis of data on farms which use and trade irrigation water. The joint publication, *Characteristics of Australia’s Irrigated Farms 2000-01 to 2003-04*, was released by the ABS in September 2006. The statistical and other information in the report is intended to assist researchers identify farm management and resource use practices that contribute to the productive and efficient use of irrigation water.

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.

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## 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 17<sup>th</sup> East Asian Seminar on Economics, held in Hawaii in June 2006 focused on global imbalances, liberalisation of capital accounts and exchange rate policies. Commission research on productivity and the trade and investment effects of preferential trading arrangements have 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 universities and non-profit organisations. In 2005 Dr Neil Byron was appointed to the World Commission on Protected Areas of the IUCN (World Conservation Union).
- The Secretariat for the Review of Government Service Provision is a member or observer of many 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, the ABS Productivity Measurement Reference Group and the executive committee of the Comparative Analysis of Enterprise Data (CAED) international network; and, at the invitation in December 2005 of the Minister for the Environment and Heritage, the Commonwealth Environment and Research Facilities Reference Group.
- The ORR participated in the annual meeting of regulation review units from the States, Territories and New Zealand in Adelaide in December 2005. The website developed by ORR to share information, the web-forum, is being used by the

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regulatory review units. The ORR also liaised on a variety of regulatory issues with: the Regulatory Impact Analysis Unit of the Ministry of Economic Development, New Zealand; Ofcom, the UK communications sector regulator; and government officials from Indonesia, China, Korea and Brazil.

## **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 2006 there were more than 152 000 external requests for the index pages of inquiries and government-commissioned research studies current in 2005-06. The references of most interest were the study on Australia's health workforce (38 700 requests) and the inquiries on heritage (24 800 requests) and waste management (12 700 requests). The reports on *Overcoming Indigenous Disadvantage: Key Indicators 2005* (15 900 requests) and the *Report on Government Services 2006* (13 400 requests) were among the most frequently requested publications from the website during the year. Speeches given by the Commission's Chairman in 2005-06 attracted more than 10 700 website 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 2005 study of the economic implications of ageing Australia were requested nearly 18 700 times and those for the Commission's 1999 inquiry on Australia's gambling industries were

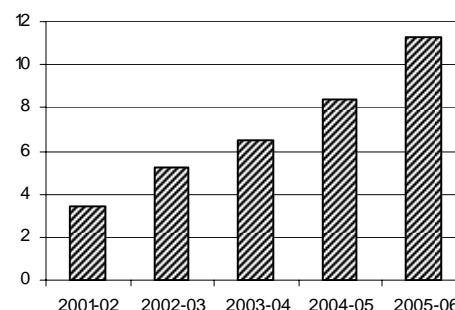


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requested more than 17 800 times. Other popular web pages were the *Report on Government Services 2005* (12 800 requests) and the Commission's 2004 review of the Disability Discrimination Act (9400 requests).

The Commission's website received a total of 11.3 million file requests from external users in 2005-06, a 35 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. Every three years, the Steering Committee for the Review of Government Service Provision surveys users and contributors to the Report on Government Services, with the next survey due on the 2007 report.

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 67 responses received to date this past year, 27 per cent rated the quality of the ORR's written and oral advice as 'excellent', one half rated it as 'good' and the remainder as 'satisfactory'. Sixteen respondents offered specific suggestions on how the ORR could improve the quality of its advice (see p. 129 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 2.4 help illustrate the breadth of support for the Commission's policy-advising contribution.

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#### **Box 2.4 Support for Commission activities: some recent examples**

COAG announced in July 2006 that the new COAG Reform Council is to draw on the work of the Productivity Commission in assessing the potential benefits of the National Reform Agenda.

The Minister for Finance and Administration commended the Commission on its 'outstanding chapter on our Federal System of Government' in its 2004-05 annual report.

The Parliamentary Secretary to the Treasurer stated that he was working with State and Territory ministers to enhance Australia's consumer product safety system and that 'our efforts will benefit considerably from the excellent work undertaken by the Productivity Commission'.

In commenting on Australia's policy making process, the Leader of the Opposition included the Productivity Commission amongst government agencies providing 'quality professional advice'.

The New Zealand Commerce Minister has stated:

As I have said on other occasions, if I could choose any Australian institution and have it transformed into a truly trans-Tasman institution, it would be the Productivity Commission.

The Senate Economics References Committee recommended that the Government reassess its decision to reject the recommendation of the Productivity Commission for a review of those aspects of the personal tax regime that have contributed to excessive investment in rental housing recently.

NSW Government Ministers advocated a Commission inquiry on the impact of rising fuel prices on the economy.

The Business Council of Australia has requested that the Government refer a range of policy issues to the Commission including: the impacts on workforce participation of high effective marginal tax rates; Commonwealth–State financial relationships; the appropriateness of the tax mix across jurisdictions; advice on a water access regime; and a review of urban water pricing.

Australian Business Limited stated that:

The Productivity Commission is an impartial body that is respected by all sections of the Australian community and it should be charged with the responsibility of modernising the current [horizontal fiscal equalisation] arrangements.

Other industry groups variously called for Productivity Commission reviews of road and rail pricing, State land-use planning systems and the financial payment system reforms; as well as greater Commission involvement in the evaluation of material injury and causation, and national interest determination, in anti-dumping investigations.

A range of policy analysts variously called for Productivity Commission reviews of private health insurance regulation; subsidies for ethanol and bio-diesel; Australian petrol production and retailing; the extent of competition in markets for large infrastructure projects; and an evaluation of government advertising campaigns.

Details are provided in appendix B.

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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 25 respondents in total in 2005-06. Most of the feedback was positive. 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 contributor 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 outputs 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 each of its five output groups are discussed in appendix B.)

Notwithstanding the difficulties inherent in measures of performance assessment, the influence of the Commission's work is reflected in a range of indicators, including government policy decisions that draw on 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.

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## **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.

During the year the Australian Government announced agreement with all of the Commission's recommendations in the report on the private cost effectiveness of improving energy efficiency and that it would work with the States, through the Ministerial Council on Energy, to consider the Commission's findings and analysis. In addition, Commonwealth ministers drew on the Commission's analysis to criticise the decision of the Australian Building Codes Board to adopt 'five-star' energy efficiency measures for residential buildings (Macdonald et al 2005). Further, the Shadow Minister was also critical of the assumptions and evidence underpinning the ABCB decision and strongly endorsed the Commission's recommendation for an independent evaluation of the effectiveness of energy standards in reducing actual (not simulated) energy consumption and whether the financial benefits to individuals outweigh the associated costs (Ferguson 2006).

Responses from the past year entailing cross-jurisdictional support for the Commission include:

- In June 2005 COAG agreed to Senior Officials reviewing the effectiveness of the existing national competition arrangements and considering a possible new national reform agenda. The review was to draw from, but not be limited by, the Commission's 2005 inquiry report on national competition policy reforms. The Commission's influence can be seen in the way papers prepared for COAG drew on Commission analysis of the benefits of, and lessons learned from, national competition policy and the key elements needed in a future reform program (NCP Review Working Group 2006); and how other Commission reports on ageing, the health workforce and medical technology also informed the development of a human capital reform agenda (COAG National Reform Initiative Working Group 2005).
- At its meeting in February 2006, COAG laid important foundations for further national reform in the years ahead (see chapter 1). COAG also asked that the Commission develop proposals for efficient pricing of road and rail freight infrastructure and report by the end of 2006. Furthermore, COAG noted the Commission's 2004 report on reforming building regulation, and committed to achieving a nationally-consistent Building Code of Australia based on minimum regulation.
- In May 2006 the Ministerial Council on Energy announced its support for key recommendations in the Commission's 2004 report on the gas access regime.

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- In July 2006 COAG announced substantial agreement with measures the Commission had proposed to improve the efficiency and effectiveness of Australia's health workforce and to improve its distribution. In addition, COAG also agreed that the Commission be asked to undertake a further review of the health workforce by July 2011.
  - Further, COAG has agreed that the COAG Reform Council should draw on the work of the Commission in assessing the potential benefits of the National Reform Agenda.
  - The Memorandum of Understanding Between the Government of New Zealand and the Government of Australia on Coordination of Business Law, signed in February 2006, referred to the Commission's 2004 report, *Australian and New Zealand Competition and Consumer Protection Regimes*, and the accompanying review prepared by officials noted progress in implementing the Commission's recommendations.

However, governments do not always accept the Commission's advice. For example, the Government did not support the Commission's preferred policy option of repealing Part X of the Trade Practices Act and subjecting the liner shipping cargo industry to general competition law. The Government decided to retain Part X but to amend it, however, in a manner consistent with other options in the Commission's report.

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: wide use of the Commission's 2000 report on broadcasting in current policy debate on the Government's changes to media regulation and the uptake of digital television in Australia; continuing use of Commission reports on international air service regulation (1998), nursing home subsidies (1999), gambling (1999) and the links between reform and productivity growth (1999 and 2000); and the OECD's recent use of various Commission reports from the late 1990s on productivity, State taxation bases, interstate bidding wars and pharmaceutical prices in Australia (box B.2).

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## 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 2005-06 sittings of the *Federal Parliament*:

- 52 Members and 27 Senators referred to 38 different Commission reports or inquiries, or to the Commission's role in policy processes;
- in around three-quarters of the 152 mentions in debates and questions, federal parliamentarians cited the Commission as an authoritative source. Only 2 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 the national access regime, the Report on Government Services, on national frameworks for workers' compensation and OHS and on Australia's health workforce.

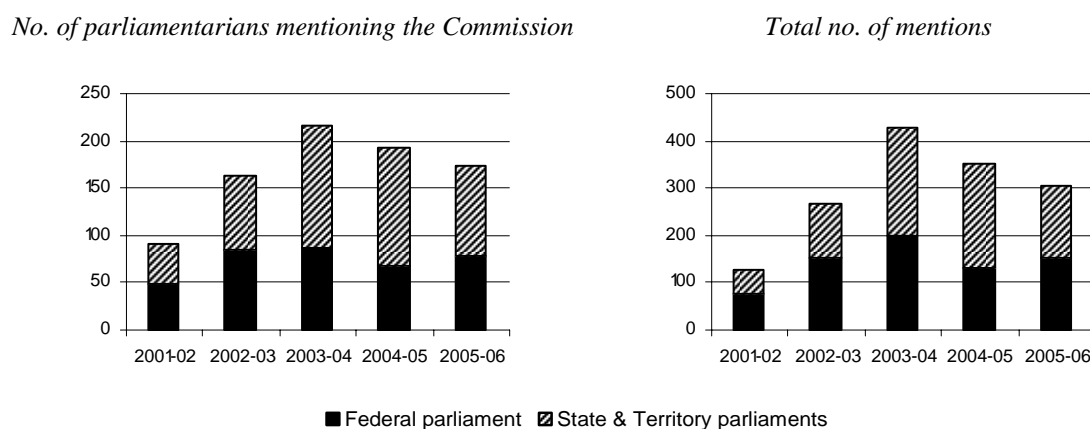
Commission inquiry and research reports, from this and previous years, were also used extensively in debate and questions by *State and Territory parliamentarians*. During the 2005-06 sittings of the eight State and Territory parliaments:

- 95 members referred to 21 different Commission publications or inquiries, the Report on Government Services, Chairman's speeches or to the Commission's role in policy processes;
- around 80 per cent of the 152 mentions in debates and questions, State and Territory parliamentarians cited the Commission as an authoritative source, with less than 2 per cent of mentions being critical; and
- nearly 40 per cent of mentions were to the Report on Government Services, with the Commission's reports on Australia's health workforce and gambling 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 180 mentions of the Commission and its work in the Hansard proceedings of *federal parliamentary committees* in 2005-06. The Commission was mentioned in the proceedings of 21 different committees, most prominently in proceedings of the Senate Economics Committee (but excluding its Estimates work), the Senate Community Affairs Committee and the House of Representatives Standing Committee on Health and Ageing. The most frequent mentions were to the Commission's reports on Australia's health workforce and the national access regime, the Report on Government Services, and to the Commission's role and capabilities in providing policy advice.

**Figure 2.3 Mentions of the Commission in Australian parliaments**  
2001-02 to 2005-06



Fourteen recent parliamentary committee reports referred to 20 different Commission inquiries or research reports (table B.1). The Commission provided briefings to two House of Representatives Standing Committees in 2005-06: on the *Overcoming Indigenous Disadvantage* report to the Employment, Workplace Relations and Workforce Participation Committee; and on its health workforce study to the Health and Ageing Committee. Four federal parliamentary committees made recommendations involving the Commission, encompassing an assessment of the impacts and costs of salinity, the effects of the personal tax regime on investment in rental housing and performance indicators for intercountry adoption, as well as endorsement of the Commission's view that intellectual property laws continue to be scrutinised to ensure they are not unduly restrictive (pp. 91–2).

Some 17 Parliamentary Library reports in 2005-06 referred to a variety of Commission inquiry and research reports, as well as to the reports on government services and Indigenous disadvantage (table B.2).

### 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:

- use of Commission analysis in inquiry reports and commissioned-research studies during the year by the Prime Minister, Treasurer, Ministers, the Leader of the Opposition and Shadow Ministers, including reports on the economic implications of an ageing Australia, Australia's health workforce, the private cost effectiveness of improving energy efficiency, and the economic impacts of migration and population growth;

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- reference to the Commission's report on the economic implication of an ageing Australia by the NSW Government, the OECD and by those canvassing such specific issues as financial products for older Australians, the demand for carers and reform of Queensland's health systems and services;
  - the use being made of the Report on Government Services by central and line government agencies, parliamentarians, Auditors-General and industry groups;
  - the strongly supportive feedback from governments and Indigenous people and organisations on the 2005 report, *Overcoming Indigenous Disadvantage*, the adoption of its framework by jurisdictions and the improvements in data collection, consistency and quality that it is helping to stimulate;
  - the Treasurer's use of the Commission's GTE financial performance data in arguing the case for reform in key infrastructure areas and the use of Commission findings on GTE governance in a variety of Australian and OECD forums;
  - the contribution made by the Commission's regulatory review activities, and independently through the Report of the Taskforce on Reducing Regulatory Burdens on Business, to the Government's strengthened regulatory analysis process and the upgrading of the Office of Regulation Review to become the Office of Best Practice Regulation; and
  - the use made by the Government, parliamentarians, departments, review bodies, industry groups, the WTO and the OECD of a diverse range of Commission supporting research outputs, including analysis of federalism issues, labour market trends, productivity, the sectoral study of Australian agriculture, assistance estimates, modelling methodologies and speeches by the Chairman.

One continuing indicator of interest in the Commission's inquiry and other work is the many invitations it accepted in 2005-06 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 Victoria, South Australia, Western Australia, Tasmania, the Northern Territory and the ACT in 2005-06 and visits to others are planned for 2006-07. The Commission also responded to requests from visiting officials and delegations from Indonesia, New Zealand, China, Korea, Vietnam, Japan, Malaysia, the United Kingdom, France, the European Commission, APEC, the IMF and the OECD for briefings on the Commission's work and its role in policy advisory processes, and for 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 2005-06, 77 editorials in



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11 major metropolitan newspapers drew on the findings or recommendations in 25 different Commission reports, or referred to the Commission's role in assisting public policy making. The Commission's inquiry report on national competition policy, its health workforce study and the 2006 Report on Government Services together accounted for more than one-third of all mentions. However, editorialists also drew on the analysis in a wide range of other inquiry and research reports (including those on the economic impacts of migration and population growth, waste management, overcoming Indigenous disadvantage, regulatory performance, GTE financial performance and non-traditional work) and 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 nearly 189 mentions a month in electronic media and an average of 145 mentions a month in print media in 2005-06. The Commission's health workforce study, its waste management draft report and the 2005 Report on Government Services received the most coverage.

Indicators of the influence of Commission outputs 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 2005-06 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 2005-06*, 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 & Assistance Review 2005-06*, which reports on trade policy and assistance developments and contains the Commission's latest estimates of assistance to Australian industry.



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# APPENDICES



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# A 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 objectives is contained in the overview to chapter 2. Further information on the Commission's role is available on its website and 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 2006 are shown in figure A.1.

### Commissioners

At 30 June 2006 there were nine Commissioners, including the Chairman. Four Commissioners were part-time appointments.

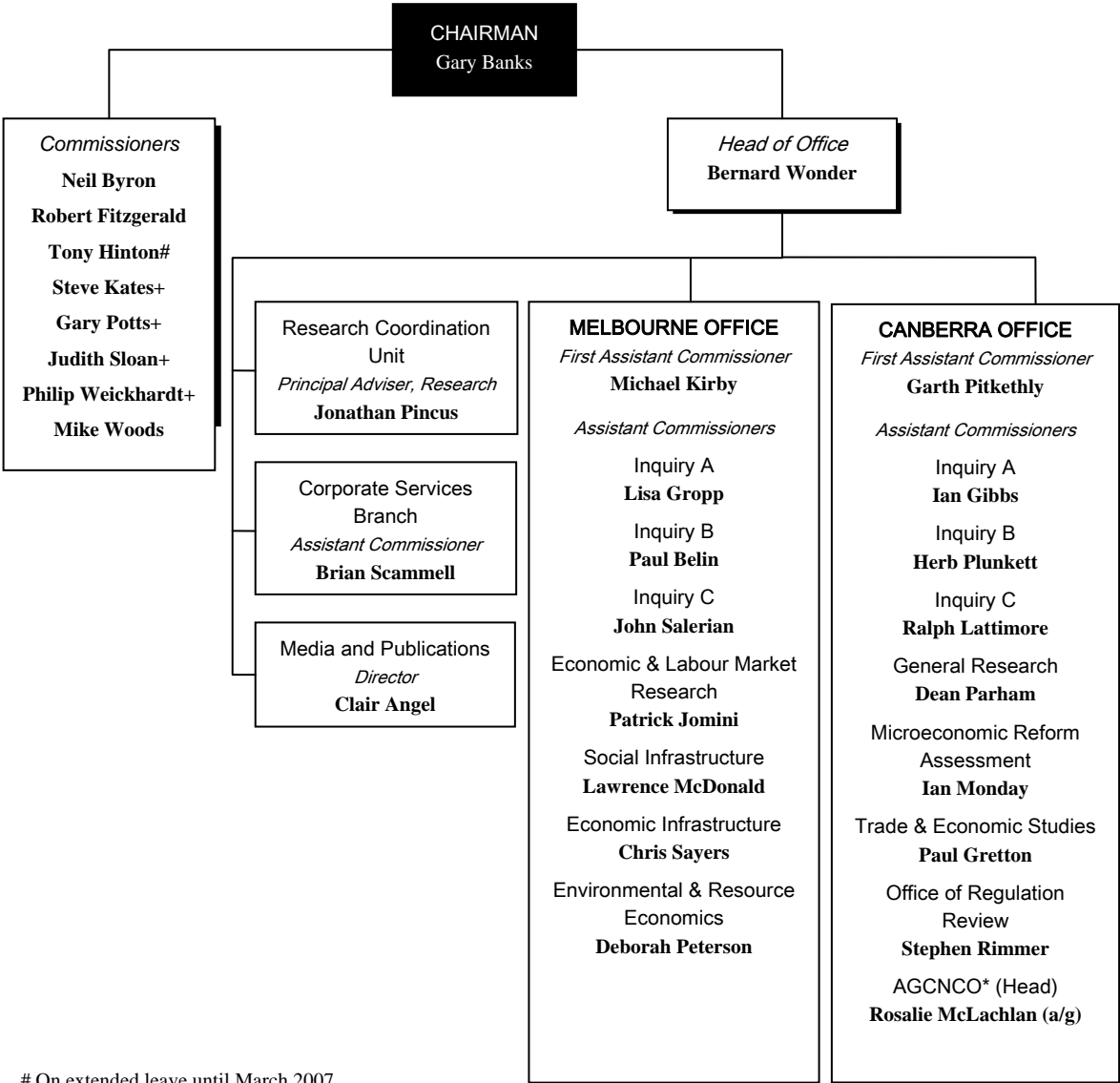
Commissioner Helen Owens retired on 14 April 2006.

A number of appointments and re-appointments were made during the year.

Mr Gary Potts and Dr Steven Kates were appointed as part-time Commissioners for three years from 17 April 2006. Mr Potts was an Associate Commissioner on the Commission's 2004-05 review of Part X of the Trade Practices Act. He has had long service in the Australian Treasury, latterly as Deputy Secretary. Since leaving

Treasury four years ago, he has been engaged on a number of consultancies for the Australian Government and is a director of AGEST Pty Ltd and of TOP Pty Ltd. He is also a member of the Pooled Development Funds Registration Board. Dr Kates was for many years Chief Economist with the Australian Chamber of Commerce and Industry. He lectures in economics at the RMIT and will continue in this academic position in conjunction with his part-time Commissioner role.

**Figure A.1** Productivity Commission structure and senior staff, 30 June 2006



# On extended leave until March 2007  
 + Part-time Commissioners  
 \* Australian Government Competitive Neutrality Complaints Office  
 a/g acting

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Commissioner Michael Woods was re-appointed but moved to a full-time basis for a period of five years from 17 April 2006. Commissioner Judith Sloan was re-appointed on a part-time basis for a period of four years from 17 April 2006. (The Government also appointed Prof Sloan as a part-time Commissioner of the Australian Fair Pay Commission during the year.)

Commissioner Tony Hinton is on extended leave until March 2007.

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

### **Associate Commissioners**

At 30 June 2006 two Associate Commissioner appointments were current.

On 4 April 2006 Professor Cliff Walsh was appointed on a part-time basis for the duration of the inquiry on road and rail freight infrastructure pricing. Professor Walsh is Professor Emeritus at Adelaide University. He has had a long and distinguished academic career, including a period as Director of the Federalism Research Centre at the Australian National University.

On 4 April 2006 Mr Paul Coghlan was appointed on a part-time basis for the duration of the government-commissioned study on standard setting and laboratory accreditation. Mr Coghlan has previously headed the Office of Regulation Review. Since retiring from the Australian Public Service he has been involved with charities and is a member of the Housing Review Committee in the ACT.

Associate Commissioner appointments during 2005-06 are listed in table A1.2 of attachment A1.

### **Staff**

The average staffing level during 2005-06 was 193 compared to 192 in 2004-05.

Staff turnover — excluding departures from end-of-contract and voluntary redundancy packages — increased marginally from 11 per cent in 2004-05 to 13 per cent in 2005-06. Turnover in the Melbourne office (15 per cent) was higher than in the Canberra office (11 per cent).

The Commission recruited 37 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.



## Outcome, outputs and resources

The financial and staffing resources devoted to the achievement of the Government's desired outcome objective for the Commission — outlined on page 20 — through the provision of five mandated outputs, are summarised in table A.1. Further information on these matters is provided in appendix B.

## Governance

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

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

- establishing clear responsibilities for decision making and the undertaking of mandated activities;

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

	Budget 2005-06	Actual 2005-06 <sup>a</sup>	Budget 2006-07 <sup>b</sup>
<b>Price of Outputs</b>	\$'000	\$'000	\$'000
Output 1.1 – Government commissioned projects	14 000	14 092	14 100
Output 1.2 – Performance reporting and other services to government bodies	3 900	4 022	4 700
Output 1.3 – Regulation review activities	2 800	2 798	2 800
Output 1.4 – Competitive neutrality complaints activities	300	222	200
Output 1.5 – Supporting research and activities and statutory annual reporting	7 332	6 737	6 756
<b>Total Price of Outputs</b>	<b>28 332</b>	<b>27 871</b>	<b>28 556</b>
Revenue from Government	24 247	28 449	28 471
Revenue from other sources	85	94	85
<b>Total Resources</b>	<b>28 332</b>	<b>28 543</b>	<b>28 556</b>
	2005-06	2005-05	2006-07
Commissioner/staff years (number)	200	193	193

<sup>a</sup> Actual expenditure across output groups responds to demands during the year, particularly work commissioned under terms of reference by the Government. <sup>b</sup> As estimated in January 2006 for the Portfolio Budget Statements.

- 
- 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 Head of Office and a 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 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;
  - 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.

The Commission has prepared a fraud risk assessment and fraud control plan and has in place appropriate fraud prevention, detection, investigation reporting and data collection procedures and processes that meet the specific needs of the Commission and comply with the Commonwealth Fraud Control Guidelines. No instances of fraud were reported during 2005-06.

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.

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## **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 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.

## **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.

Performance against the charters is monitored on an exceptions basis — that is, by complaints to designated senior managers. No complaints were received during 2005-06 in respect of either charter.

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

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The Auditor-General issued an unqualified independent audit report on the Commission's 2004-05 financial statements.

The Senate Economics Legislation Committee's review of annual reports of March 2006 found that the Commission's 2004-05 Annual Report was useful, comprehensive and of a high standard. The Committee noted that the report had been tabled in accordance with the requirements issued to prescribed agencies under the *Financial Management and Accountability Act 1997*. The Committee also noted the Commission's report lacked the equivalent of a Secretary's Review but, as the report was comprehensive, it was questionable whether such a review would improve the report. (The Commission had included a 'Review by the Chairman and Commissioners'.)

References to particular reports of the Commission made by federal 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.

During 2005-06 a review was undertaken of the Commission's website by SKM Consulting, which included the development of a strategy for improving the design, functionality and management of the website over the next three to five years.

The section of the website dealing with *Overcoming Indigenous Disadvantage: Key Indicators* was also enhanced during the year.

*Human resources management information system (HRMIS):* The core functionality of the Commission's new HRMIS was implemented on 1 July 2005. Further modules were implemented throughout 2005-06 which enabled electronic work-flow in relation to personnel transactions, and on-line access for employees to their pay and leave details.

*Information technology:* A review of the Commission's information technology was completed in June 2005 by consulting firm ValueSourcing. A number of recommendations arising from the review were implemented during 2005-06, including:

- the implementation of a Helpdesk Support package to assist in improving service delivery;

- 
- an increase in the bandwidth linking the Commission's offices, to improve communication speed, and the implementation of a backup link to support continuous communication in the event of primary link outages;
  - an upgrade in the Commission's video-conferencing capability; and
  - installation of systems to consolidate data storage and replicate data between offices.

*Committees:* During 2005-06 a review of the Commission's Research Committee was completed by Mr Winton Bates, following consultation with relevant employees and Commissioners. A number of useful recommendations regarding the role and operation of the Research Committee are being implemented.

A revised Audit Committee charter was also developed during the year, following a review of current operations against the best practice model developed by the Australian National Audit Office.

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

- consideration of the annual financial statements, and associated issues;
- scrutiny of the Commission's risk management, fraud control and agency security plans;
- 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.

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The Commission regularly considers a range of workforce planning issues associated with the attraction, retention and development of staff. In particular, the Commission has been actively monitoring the age profile of its workforce and is seeking to retain mature aged employees through measures such as flexible working arrangements and a willingness to consider superannuation issues for some key employees approaching age 55.

The Commission also reviewed its graduate recruitment process during the year with a view to increasing awareness of the Commission as a potential employer of graduates. Six new staff were employed during 2005-06 through the Commission's 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. Planning is underway to negotiate fourth round AWAs under the new Workchoices legislation by early 2007.

Information on Commissioners and SES employees who received total remuneration of \$130 000 or more is set out in Note 13 to the Financial Statements (appendix G).

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

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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, was the additional emphasis placed on performance outcomes as the means of achieving remuneration increases. The agreement also includes a number of provisions aimed at providing work/life balance and a satisfying and rewarding work environment for employees.

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 2005-06 are summarised in table A.2.



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**Table A.2 Performance bonuses payable for 2005-06**

<i>Classification level</i>	<i>Employees receiving bonus</i>	<i>Total bonuses paid</i>	<i>Average bonus paid</i>
	no.	\$	\$
Staff Level 3	8	17 757	2 219
Staff Level 4	12	38 281	3 190
SES	19	163 996	8 631
Principal Executive Offices	9	96 316	10 702
<b>Total</b>	<b>48</b>	<b>316 350</b>	<b>6 590</b>

### **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 two occasions during the year to discuss a range of workplace issues, including the process for negotiating a new collective agreement.

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.

The Commission also undertakes a biennial staff opinion survey. The survey seeks 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.

The most recent survey was conducted in April 2005. 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.

Recorded expenditure on learning and development in 2005-06 was 2 per cent of the annual salary budget, the same as the previous year. This expenditure related to:

- 171 employees who undertook a total of 524 days of specific training and development;
- 41 Staff Level 4 employees and 32 Staff Level 2 employees who attended two-day general development programs;
- five employees who received studies assistance in the form of paid leave and assistance with fees in the pursuit of tertiary qualifications;
- one employee who completed the Executive Fellows Programme delivered by the Australia and New Zealand School of Government.

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)**

An OHS Committee 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 2005-06.

New OHS activities during the year included:

- women's and men's health seminars conducted by experienced medical practitioners;
- hazardous mail identification training;
- a new site introduced on the intranet with information from recent OHS seminars; and
- a building resilience seminar for senior managers.

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 (89 were completed including 37 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);
  - regular workplace hazard inspections conducted by members of the OHS Committee;
  - desk calendars for all employees promoting emergency evacuation and threat procedures;
  - 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.

Training is provided for employees who have OHS appointments. This includes fire wardens, first aid officers, harassment contact officers and health and safety representatives.

No formal OHS investigations were conducted during the year and the Commission was not required to give any notices under section 68 of the *Occupational Health and Safety (Commonwealth Employment) Act 1991*. No directions under section 45 or notices under sections 29, 46 or 49 of that Act were given to the Commission during 2005-06.

An indicator of the effectiveness of the Commission's OHS programs is Comcare's workers' compensation rate. The Commission's rate for 2005-06 was assessed at approximately 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. Thirteen employees or their families utilised the service in 2005-06.

Seminars on the program were provided to employees by the OSA Group.

## **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

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through the commitment — in the Commission’s certified agreement, equity and diversity plan and related policies — to promote workplace diversity.

Five employees have attended harassment contact officer training during the year.

Accessibility awareness seminars were provided for 37 reception, administration, corporate services and other interested employees to promote an understanding of communication issues related to people with a disability.

## **Commonwealth Disability Strategy**

The Commonwealth Disability Strategy is designed to help agencies improve access for people with disabilities to their services and facilities. Attachment A2 provides a summary of the Commission’s performance in this area during 2005-06.

## **Financial performance**

The audited financial statements for 2005-06 are shown in appendix G.

A surplus of \$672 000 was achieved for 2005-06 (2 per cent of appropriations). Income remained at around the same level as the previous year whereas expenses increased by 6 per cent. The Commission is budgeting for a break-even result in 2006-07.

## **Other information**

### **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 2005-05, 23 new consultancy contracts were entered into involving total actual expenditure of \$227 708. In addition, six ongoing consultancy contracts were active during the 2005-06 year, involving total actual expenditure of \$80 115.

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

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## Special payments

The Commission made a number of special payments during 2005-06. 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:* \$23 632 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:* \$16 500 to the University of Canberra (NATSEM) for a multi-partner project on the distributional impact of health outlays; \$44 000 to Monash University for ARC-funded economic modelling for Australia and the USA; \$16 500 to the University of Melbourne (MIAESR) for an ARC 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:* \$7500 to the Economics Society of Australia for the 35<sup>th</sup> Annual Conference of Economists; \$5500 to Australian Agricultural and Resource Economics Society, Inc. for the 2006 AARES Annual Conference; and \$2200 to Latrobe University for the 2005 Industry Economics Conference.

*Awards:* \$1200 each to the equal top 2005 students, Economics Honours, at Monash University (R H Snape Productivity Commission Prize) and \$1000 to the top 2005 student, Master of Economics, at the Australian National University (Robert Jones Productivity Commission Prize).

## Purchasing

The Commission applies the Australian Government's Procurement Guidelines.

The Commission's purchases of goods and services during 2005-06 were consistent with the 'value-for-money' principle underpinning those guidelines.

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## 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 past annual reports. The current inquiry on waste management and the government-commissioned research study on rural water use and the environment 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'.

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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 adopts measures aimed at the efficient management of waste and minimising energy consumption.

In order to manage its impacts on the environment in a systematic and ongoing way, the Commission maintains an Environmental Management System. The Environmental Management System contains the Commission's environmental policy, an environmental management program to address identified impacts, and provision for monitoring and reporting on performance.

During 2005-06 the Commission recorded energy usage of 10 772 MJ/person/annum against the Government's target of 10 000 MJ/person/annum. This is a reduction of 9 per cent over the previous year. A further reduction is expected in 2006-07 when the full year impact of energy savings measures are realised.

### **Freedom of Information**

No requests were received in 2005-06 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 distribution of Commission circulars.

A total of \$173 214 was paid for advertising (including recruitment advertising) in 2005-06 to HMA Blaze Pty Ltd.

### **Publications and submissions**

Appendix F lists all the Commission's publications in 2005-06.

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## 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 employee statistics

Table A1.1 **Chairman and Commissioners, 30 June 2006**

	<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)	29 Jan 2004	28 Jan 2009
Mr A M Hinton (M)	27 Mar 2002	26 Mar 2007
Dr S I Kates (M) (p/t)	17 Apr 2006	16 Apr 2009
Mr G R Potts (C) (p/t)	17 Apr 2006	16 Apr 2009
Prof J Sloan (M) (p/t)	17 Apr 2006	16 Apr 2010
Mr P Weickhardt (M) (p/t)	4 Dec 2003	3 Dec 2008
Mr M C Woods (C)	17 Apr 2006	16 Apr 2011

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

Table A1.2 **Part-time Associate Commissioners, 30 June 2006**

	<i>Inquiry</i>	<i>Period of appointment<sup>a</sup></i>	
		<i>From</i>	<i>To</i>
Mr P L Coghlan	Standard Setting and Laboratory Accreditation	4 Apr 2006	15 Dec 2006
Prof C Walsh	Road and Rail Freight Infrastructure Pricing	4 Apr 2006	15 Feb 2007

<sup>a</sup> Engagement ceases at the conclusion of the inquiry or the period of appointment, whichever is the earlier.

**Table A1.3 Employees<sup>a</sup> by location and gender, 30 June 2006**

<i>Level</i>	<i>Melbourne</i>			<i>Canberra</i>			<i>Total</i>		
	<i>Female</i>	<i>Male</i>	<i>Total</i>	<i>Female</i>	<i>Male</i>	<i>Total</i>	<i>Female</i>	<i>Male</i>	<i>Total</i>
SES Band 3	0	0	0	0	1	1	0	1	1
SES Band 2	0	2	2	0	1	1	0	3	3
SES Band 1	2	6	8	0	7	7	2	13	15
Staff Level 4	7 <sup>ab</sup>	18 <sup>a</sup>	25	6 <sup>ab</sup>	17	23	13	35	48
Staff Level 3	12	13 <sup>a</sup>	25	7	19 <sup>a</sup>	26	19	32	51
Staff Level 2	17	14	31	10	5	15	27	19	46
Staff Level 1	19	4	23	8	4	12	27	8	35
<b>Total</b>	<b>57</b>	<b>57</b>	<b>114</b>	<b>31</b>	<b>54</b>	<b>85</b>	<b>88</b>	<b>111</b>	<b>199</b>
Corresponding totals at 30 June 2005	<b>47</b>	<b>54</b>	<b>101</b>	<b>29</b>	<b>51</b>	<b>80</b>	<b>76</b>	<b>105</b>	<b>181</b>

<sup>a</sup> Excludes 7 inoperative employees at 30 June 2006 and 18 at 30 June 2005. <sup>b</sup> Includes 2 employees acting.

**Table A1.4 Employees<sup>a</sup> by employment status and gender, 30 June 2006**

<i>Level</i>	<i>Female</i>			<i>Male</i>			<i>Total</i>		
	<i>F/t</i>	<i>P/t</i>	<i>Total</i>	<i>F/t</i>	<i>P/t</i>	<i>Total</i>	<i>F/t</i>	<i>P/t</i>	<i>Total</i>
SES Band 3	0	0	0	1	0	1	1	0	1
SES Band 2	0	0	0	3	0	3	3	0	3
SES Band 1	2	0	2	13	0	13	15	0	15
Staff Level 4	9 <sup>a</sup>	4 <sup>bc</sup>	13	32 <sup>a</sup>	3	35	41	7	48
Staff Level 3	17 <sup>a</sup>	2	19	31 <sup>a</sup>	1	32	48	3	51
Staff Level 2	20	7	27	19	0	19	39	7	46
Staff Level 1	20	7	27	8	0	8	28	7	35
<b>Total</b>	<b>68</b>	<b>20</b>	<b>88</b>	<b>107</b>	<b>3</b>	<b>111</b>	<b>175</b>	<b>24</b>	<b>199</b>
Corresponding totals at 30 June 2005	<b>60</b>	<b>16</b>	<b>76</b>	<b>103</b>	<b>2</b>	<b>105</b>	<b>163</b>	<b>18</b>	<b>181</b>

<sup>a</sup> Excludes 7 inoperative employees at 30 June 2006 and 18 at 30 June 2005. <sup>b</sup> Includes 2 employees acting. <sup>c</sup> Includes 1 non-ongoing employee.

**Table A1.5 Employees by level and reason for separation, 2005-06**

<i>Level</i>	<i>Promotion</i>	<i>Transfer</i>	<i>Resignation</i>	<i>Invalidity Retirement</i>	<i>VRP<sup>a</sup></i>	<i>Other</i>	<i>Total</i>
SES	0	0	0	0	0	2	2
Staff Level 4	0	1	3	0	0	5	9
Staff Level 3	1	3	12	0	0	0	16
Staff Level 2	1	1	1	0	0	1	4
Staff Level 1	0	0	1	0	1	3	5
<b>Total</b>	<b>2</b>	<b>5</b>	<b>17</b>	<b>0</b>	<b>1</b>	<b>11</b>	<b>36</b>
Corresponding totals at 30 June 2004	<b>4</b>	<b>2</b>	<b>16</b>	<b>0</b>	<b>0</b>	<b>10</b>	<b>32</b>

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

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

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## Attachment A2

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

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

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<i>Performance indicator</i>	<i>Performance measure</i>	<i>Outcome</i>
New or revised program/policy proposals assess impact on the lives of people with disabilities prior to decision	Percentage of new or revised policy/program proposals that document that the impact of the proposal was considered prior to the decision making stage	<p>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> <p>Project evaluation templates have a section included for comments on disability issues as defined in our Disability Action Plan. Any comments are monitored to assess if procedures need to be further reviewed. Any comments will be incorporated into the review of the Disability Action Plan.</p> <p>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.</p>
People with disabilities are included in consultations about new or revised policy/program proposals	Percentage of consultations about new or revised policy/program 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"><li>• advertisements in the national press inviting submissions;</li><li>• development of interested parties lists;</li><li>• TTY machine available and promoted;</li><li>• website conforms to mandatory disability access requirements;</li><li>• portable hearing loop available for public hearings;</li><li>• copies of reports and circulars available in Braille, large print and audio on request; and</li><li>• checklist on accessibility at venues.</li></ul>

(continued next page)

<i>Performance indicator</i>	<i>Performance measure</i>	<i>Outcome</i>
Public announcements of new, revised or proposed policy/program initiatives are available in accessible formats for people with disabilities in a timely manner.	Percentage of new, revised or proposed policy/program announcements available in a range of accessible formats.  Time taken in providing announcements in accessible formats.	100 per cent available on website. A page is devoted to 'Accessibility' on the website.  Several IT/Web employees attended session presented by Vision Australia on web accessibility and writing for the web.  The website conforms with the W3C Web Content Accessibility Guidelines 1.0 at level "A" of WCAG 1.0.  Between one and two weeks if requested.

### **Performance requirements of the 'employer' role**

<i>Performance indicator</i>	<i>Performance measure</i>	<i>Outcome</i>
Employment policies, procedures and practices comply with the requirements of the <i>Disability Discrimination Act 1992</i>	Number of employment policies, procedures and practices that meet the requirements of the <i>Disability Discrimination Act 1992</i>	The Commission's Certified Agreement, Equity and Diversity Plan, Disability Action Plan and related policies and procedures have been developed with cognisance of the requirements of the Act.
Recruitment information for potential job applicants is available in accessible formats on request	Percentage of recruitment information requested and provided in:  accessible electronic formats; and	All vacancies are advertised in the gazette and on our website. Most vacancies are advertised in the press.  100 per cent available.
	accessible formats other than electronic. Average time taken to provide accessible information in:	None requested.
	• electronic format; and	Immediate.
	• 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.

(continued next page)

<i>Performance indicator</i>	<i>Performance measure</i>	<i>Outcome</i>
Agency recruiters and managers apply the principle of 'reasonable adjustment'.	Percentage of recruiters and managers provided with information on 'reasonable adjustment'.	<p>Where relevant, selection panels are provided with this information.</p> <p>Managers receive information as required. Folders containing the list of candidates includes a reference to access and equity considerations, including 'reasonable adjustment'.</p> <p>A register has also been developed to record all requests for information in formats such as Braille and audiocassette. No requests were received during 2005-06.</p>
Training and development programs consider the needs of employees with disabilities.	Percentage of training and development programs that consider the needs of employees with disabilities.	<p>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 2005-06.</p>
Training and development programs include information on disability issues as they relate to the content of the program.	Percentage of training and development programs that include information on disability issues as they relate to the program.	<p>Induction programs include information on these issues including our Access and Equity and Disability Action Plan.</p> <p>Seminars were conducted in both offices to promote accessibility awareness for people with a disability. These seminars were well received and more sessions are likely to offered.</p> <p>Attendees were asked to consider what additional procedures the Commission might consider including to give effect to accessibility for people with a disability. A number of suggestions were received and these will be taken into account when the Disability Action Plan is reviewed.</p>
Complaints/grievance mechanism, including access to external mechanisms, in place to address issues and concerns raised by employees.	Established complaints/grievance mechanisms, including access to external mechanisms, in operation.	<p>These issues can be addressed with managers, Harassment Contact Officers, Employee Assistance Program and formally with 'Review of Action' procedures which are available to all employees. No procedures were conducted in 2005-06.</p>

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## **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:

- unavailability of specialist in-house resources within the project timeframe;
- 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 2005-06 were to provide expert technical advice for a range of projects, referee particular pieces of work, undertake modelling work and provide expert advice.

### **Consultancies over \$10 000**

The following table lists those consultancies let in 2005-06 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.

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## Consultancy contracts let in 2005-06 valued at \$10 000 or more

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<i>Consultant</i>	<i>Nature of consultancy</i>	<i>Contract Amount<sup>1</sup></i>	<i>Method of selection<sup>2</sup></i>	<i>Reason for contract<sup>3</sup></i>
<b>Government-commissioned projects</b>				
Centre of Policy Studies, Monash University	Economic modelling relating to migration and population growth	66 000	1	A
Centre of Policy Studies, Monash University	Conduct additional simulations for the Migration project using MONASH and the Labour Market Extension to address issues arising after publication of the Position Paper (This work is an extension of the original brief that went to tender)	22 000	1	A
The Allen Consulting Group	Provide a report on the transaction costs of existing water markets and how they impede trade	19 882	3	A
<i>Government-commissioned projects — total</i>		<i>107 882</i>		
<b>Supporting research and activities and annual reporting</b>				
AustralAsia Economics	Undertake a feasibility study into estimating measures of productivity in health services	11 000	3	A
Mr Winton Bates	Review the operations and processes of the Research Committee	15 000	3	B
<i>Supporting research and activities and annual reporting — total</i>		<i>26 000</i>		
<b>Corporate management and services</b>				
SKM Consulting	Develop a strategic plan for the Commission's website	19 896	2	B
GHD Security Group	Undertake a security risk assessment of the Commission's Canberra office and undertake an electronic and physical security review based on the findings of the risk assessment	13 689	3	B
<i>Corporate management and services — total</i>		<i>33 585</i>		
<b>Total consultancies</b>		<b>167 467</b>		

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**1 Procurement Method**

1. Publicly tendering
2. Seek tenders from a number of selected providers
3. Directly approach one provider as known expert in field
4. Sole supplier
5. Other method

**2 Reason for contract**

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

**3 GST**

All figures are GST inclusive.

## 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 12 to 18 months 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 most recent round of consultations were held in July 2006.

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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;

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- 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.

Copies of submissions (excluding confidential material) made to public inquiries, and transcripts of public hearings are available from the Commission's website and can be accessed through all State Libraries. Submissions can also be purchased through Flash Photobition, 61 Kembla St, Fyshwick ACT 2609.

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

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

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## Attachment A5

### Compliance index

	<i>page</i>
Letter of transmittal	III
Table of contents	VII
Index	249
Abbreviations	X
Contact officer	69
Internet addresses	69
Review	
Review by the Chairman and Commissioners	19–47
Role and functions of the Commission	51
Organisational structure	52
Outcome and output structure	84
Report on performance	
Performance in relation to outputs and contribution to outcomes	41–7, 83–143
Performance against service charter customer service standards	57
Financial performance	65
Summary resources table by outcomes	54
Management accountability	
Corporate governance practices	54–7
Senior management committees and their roles	55
Risk management and fraud control measures	56
Ethical standards	57
Determination of remuneration for SES employees	60
External scrutiny	57–9
Management of human resources	59–65
Employee developments	59–60
Staff turnover and retention	53
Learning and development	62–3
Certified Agreement and Australian Workplace Agreements	60–1
Statistics on staffing	53, 70–2
Performance pay	61–2
Assets management	appendix G
Purchasing	66
Consultants	65, 76–7
Competitive tendering and contracting	77
Performance in implementing the Commonwealth Disability Strategy	65, 73–5
Financial statements	appendix G
Other information	
Occupational health and safety	63–4
Freedom of Information statement	78–80
Advertising and market research	68
Ecologically sustainable development and environmental performance	67–8
Special payments	66



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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 2005-06.

### Assessment of the Commission's performance

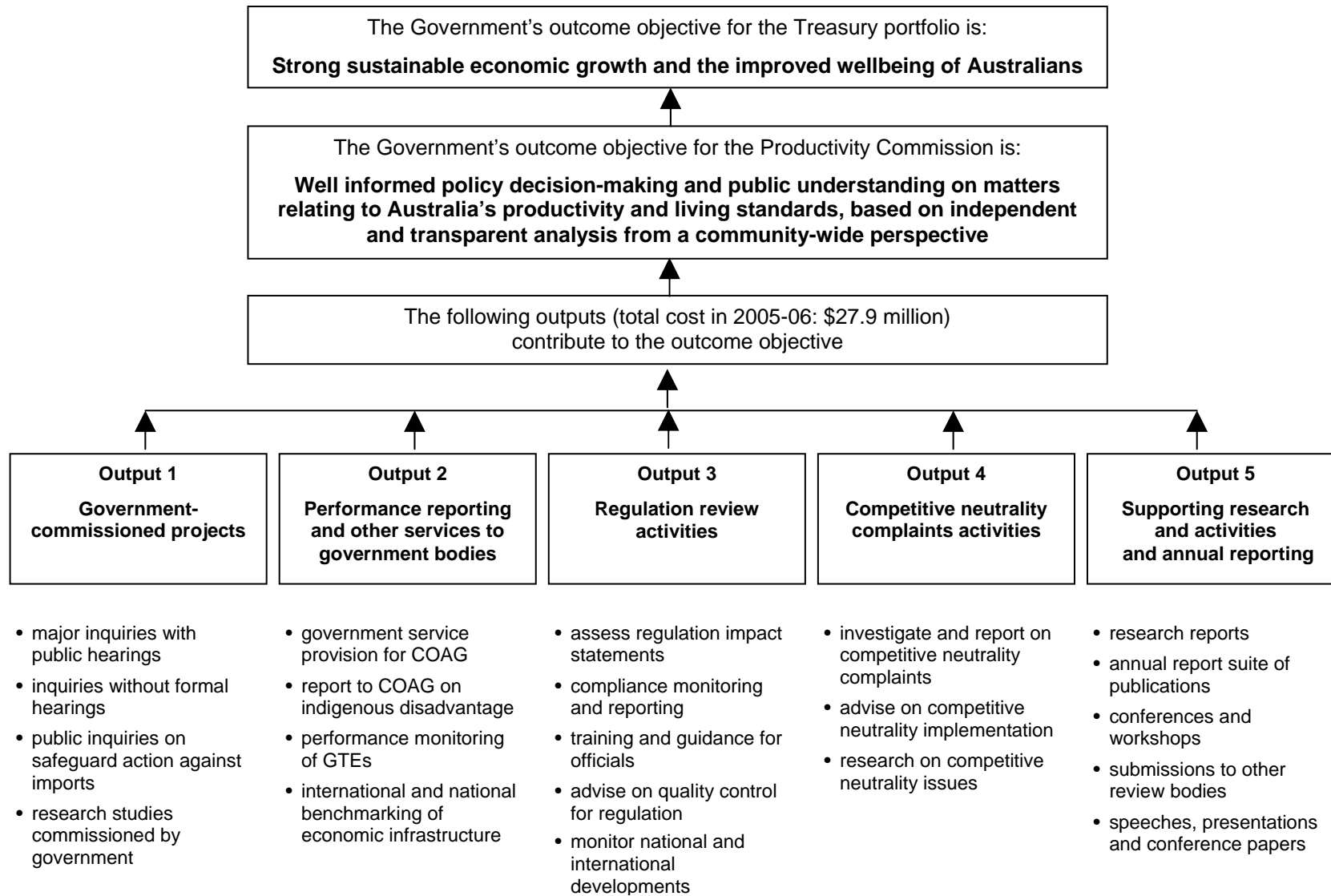
The Government's single outcome objective for the Commission against which the Commission's overall performance is to be assessed is:

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.

The Commission's inquiry, research, advisory and associated activities derive from its statutory functions. Having regard to the Government's accrual-based outcomes and outputs 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).

Figure B.1 Productivity Commission outcome/output framework 2005-06



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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 and public hearings — to help identify the relevant issues, assist in the analysis of information and the development of policy options, and to obtain views on the Commission's analysis and 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;



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- 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 have 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 '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.

<b>Box B.1 Performance indicators for Commission outputs</b>	
<b><i>Output</i></b>	<b><i>Indicators</i></b>
Government-commissioned projects	Projects of a high standard, useful to government, undertaken in accordance with required processes and on time
Performance reporting and other services to government bodies	Reports of a high standard, useful to government and completed on time
Regulation review activities	Regulation Impact Statement assessments and associated activities of a high standard, advice useful to government and on time
Competitive neutrality complaints activities	Competitive neutrality complaints successfully resolved within 90 days, associated activities of a high standard and useful to government
Supporting research and activities and statutory annual reporting	Reports, projects and associated activities of a high standard, useful to government, raising community awareness and on time

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

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. Two such Commission inquiry reports were those on gambling (1999) and broadcasting (2000). Other examples from the past year also demonstrate the 'shelf life' of a variety 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, has enhanced the transparency of government decision making on Commission reports and permitted 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 recent inquiry reports on the private cost effectiveness of improving energy efficiency and on heritage were both released well within the statutory period.
- The Government released the Commission's June 2004 report on the gas access regime in August 2004. The Ministerial Council on Energy announced its support for key Commission recommendations in May 2006.

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

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

- Analysis in the Commission's 2000 inquiry report on broadcasting continued to be used this year in parliamentary debate, parliamentary committee work on the slow uptake of digital television in Australia, Parliamentary Library resources materials on media regulation, and commentary on media policy (for example, the Communications Law Centre (2006). The Government's regulation impact statement in the Explanatory Memorandum to the Broadcasting Services Amendment (Media Ownership) Bill 2006 drew support from a number of Commission findings, including the link between ownership and media diversity and analysis of foreign investment controls, but rejected the package of measures that the Commission proposed accompany the removal of cross-media ownership rules.
- The Commission's 1999 inquiry report on gambling remains a prime reference source in parliamentary, media and community debate on gambling issues.
- The 2006 OECD Economic Survey of Australia drew on findings from Commission reports on State taxation bases (1998 Staff Working Paper, *Directions for State Tax Reform*), interstate bidding wars (1996 inquiry report, *State, Territory and Local Government Assistance to Industry*) and pharmaceutical prices in Australia (2001 Commission Research Report, *International Pharmaceutical Price Differences*).
- Supporting research outputs from 1999 and 2000 on the links between reform and productivity were drawn on by the Senate Economics Committee in its consideration of the Government's Work Choices legislation.
- The Parliamentary Library Research Brief of March 2006 on the liberalisation of international passenger airline services drew extensively on the analysis and findings in the Commission's 1998 inquiry report, *International Air Services*.
- In its latest monitoring report on container stevedoring the ACCC (2006) cited findings in the Commission's analysis of container stevedoring work arrangements (1998) and international benchmarking study of container stevedoring (2003).
- A recent discussion paper for the National Aged Care Alliance on options for long-term financing of aged care (Bruen 2006) drew on the Commission's 1999 inquiry report, *Nursing Home Subsidies*.
- The ACCI (2005) position paper, *The Economic Case for Workplace Relations Reform*, drew on findings from the 1998 Staff Research Paper on youth wages.
- The 2000 Staff Research Paper, *Single Desk Marketing: Assessing the Economic Arguments*, was used by the Centre for International Economics (2005) in its analysis of a new marketing system for the Queensland sugar industry and was referred to in a number of editorials on AWB single desk marketing arrangements for Australian wheat.

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- The Commission completed its inquiry report on Part X of the Trade Practices Act in February 2005 and it was due to be tabled in June 2005. The report was tabled in October 2005. The Government's decision — to reject the Commission's preferred option but amend Part X in ways consistent with other Commission recommendations — was announced in August 2006.
  - Although the Commission's 2000 inquiry report on broadcasting has been a reference point in much subsequent policy debate on the reform of Australian broadcasting regulation, the Government has not responded formally to the report. The Government did, however, recently refer to the Commission's report in its Explanatory Memorandum to its Broadcasting Services Amendment (Media Ownership) Bill 2006 and drew on specific aspects of analysis in the report. Nevertheless, the Explanatory Memorandum stated:

While a good analysis of the broadcasting sector at the end of the 1990s, many of the issues identified by the PC have been overtaken by the media developments since that time. (Coonan 2006a, pp. 11–12)

The Minister has noted that traditional broadcasting is facing challenges from less regulated technologies such as broadband, mobile phones and the Internet and stated:

This rapid convergence has, in my view, made redundant the Productivity Commission recommendation made back in 2000 to price and allocate the existing analogue spectrum as a scarce resource. In fairness to the Productivity Commission the landscape has changed dramatically. (Coonan 2006b)

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-based outcomes and outputs 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.

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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, the Report on Government Services and the quality and usefulness of its supporting research program. Feedback from a survey of departments and agencies on the Office of Regulation Review (ORR) in 2005-06 is reported below (p. 129).

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 2005-06. 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 federal parliamentary debate during 2005-06 were the Commission's reports on the national access regime, the Report on Government Services, on national frameworks for workers' compensation and OHS and on Australia's health workforce. As noted in chapter 2, 52 Members of the House of Representatives and 27 Senators collectively referred to 38 different Commission inquiries or reports, or to the Commission's role in policy processes, during the 2005-06 parliamentary proceedings.

During the year the Commission briefed two House of Representatives Standing Committees on aspects of its work: the Employment, Workplace Relations and Workforce Participation Committee on the report *Overcoming Indigenous Disadvantage*; and the Health and Ageing Committee on the Commission's health workforce study.

Four parliamentary committees made recommendations on issues for examination by the Commission or specifically endorsed recommendations made by the Commission.

- In its October 2005 report *Consenting adults, deficits and household debt: Links between Australia's current account deficit, the demand for imported goods and household debt*, the Senate Economics References Committee recommended that the Government reassess its decision to reject the Commission's 2004 recommendation (in its report on first home ownership) for a review of those aspects of the personal tax regime that have recently contributed to excessive investment in rental housing.
- The House of Representatives Standing Committee on Family and Human Services report, *Overseas Adoption in Australia: Report on the inquiry into adoption of children from overseas* of November 2005, recommended that the Commission (or more appropriately, the Steering Committee for the Review of Government

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Service Provision) and the Australian Institute of Health and Welfare liaise on beginning publication of performance information on intercountry adoptions.

- In its March 2006 report *Living with salinity — a report on progress: The extent and economic impact of salinity in Australia*, the Senate Environment, Communications, Information Technology and the Arts References Committee recommended that a suitable body, such as the Productivity Commission or the Australian Bureau of Agricultural and Resource Economics, undertake a study into the future impacts and costs of salinity on infrastructure in urban and rural environments, and develop a long term strategy that includes consideration of federal, state and local government funding levels.
- In its June 2006 report *Pathways to technological innovation*, the House of Representatives Standing Committee on Science and Innovation supported the Commission's findings on intellectual property (in its report on national competition policy reforms) and recommended that the Government establish periodic re-review of intellectual property legislation according to National Competition Policy Agreements.

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

- Ten parliamentary committees drew on a range of Commission inquiry and research outputs in their own reports. The fourteen parliamentary committee reports listed in table B.1 referred to 20 different Commission inquiries or research outputs.
- People appearing at the hearings of parliamentary committees in 2005-06 referred to Commission outputs in more than 37 different topic areas
- Research material provided to parliamentarians during 2005-06 by the Parliamentary Library — such as Bills Digests, Research Briefs and Research Notes — referred to 13 different Commission outputs (table B.2). These included 10 inquiry and other commissioned research reports (and in particular, the study on the economic implications of an ageing Australia), the reports on governments services and Indigenous disadvantage, and the 2005 Richard Snape Lecture.

Performance audits undertaken by the Australian National Audit Office (ANAO) inform the Parliament and the Government about public sector administration and performance. During 2005-06 the ANAO drew on data from the Report on Government Services for two Audit Reports: *Administration of the Commonwealth State Territory Disability Agreement* (Report No. 14) and the *Commonwealth State Housing Agreement Follow-up Audit* (Report No. 46). A range of Commission findings in its 2002 inquiry report on the Job Network were cited in the ANAO audit reports on *Implementation of Job Network Employment Services Contract 3* (Report No. 6) and *Job Placement and Matching Services* (Report No. 49).

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

<i>Parliamentary Committee and report</i>	<i>Commission output used</i>
Senate Community Affairs References Committee, <i>Quality and equity in aged care</i> , June 2005	Steering Committee for the Review of Government Service Provision, <i>Report on Government Services 2005</i> ; mention of commissioned study then underway on Australia's health workforce
Senate Economics Legislation Committee, <i>Provisions of the Trade Practices Amendment (National Access Regime) Bill 2005</i> , September 2005	Inquiry Report, <i>Review of the National Access Regime</i> , September 2001
Senate Economics References Committee, <i>Consenting adults, deficits and household debt: Links between Australia's current account deficit, the demand for imported goods and household debt</i> , October 2005	Inquiry Report, <i>First Home Ownership</i> , March 2004; Annual Report, <i>Trade and Assistance Review 2003-04</i>
Senate Employment, Workplace Relations and Education Legislation Committee, <i>Provisions of the Workplace Relations Amendment (Work Choices) Bill 2005</i> , November 2005	Inquiry reports <i>First Home Ownership</i> , March 2004 & <i>Review of National Competition Policy Reforms</i> , February 2005; Commission Research Paper, <i>Microeconomic Reforms and Australian Productivity: Exploring the Links</i> , Volume 2: Case Studies, 1999; Staff Research Paper, <i>Productivity in Australia's Wholesale and Retail Trade</i> , October 2000
Senate Foreign Affairs, Defence and Trade References Committee <i>Opportunities and challenges: Australia's relationship with China</i> , November 2005	Staff Working Paper, <i>The Trade and Investment Effects of Preferential Trading Arrangements – Old and New Evidence</i> , May 2003
House of Representatives Standing Committee on Family and Human Services, <i>Overseas Adoption in Australia: Report on the inquiry into adoption of children from overseas</i> , November 2005	Inquiry Report, <i>Cost Recovery by Government Agencies</i> , August 2001; Steering Committee for the Review of Government Service Provision, <i>Report on Government Services 2005</i>
House of Representatives Standing Committee on Communications, Information, Technology and the Arts, <i>Digital Television: Who's Buying It?</i> , February 2006	Inquiry Report, <i>Broadcasting</i> , March 2000

(continued next page)



Table B.1 (continued)

<i>Parliamentary Committee and report</i>	<i>Commission output used</i>
Senate Employment, Workplace Relations and Education Legislation Committee <i>Provisions of the OHS and SRC Legislation Amendment Bill 2005</i> , May 2006	Inquiry Report, <i>National Workers' Compensation and Occupational Health and Safety Frameworks</i> , March 2004
House of Representatives Standing Committee on Economics, Finance and Public Administration, <i>Improving the superannuation savings of people under 40</i> , May 2006	Commission Research Report, <i>Economic Implications of an Ageing Australia</i> , Canberra, March 2005; Staff Research Paper, <i>Business Failure and Change: An Australian Perspective</i> , December 2000
Senate Economics Legislation Committee, <i>Provisions of the Petroleum Retail Legislation Repeal Bill 2006</i> , May 2006	Industry Commission Inquiry Report, <i>Petroleum Products</i> , July 1994
Senate Community Affairs References Committee, <i>Beyond petrol sniffing: renewing hope for Indigenous communities</i> , June 2006	Steering Committee for the Review of Government Service Provision, <i>Overcoming Indigenous Disadvantage, Key Indicators 2005</i>
House of Representatives Standing Committee on Science and Innovation, <i>Pathways to Technological Innovation</i> , June 2006	Inquiry Report, <i>Review of National Competition Policy Reforms</i> , February 2005; mention of current commissioned study on science and innovation
Senate Employment, Workplace Relations and Education Legislation Committee, <i>Provisions of the Independent Contractors Bill 2006 and the Workplace Relations Legislation Amendment (Independent Contractors) Bill 2006</i> , August 2006	Staff Research Paper, <i>Self Employed Contractors in Australia: Incidence and Characteristics</i> , September 2001
Joint Standing Committee on Migration, <i>Negotiating the maze: Review of arrangements for overseas skills recognition, upgrading and licensing</i> , September 2006	Commission Research Reports: <i>Economic Impacts of Migration and Population Growth</i> , April 2006; <i>Australia's Health Workforce</i> , December 2005; <i>Economic Implications of an Ageing Australia</i> , March 2005; <i>Evaluation of Mutual Recognition Schemes</i> , October 2003

**Table B.2 Parliamentary Library use of Commission outputs in 2005-06**

<i>Parliamentary Library output</i>	<i>Commission output used</i>
<i>Australian Workplace Safety Standards Bill 2005 &amp; National Occupational Health and Safety Commission (Repeal, Consequential and Transitional Provisions) Bill 2005, Bills Digest Nos. 37–38, 2005-06, 30 August 2005</i>	<i>Inquiry Report, National Workers' Compensation and Occupational Health and Safety Frameworks, March 2004</i>
<i>Not on my account! Cost-shifting in the Australian health system, Research Note no. 6, 2005-06, 2 September 2005</i>	<i>Research Report, The Economic Implications of an Ageing Australia, March 2005</i>
<i>Energy Efficiency Opportunities Bill 2005, Bills Digest no. 54, 2005-06, 11 October 2005</i>	<i>Inquiry Draft Report, Energy Efficiency, April 2005</i>
<i>High unemployment at a time of low unemployment, Research Note no. 15, 2005-06, 31 October 2005</i>	<i>Steering Committee for the Review of Government Service Provision, Report on Government Services 2005 &amp; Overcoming Indigenous Disadvantage, Key Indicators 2005</i>
<i>Health Legislation Amendment Bill 2005, Bills Digest no. 61, 2005-06, 1 November 2005</i>	<i>Research Report, Impacts of Advances in Medical Technology in Australia, August 2005</i>
<i>Superannuation, social security and retirement income, Research Brief no. 7, 2005-06, 17 November 2005</i>	<i>Research Report, The Economic Implications of an Ageing Australia, March 2005</i>
<i>Workplace Relations Amendment (Work Choices) Bill 2005, Bills Digest no. 66, 2005-06, 2 December 2005</i>	<i>Inquiry Report, Review of National Competition Policy Reforms, February 2005</i>
<i>Directions in China's foreign relations – implications for East Asia and Australia, Research Brief no. 9, 2005-06, 5 December 2005</i>	<i>Richard Snape Lecture, November 2005, Martin Wolf, 'Will Asian Mercantilism Meet its Waterloo?'</i>
<i>OHS and SRC Legislation Amendment Bill 2005, Bills Digest no. 90, 2005-06, 3 February 2006</i>	<i>Inquiry Report, National Workers' Compensation and Occupational Health and Safety Frameworks, March 2004</i>
<i>Future Fund Bill 2005, Bills Digest no. 93, 2005-06, 7 February 2006</i>	<i>Research Report, The Economic Implications of an Ageing Australia, March 2005</i>
<i>An adequate superannuation-based retirement income?, Research Brief no. 12, 2005–06, 16 March 2006</i>	<i>Research Report, The Economic Implications of an Ageing Australia, March 2005</i>
<i>Medical Savings Accounts – a possible health reform option for Australia?, Research Note no. 26, 2005-06, 23 March 2006</i>	<i>Research Reports, The Economic Implications of an Ageing Australia, March 2005 &amp; Impacts of Advances in Medical Technology in Australia, August 2005</i>
<i>Liberalisation of international passenger airline services, Research Brief no. 14, 2005–06, 24 March 2006</i>	<i>Inquiry Report, International Air Services, September 1998</i>
<i>Fuel Tax Bill 2006, Bills Digest no. 117, 2005-06, 4 May 2006</i>	<i>Mention of current Commission inquiry on road and rail freight infrastructure pricing</i>

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**Table B.2 (continued)**

<i>Parliamentary Library output</i>	<i>Commission output used</i>
<i>Telecommunications Legislation Amendment (Competition and Consumer Issues) Bill 2005, Bills Digest no. 46 2005-06, 15 May 2006</i>	<i>Inquiry Report, Review of National Competition Policy Reforms, February 2005</i>
<i>Media Ownership Regulation in Australia, E-Brief, updated 30 May 2006</i>	<i>Inquiry Report, Broadcasting, March 2000</i>
<i>Skilled migration to Australia, E-Brief, 5 June 2006</i>	<i>Research Report, Economic Impacts of Migration and Population Growth, April 2006</i>
<i>Workplace relations reforms: a chronology of business, community and Government responses, Chronologies Online, updated 11 August 2006</i>	<i>Inquiry Report, Review of National Competition Policy Reforms, February 2005</i>

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

In addition to the performance indicators for 2005-06 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.

- COAG's support for the Commission is reflected by its decisions in 2005-06 that:
  - the Commission develop proposals for the efficient pricing of road and rail freight infrastructure;
  - the Commission assist COAG implement its in-principle decision to adopt a common framework for benchmarking, measuring and reporting on the regulatory burden on business; and
  - the new COAG Reform Council is to draw on the work of the Commission in assessing the potential benefits of the National Reform Agenda.
- The New Zealand Commerce Minister has recently stated:
 

As I have said on other occasions, if I could choose any Australian institution and have it transformed into a truly trans-Tasman institution, it would be the Productivity Commission. (Dalziel 2006)

The Minister also commended the Commission's 'dispassionate' regulatory analysis. The New Zealand Institute of Chartered Accountants (2006) subsequently backed the minister's suggestion that the Commission become a trans-Tasman institution.

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- In commenting on Australia's policy-making process, the Leader of the Opposition included the Productivity Commission amongst government agencies providing 'quality professional advice' (Beazley 2006b).
  - In association with the NSW Government submission to the Senate inquiry on petrol pricing, the NSW Ministers for Transport and for Small Business and Regional Development recommended a Commission inquiry on the impact of rising fuel prices on the economy, Australian families, businesses and government service providers (Watkins and Campbell 2006).
  - The Human Rights and Equal Opportunities Commission (2005) considered that the Productivity Commission 'would be best placed' to conduct research on the economic cost of disability to people with disability, employment support services and employers, with a view to making recommendations to increase the workforce participation and employment of people with disability.
  - The Business Council of Australia has requested that the Government refer a range of policy issues to the Productivity Commission. The BCA (2006a) budget submission recommended that the Government ask the Commission to undertake:
    - an analysis of the impacts of high effective marginal tax rates on the workforce participation of different groups, taking into account the economic and social implications of disincentives to work, and to make recommendations; and
    - a review of Commonwealth–State financial and tax-sharing arrangements and the appropriateness of the tax mix across jurisdictions, building on the Commission's report, *The Economic Implications of an Ageing Australia*.More recently, the BCA (2006d) proposed that the Commission be asked to:
    - report on the nature of an access regime for water pipes, technical standards and other rules, in advance of the establishment of an Australian water regulator; and
    - review urban water pricing.
  - In April 2006 Australian Business Limited and the Victorian Employers' Chamber of Commerce and Industry called on the Commonwealth Government to ask the Productivity Commission to:
    - review the current application of horizontal fiscal equalisation by the Commonwealth Grants Commission;
    - assess if the current application of horizontal fiscal equalisation hampers necessary structural reform and efficiency improvements within government; and
    - recommend simplification of the application of horizontal fiscal equalisation (ABL 2006 and VECCI 2006).

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In a related press release, ABL (2006) stated:

The Productivity Commission is an impartial body that is respected by all sections of the Australian community and it should be charged with the responsibility of modernising the current arrangements.

- In testimony before the House of Representatives Standing Committee on Economics, Finance and Public Administration, some groups questioned the appropriateness of the Reserve Bank of Australia reviewing its own reforms. The Australian Bankers' Association (2006) stated:

The [banking] industry is advocating that the scheduled 2007 review of payment systems reforms is undertaken by an organisation independent of the reform process so far, such as the Productivity Commission.

- The Urban Development Institute of Australia (2006) has called for the Commonwealth Government to request that the Commission investigate inefficiencies associated with State planning approvals processes and for an inquiry on land supply policies, to quantify their impact on economic growth and housing affordability, and to identify major governance constraints on the supply of land.
- In testimony to the House of Representatives Standing Committee on Transport and Regional Services inquiry on transport networks in August 2005, the Australasian Railway Association (2005) stated that it was lobbying COAG for a Productivity Commission review of road and rail pricing. COAG requested such a study in its communiqué of February 2006.
- Submissions to the Joint Study of the Administration of Australia's Anti-Dumping System by Rio Tinto, steel importers (the Australian Steel Association) and Coles Myer variously suggested greater involvement of the Commission in the evaluation of material injury and causation analysis or national interest determination in anti-dumping investigations.
- A range of policy analysts and newspaper editorials during the past year variously called for Productivity Commission reviews of private health insurance regulation; subsidies for ethanol and bio-diesel; Australian petrol production and retailing; the extent of competition in markets for large infrastructure projects; and an evaluation of government advertising campaigns.
- Endorsement of the Commission's role and work can also be found in various proposals for new agencies to be modelled on it. For example:
  - The Tasman Transparency Group (2006) has promoted the Commission as the type of agency needed to underpin WTO trade negotiation processes by providing 'the information governments (and their domestic constituents) need to reduce the political costs of liberalising domestic markets, by making the consequences for the economy and community more transparent'.

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- Domestically, Indigenous leaders have reportedly argued the need for ‘the equivalent of the Productivity Commission’ to oversee the reform of Indigenous policies and programs.

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 around 250 citations of the Commission and its reports in 2005-06. About 18 per cent of mentions were to inquiries and commissioned studies current in 2005-06. The Commission’s work was cited in more than 100 different journals and publications, most frequently in *Business Review Weekly*, *Medical Observer Weekly*, *Australian Doctor*, the *Medical Journal of Australia* and the *Australian Journal of Public Administration*. Commission work which received the most citations were the commissioned study on Australia’s health workforce (both the Position Paper and final report); the 2005 study of the economic implications of the ageing of Australia’s population; the 2005 inquiry report on national competition policy reforms; and the 2003 and 2005 reports *Overcoming Indigenous Disadvantage*. There were also multiple mentions of the Reports on Government Services (over various years).

## **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 2005-06 were:

- 71.5 staff years; and
- \$14.1 million on an accrual basis.

All government-commissioned inquiries in 2005-06 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 2005-06

The Commission had six public inquiries and seven government-commissioned research studies underway at some time during the year, and has since commenced a study on the feasibility of developing cross-jurisdictional performance indicators and frameworks for regulatory burdens on business. 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 2005-06 the Commission:

- completed two public inquiries begun in 2004-05 — the private cost effectiveness of improving energy efficiency and the conservation of Australia’s historic heritage places; and
- commenced four new public inquiries which are due for completion in 2006-07 — on waste management, road and rail infrastructure freight pricing, Tasmanian freight subsidy arrangements and the price regulation of airport services.

Table B.3 **Program of public inquiries and other government-commissioned projects<sup>a</sup>**

	2004-05					2005-06												2006-07							
	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	
<b>Public inquiries:</b>																									
Private cost effectiveness of improving energy efficiency																									
Conservation of Australia's historic heritage places																									
Waste management																									
Road and rail freight infrastructure pricing																									
Tasmanian freight subsidy arrangements																									
Price regulation of airport services																									
<b>Commissioned research studies:</b>																									
Impacts of advances in medical technology in Australia																									
Australia's health workforce																									
Australian consumer product safety system																									
Economic impacts of migration and population growth																									
Rural water use and the environment																									
Standard setting and laboratory accreditation																									
Science and innovation																									
Benchmarking regulatory burdens																									

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

Research studies commissioned by the Government remained a significant component of the Commission's workload (figure 2.1). During 2005-06 the Commission:

- finalised three government-commissioned research studies — the impacts of advances of medical technology, Australia's health workforce and a review of the Australian consumer product safety system — begun the previous year;
- commenced and completed in the year an examination of the impacts that migration and population growth have on Australia's productivity and economic growth; and
- commenced new three studies: rural water use and the environment; standard setting and laboratory accreditation; and science and innovation.

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.

**Table B.4 Public inquiry and other commissioned project activity, 2001-02 to 2005-06**

<i>Indicators</i>	<i>2001-02</i>	<i>2002-03</i>	<i>2003-04</i>	<i>2004-05</i>	<i>2005-06</i>
<b>Public inquiries</b>					
Inquiry references received	6	5	3	4	4
Issues papers released	6	4	3	3 <sup>c</sup>	4
Public hearings (sitting days) <sup>a</sup>	24	31	66	26	26
Organisations/people visited	318	191	186	167	151
Submissions received	847 <sup>d</sup>	540	1 221	623 <sup>e</sup>	654
Draft reports <sup>b</sup>	8	1	5	5	2
Inquiry reports completed	9	3	6	4	2
Inquiries on hand (at 30 June)	3	5	2	2	4
<b>Research studies</b>					
References received	3	6	4	3	4
Submissions received	na	262	149	253	608
Draft reports <sup>b</sup>	1	4	1	4	4
Research reports completed	2	7	2	3	4
Studies on hand (at 30 June)	2	1	3	3	3
<b>Total references</b>					
Total references received	9	11	7	7	8
Total references completed	11	10	8	7	6
Total references on hand (at 30 June)	5	6	5	5	7

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



The Commission endeavours to conduct projects in an economical manner, while ensuring rigorous analysis and maximising the opportunity for participation. Total estimated costs (covering salaries, direct administrative expenses and an allocation for corporate overheads) for the six government-commissioned inquiries and research studies completed in 2005-06 are shown in table B.5.

The major administrative (non-salary) costs associated with public inquiries and other government-commissioned projects relate to the Commission's extensive consultative processes and the wide dissemination of its draft and final reports. Comparisons of these costs for the period 2001-02 to 2005-06 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 2005-06<sup>a</sup>**

<i>Government-commissioned project</i>	<i>Total cost</i>
	\$'000
Private cost effectiveness of improving energy efficiency	1 984
Impacts of advances in medical technology in Australia	1 496
Australia's health workforce	1 817
Australian consumer product safety system	605
Conservation of Australia's historic heritage places	851
Economic impacts of migration and population growth	1 534

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

**Table B.6 Direct administrative expenditure on public inquiries and other government-commissioned projects<sup>a</sup>, 2001-02 to 2005-06**

<i>Expenditure item</i>	<i>2001-02</i>	<i>2002-03</i>	<i>2003-04</i>	<i>2004-05</i>	<i>2005-06</i>
	\$	\$	\$	\$	\$
Travel	215 062	381 491	415 835	342 728	381 837
Printing	171 399	91 813	181 435	125 259	151 121
Consultants	106 621	348 974	62 416	31 520	102 695
Other <sup>b</sup>	164 354	245 230	289 234	193 929	310 687
<b>Total</b>	<b>657 436</b>	<b>1 067 508</b>	<b>948 920</b>	<b>693 436</b>	<b>946 340</b>

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

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## 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 2005-06.

In the course of its inquiry work, the Commission held 26 public hearings, visited more than 150 people and organisations and received more than 650 submissions during the year. The heritage inquiry attracted more than 400 submissions in 2005-06. Public hearings were held in all capital cities. Trends in 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. Of particular note this past year is that the total number of submissions to research studies almost matched the number made to public inquiries: more than 340 submissions were made to the health workforce study in 2005-06.

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

- In its study on the impacts of medical technology, the Commission convened a roundtable in July 2005 to discuss future technological advances and the implications of these for health technology assessment with some 15 organisations including health technology assessment agencies, clinicians, healthcare consumer bodies, industry and government agencies.
- Following release of its Discussion Paper on Australia's consumer product safety system in August 2005, the Commission held roundtable discussions in Sydney, Melbourne and Canberra to obtain feedback.
- In the course of its health workforce study, the Commission convened roundtables with allied health professionals and the professional colleges and, to obtain targeted feedback on its Position Paper, organised roundtables in Campbelltown (Western Sydney), Melbourne, Brisbane, Canberra and Alice Springs in October and November 2005.
- Following release of its Position Paper on the economic impacts of migration and population growth, the Commission convened two roundtable discussions in February 2006 encompassing Australian Government departments, the States and Territories, the Business Council of Australia, the Australian Council of Trade Unions and academics.

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- In May 2006 the Commission organised a regional forum in Emerald (Queensland) to discuss potential regional and remote impacts of infrastructure pricing reforms with more than 20 participants — including agricultural and mining infrastructure users, State and local government representatives and service providers — in advance of preparing its Discussion Draft. A second roundtable on key emerging issues in the inquiry was held in June, involving representatives of all governments, industry and a number of transport analysts.
  - A roundtable held in June 2006 of about 40 participants — covering farming organisations, irrigation authorities, government agencies, non-government environmental groups, a water trader and selected experts — exchanged views and provided comments on the Commission’s Discussion Draft on rural water use. The Commission also met with the interjurisdictional Water Trading Group and the National Water Commission to obtain feedback.

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 also increased the opportunities for earlier and less costly public scrutiny of the views and analysis being put to the Commission. There were more than 38 300 external requests for the index pages to submissions and hearing transcripts for inquiries and commissioned studies current in the year to 30 June 2006.

## **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 Commission’s processes enable it to tap external expertise to ensure delivery of quality and robust analysis. For example, the Commission:

- drew on specialist expertise in the case studies it undertook on medical technology impacts;

- 
- hosted a workshop in August 2005 to discuss estimation approaches with a range of Australian Government departments, industry bodies and academics with expertise in migration and labour markets. In November 2005 the Commission asked three independent experts to review and report on its modelling, and that of the Centre of Policy Studies, and their comments were included in the final report on the economic impacts of migration and population growth; and
  - convened a roundtable meeting with injury experts in October 2005 to exchange ideas on the appropriate measurement of injury incidence and cost so as to inform its review of the Australian consumer product safety system.

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

### **Timeliness**

The two inquiries and the four commissioned research studies finalised in 2005-06 were completed on or ahead of schedule, and interim reporting dates, where specified, were also met.

In its communiqué of 3 June 2005, COAG announced that it would seek to have the Commission complete its study on Australia's health workforce in December 2005 rather than by the reporting date of 28 February 2006. The Commission complied in order to facilitate COAG's consideration of the Commission's final report.

At the request of the Commission and with the agreement of the Parliamentary Secretary to the Treasurer, the reporting date for the study on rural water use and the environment was extended by two months to 11 August 2006. Receipt of the six-month reference in mid-December 2005 delayed opportunities for preliminary consultations with key participants until the New Year, submissions by government agencies and utilities were still in preparation, and Western Australia's agreement to join the National Water Initiative expanded the consultation necessary for the study. The extension permitted more careful consideration of the complex issues involved and allowed greater participation of stakeholders in the preparation and review of the Commission's Discussion Draft. The Commission met the August reporting date.

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## 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. During the year the Australian Government announced agreement with all of the Commission's recommendations in the report on the private cost effectiveness of improving energy efficiency and that it would work with the States, through the Ministerial Council on Energy, to consider the Commission's findings and analysis.

With much of the Commission's reporting focusing on cross-jurisdictional policy issues, its impact can also be assessed against COAG, ministerial council and joint Australia–New Zealand government responses to Commission reports. For example:

- The influence of the Commission's 2005 inquiry report on national competition policy reforms is demonstrated by use of its analysis on the benefits of past national competition policy reforms by COAG, working parties that reported to COAG, and COAG's commitment in 2006 to future reforms in many of the areas nominated by the Commission (see chapter 1).
- In May 2006 the Ministerial Council on Energy announced its support for key recommendations in the Commission's 2004 report on the gas access regime.
- In July 2006 COAG announced substantial agreement with measures the Commission proposed to improve the efficiency and effectiveness of Australia's health workforce and to improve its distribution. In addition, COAG also agreed that the Commission be asked to undertake a further review of the health workforce by July 2011.
- The COAG communiqué of February 2006 noted the Commission's 2004 report on reforming building regulation and committed governments to achieving a nationally-consistent Building Code of Australia based on minimum regulation.
- The Memorandum of Understanding Between the Government of New Zealand and the Government of Australia on Coordination of Business Law signed in February 2006 referred to the Commission's 2004 report, *Australian and New Zealand Competition and Consumer Protection Regimes*, and the accompanying review prepared by officials noted progress in implementing the Commission's recommendations.

Governments do not always accept the Commission's advice or may reject it initially. For example, the Government did not support the Commission's preferred policy option of repealing Part X of the Trade Practices Act and subjecting the liner

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shipping cargo industry to general competition law. The Government decided to retain Part X but to amend it, however, in a manner consistent with other options in the Commission's report.

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 suggest 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.

Wider evidence of the contribution of the Commission's inquiry reports and research studies to public policy is found in the following indicators:

- The Prime Minister and Minister for Employment and Workplace Relations referred to the Commission's report on the economic implications of an ageing population in their analysis of workforce participation and skill issues and the limited potential contribution of population policies (Howard 2006; Andrews 2005). The report has also informed policy development by the Opposition and was acknowledged as having made 'a significant contribution to the debate on the inter-relationship between health care spending, health reform and the ageing of Australia's population' (Gillard 2006; McLucas 2006).
- The Treasurer recently drew on analysis in the Commission's 2004 inquiry report on first home ownership (Costello 2006b).
- Commonwealth ministers drew on analysis in the Commission's report on the private cost effectiveness of improving energy efficiency to criticise the decision of the Australian Building Codes Board to adopt 'five-star' energy efficiency measures for residential buildings (Macdonald et al. 2005). Further, the Shadow Minister was also critical of the assumptions and evidence underpinning the ABCB decision and strongly endorsed the Commission's recommendation for an independent evaluation of the effectiveness of energy standards in reducing actual (not simulated) energy consumption and whether the financial benefits to individuals outweigh the associated costs (Ferguson 2006).
- The Parliamentary Secretary to the Treasurer stated that he was working with State and Territory ministers to enhance Australia's consumer product safety system and that 'our efforts will benefit considerably from the excellent work undertaken by the Productivity Commission' (Pearce 2006).

**Table B.7 Impact of Commission inquiry reports on policy making<sup>a</sup>**

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

10	Australia's Gambling Industries (November 1999)	The report was welcomed by the Prime Minister as the first comprehensive investigation of the social and economic impacts of gambling in Australia; it is being used extensively in policy debates in the States and Territories, with a number of its proposals being adopted; and it is the prime reference source on problem gambling for community groups and the media. Five years on, it continues to be the most accessed inquiry report on the Commission's website.
11	Broadcasting (March 2000)	The Government has not formally responded to the report. Nevertheless, the 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 policy analysts and the media continue to cite it regularly. <i>The Government made some references to the report when introducing its Broadcasting Services Amendment (Media Ownership) Bill 2006.</i>
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. 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.
13	Review of Legislation Regulating the Architectural Profession (August 2000)	Responsibility for regulating architects lies with the States and Territories. The Working Group developing a national response to the report rejected the Commission's preferred option to repeal Architects Acts and remove statutory certification. However, it supported a range of Commission proposals to remove anti-competitive elements in legislation regulating the architectural profession.
14	Review of the Prices Surveillance Act (August 2001)	While agreeing to repeal the Prices Surveillance Act, the Government decided to retain more extensive price controls and processes in the Trade Practices Act than recommended by the Commission.
15	Cost Recovery by Government Agencies (August 2001)	The Government's interim response indicated substantial agreement with the Commission's recommendations. Recommendations on the design of cost recovery arrangements and improvements to agency efficiency would be examined in detail with affected agencies and addressed in preparing the Government's final response.
16	Telecommunications Competition Regulation (September 2001)	The Government moved to speed up dispute resolution processes consistent with the Commission's draft report proposals. In its legislative response to the final report, the Government endorsed the thrust of the Commission's recommendations by retaining the telecommunications-specific parts of the competition regime, providing greater upfront certainty for investors and implementing a number of other recommendations. It did not maintain the recommended merit appeal processes.

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Table B.7 (continued)

<i>Inquiry report</i>	<i>Government response to Commission findings and/or recommendations</i>
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 Towing and Related Services (August 2002)	The Government accepted all the Commission's recommendations, with minor modifications relating to the implementation of price monitoring.
25	Review of Automotive Assistance (September 2002)	The Government endorsed the Commission's findings on post-2005 tariff reductions and transitional adjustment assistance for the industry (though with an additional \$1.4 billion, over 10 years, than preferred by the Commission), agreed with many of the Commission's findings on other assistance and industry matters, and announced a further inquiry by the Commission in 2008.
26	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	Review of the Disability Discrimination Act 1992 (April 2004)	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.
31	Review of the Gas Access Regime (June 2004)	<i>The Ministerial Council on Energy supported the Commission's key recommendations.</i>
32	Review of Part X of the <i>Trade Practices Act 1974</i> : International Liner Cargo Shipping (February 2005)	<i>The Government did not support the Commission's preferred policy option of repealing Part X of the Trade Practices Act and subjecting the liner shipping cargo industry to general competition law. The Government decided to retain Part X but to amend it, however, in a manner consistent with other options in the Commission's report.</i>

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Table B.7 (continued)

	<i>Inquiry report</i>	<i>Government response to Commission findings and/or recommendations</i>
33	Review of National Competition Policy Reforms (February 2005)	The Government stated that the response to the Commission's recommendations would be the outcome of COAG's review of national competition policy. <i>COAG drew on the Commission's analysis of the benefits of past national competition policy reforms and important elements of COAG's new National Reform Agenda reflect the Commission's recommendations and approach.</i>
34	Smash Repair and Insurance (March 2005)	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>A Motor Vehicle Insurance and Repair Industry Code of Conduct commenced on 1 September 2006.</i>
35	Australian Pigmeat Industry (March 2005)	The Government in effect endorsed the bulk of the Commission's findings and, importantly, did not commit to additional industry-specific assistance measures.
36	<i>The Private Cost Effectiveness of Improving Energy Efficiency (August 2005)</i>	<i>The Government has announced agreement with all of the Commission's recommendations and that it would work with the States, through the Ministerial Council on Energy, to consider the Commission's findings and analysis.</i>

<sup>a</sup> Additions or significant changes to the table published in the 2004-05 Annual Report are indicated in italics.

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- The Commission's study on the economic impacts of migration, and specifically the link between English language proficiency and labour market participation, were cited in the Government's recent discussion paper on an Australian citizenship test (September 2006).
  - 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 22 separate occasions by Members and Senators in the Federal Parliament in 2005-06, half of which were to the Commission's health workforce study. Reports from previous years were also referred to on 79 occasions (principally the reviews of the national access regime, national frameworks for workers' compensation and OHS, and the ageing report).
    - State and Territory members of parliament referred to Commission inquiries and commissioned research studies on 77 occasions in 2005-06. The health workforce study accounted for nearly 40 per cent of all mentions and the Commission's 1999 report on gambling for a further 20 per cent of mentions.
  - Other examples of the use of Commission inquiry and commissioned research studies include:
    - use of the Commission's ageing, medical technology and health workforce studies by the COAG National Reform Initiative Working Group (2005);
    - numerous references to the Commission's reports on ageing and national competition policy reform in the 2006 OECD Economic Survey of Australia, as well as use of the health workforce study and the Commission's 2001 study on international pharmaceutical price differences;
    - use of the Commission's analysis of the economic implications of an ageing population and the impacts of advances in medical technology by the NSW Government (2006) and the OECD (2006b); and reference to findings in the ageing report by the Australian Securities and Investments Commission (2005), the Federal Sex Discrimination Commissioner (Goward 2005) and the Queensland Health Systems Review (Forster 2005);
    - the statement by the Leader of the Opposition that the Labor Party would be 'paying particular attention to the Productivity Commission's Research Report on Australia's Health Workforce' in developing policies for realigning health workforce roles and creating new roles for nurses and other health professionals (Beazley 2006a);
    - extensive citation of Commission findings on the private cost effectiveness of improving energy efficiency in the report of the Victorian Parliament's

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Environment and Natural Resources Committee (2006) on the energy services industry and in submissions and testimony to the Senate Economics Legislation Committee inquiry on the Energy Efficiency Opportunities Bill 2005; and

- use of the Commission’s report on national competition policy reforms by industry groups such as the BCA (2005b) and the ACCI (2005).

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 40 invitations the Commission accepted in 2005-06 to present papers on inquiries and commissioned studies to business, community and other groups, and in particular, on the Commission’s ageing and health workforce studies (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 2006 there were more than 152 000 external requests for the index pages of inquiries and government-commissioned research studies current in 2005-06. The projects of most interest were the study on Australia’s health workforce (38 700 requests) and the inquiries on heritage (24 800 requests) and waste management (12 700 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 study of the economic implications of ageing Australia were requested nearly 18 700 times and those for the Commission’s 1999 inquiry on Australia’s gambling industries were requested more than 17 800 times.
- Inquiry and commissioned research reports receive extensive media coverage — in 2005-06 there were 38 editorials in major newspapers on Commission inquiries and commissioned research studies. These included 11 mentions of the Commission’s inquiry report on national competition policy reforms and eight mentions of the health workforce study. Other reports cited in editorials were those on the economic impacts of migration, waste management, first home ownership, gambling, ageing, medical technology and the national access regime.
- The Commission’s reports on the health workforce, waste management and economic impacts of migration were amongst the most widely reported during 2005-06, receiving a total of more than 1500 mentions in print and electronic media.

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## **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 2005-06 were:

- 25.1 staff years; and
- \$4.0 million on an accrual basis.

### **Activities in 2005-06**

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

- *Overcoming Indigenous Disadvantage: Key Indicators 2005 Overview* (July 2005);
- *Financial Performance of Government Trading Enterprises, 1999-00 to 2003-04* (July 2005);

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- *Review of Patient Satisfaction and Experience Surveys Conducted for Public Hospitals in Australia* (August 2005);
  - *Feedback on the Report on Government Services 2004*, Secretariat Paper (August 2005);
  - *Report on Government Services 2006*, 2 volumes (and on CD with supporting tables, January 2006); and
  - *Report on Government Services 2006: Indigenous Compendium* (May 2006).

### *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 2002 COAG requested that the Review produce a regular report against key indicators of Indigenous disadvantage. The terms of reference for the report state:

The key task will be to identify indicators that are of relevance to all governments and Indigenous stakeholders and that can demonstrate the impact of programme and policy interventions.

### *Report on Government Services*

The eleventh Report on Government Services was released in January 2006. Reporting is an iterative process and, since the Review published its first Report in 1995, there has been a general improvement in both the scope of reporting and the quality and comprehensiveness of data presented. The Report now emphasises reporting of outcomes, consistent with demand by governments for outcome-oriented performance information, and includes a focus on the equity of government service provision.

Working Groups for all service areas have strategic plans to refine performance measures and to improve the quality of descriptive data and contextual information published in the report.

Report content improved between the 2005 and 2006 reports, with over 47 per cent of indicators fully comparable in 2006 (compared to 44 per cent in 2005). The proportion of indicators with no reporting against them declined from 27 per cent to 21 per cent, while the proportion of indicators reported on, but not fully comparable,

increased from 29 per cent to 32 per cent, largely due to the number of new indicators reported for the first time (figure B.2).

Particular improvements in the 2006 Report included:

- new indicators of quality in the ‘Public hospitals’ chapter — ‘pre-anaesthetic consultation rates’, ‘patient satisfaction’ and ‘sentinel events’;
- additional nationally comparable learning outcomes data in the ‘School education’ chapter;
- new data on the Pharmaceutical Benefits Scheme (PBS), including the ‘availability of PBS medicines’, in the ‘Primary and community health’ chapter;
- indicators of preschool service costs, and hospital admissions resulting from injuries sustained in children’s services in the ‘Children’s services’ chapter;
- indicators of customer satisfaction with State owned and managed Indigenous housing in the ‘Housing’ chapter; and
- an outcome indicator ‘goals achieved on exit from service’ for the Supported Accommodation Assistance Program in the ‘Protection and support’ chapter.

Figure B.2 **Comparability of indicators**

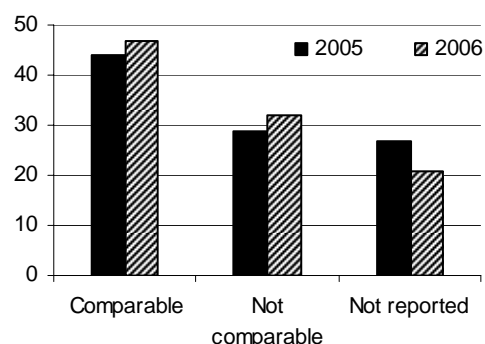


Table B.8 provides an overview of indicators reported on a directly comparable basis across jurisdictions in each service area for the 2006 Report.

The Review continues efforts to improve reporting on service provision to Indigenous Australians in the Report on Government Services. Improvements were made to Indigenous data in the ‘VET’, ‘Primary and community health’, ‘Aged care’ and ‘Housing’ chapters for the 2006 Report. The Indigenous Compendium to the report, released in May 2006, provides an easily accessible collation of all Indigenous data from the Report, and complements the information in the separate *Overcoming Indigenous Disadvantage: Key Indicators* reports.



**Table B.8 Indicators reported on a comparable basis, 2006 Report**

<i>Service area/indicator framework</i>	<i>Indicators with data reported</i>	<i>Indicators reported on a comparable basis</i>	<i>Proportion comparable</i>	<i>Change since last year in number reported on a comparable basis</i>
	no.	no.	%	no.
<i>Education</i>				
School education	12	9	75	–
VET	12	10	83	4
<i>Justice</i>				
Police services	26	13	50	–
Court administration	6	3	50	–
Corrective services	12	10	83	–
Emergency management	15	2	13	–
<i>Health</i>				
Public hospitals <sup>a</sup>	14	5	36	–
Maternity services	10	3	30	–
Primary and community health	22	22	100	2
Breast cancer	11	7	64	–
Mental health	8	4	50	–
<i>Community services</i>				
Aged care services	13	12	92	–
Services for people with a disability	14	8	57	–
Children's services	16	7	44	3
Child protection and out-of-home care	14	4	29	–
SAAP	12	6	50	1
<i>Housing</i>				
Public housing	12	12	100	–
Community housing	10	–	–	–
State owned and managed Indigenous housing	11	11	100	2
Commonwealth Rent Assistance <sup>b</sup>	8	9	89	-3

SAAP = Supported Accommodation Assistance Program. <sup>a</sup> Data previously reported as three indicators have been moved to the descriptive section of the chapter. <sup>b</sup> The performance indicator framework was revised and the total number of indicators reduced (rather than a decrease in comparability). – Nil or rounded to zero.

### *Overcoming Indigenous Disadvantage: Key Indicators*

COAG commissioned the Review to produce this report on a regular basis, 'to help to measure the impact of changes to policy settings and service delivery and provide a concrete way to measure the effect of the Council's commitment to reconciliation through a jointly agreed set of indicators' (COAG Communiqué 5 April 2002).

The *Overcoming Indigenous Disadvantage* report, first published in November 2003, is built on a strategic framework for action in areas of Indigenous disadvantage which has been endorsed by the Australian, State and Territory governments. Following a broad round of consultations, the second edition of the

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*Overcoming Indigenous Disadvantage: Key Indicators* report was published in July 2005.

Both reports confirmed the existence of significant Indigenous disadvantage across an array of areas. A large gap between Indigenous people and the rest of the population is apparent in all of the headline indicators and most of the lower level strategic change indicators. The 2005 report found some areas of improvement since the 2003 report, but also several areas of deterioration. Data limitations meant that no conclusions could be drawn in many areas, although this situation should improve in future reports.

Following the release of the 2005 report, consultations were held with Indigenous people and governments across the country to ensure the ongoing usefulness of reporting. Feedback from these consultations will assist in the production of the next *Overcoming Indigenous Disadvantage: Key Indicators* report, due for release in mid-2007.

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 2005-06 was around \$3.2 million (compared to \$2.9 million in 2004-05).

#### *Performance monitoring of government trading enterprises (GTEs)*

The Commission released its study on the Financial Performance of GTEs for the period 1999-00 to 2003-04 in July 2005.

The subsequent report on a range of financial indicators for 86 enterprises, covering the period 2000-01 to 2004-05, was substantially completed in 2005-06 and published in July 2006. The first outputs of a new three-year research program on the capital management of GTEs were also included in this report.

#### *International benchmarking*

The Commission did not publish any benchmarking research in 2005-06.

### **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.

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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 220 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 has an ongoing program of consultation on the *Overcoming Indigenous Disadvantage report*, meeting with Indigenous organisations and communities, and governments during preparation of the 2003 and 2005 reports, and the forthcoming 2007 report. The Review also engaged an expert Indigenous consultant to review drafts of the 2005 report before publication, and is pursuing a similar strategy for the 2007 report.

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 also distributed draft chapters of its 2006 report on capital structures and equity withdrawals to State and Territory Treasuries for comment.

## **Timeliness**

The 2005 Report on Government Services and its Indigenous Compendium, and the 2005 GTE financial performance monitoring report, were completed on time. The 2005 Overcoming Indigenous Disadvantage report was completed six weeks after its initial planned completion date to allow the inclusion of key data that were supplied by data providers later than expected.

## **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 equity, effectiveness and efficiency of government services and it is used extensively in this regard.

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- The generally positive feedback on the usefulness, credibility, relevance and timeliness of the Report from the May 2004 survey of users and contributors was reported in the Commission's 2003-04 Annual Report. A further survey of users is planned for early 2007.
  - 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 2006 (and earlier) government services reports was used in parliamentary proceedings by government and opposition members in parliaments during 2005-06.
    - In the Federal Parliament, data from the reports were used in relation to vocational education and training, Indigenous affairs, health, aged care, police and court administration.
    - In other parliaments, data from the reports were mentioned 70 times and were used in relation to housing, public health, police staffing numbers, emergency management, disability services expenditure, mental health services, reading and writing numeracy, education, primary health care, aged care, police, corrective services and protection and support.
  - The NSW Auditor-General's (2006a) report on prisoner rehabilitation in NSW incorporated comparative data on re-offending rates for prisoners across jurisdictions and addressed possible reasons for the State having the highest rate of offenders returning to prison. The Auditor-General (2006b) also assessed the extent to which NSW agencies used performance based information to manage services and referred to data supplied for the Report on Government Services.
  - The ACT Auditor-General's (2005) report on courts administration in the Territory noted that the Report on Government Services provided 'authoritative' comparative performance data on courts across Australia and made extensive use of it.
  - The independent review of Queensland Health's systems commissioned by the Queensland Premier cited data from the 2005 Report on Government Services including comparative data on mental health services expenditure, Indigenous health expenditure, public hospital staffing ratios and salary levels (Forster 2005).
  - Data and commentary from the 2006 Report relating to vocational education and training were used by a peak industry body in reporting on the skill challenges facing Australia (AiG 2006).

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- A number of journal articles and government publications across a wide range of disciplines used the Report on Government Services as a source. The report was cited in articles in the *Australian Journal of Public Administration*, *Journal of Judicial Administration*, *Just Policy*, *Australian Economic Review*, *Children Australia*, *Current Issues in Criminal Justice* and *Public Administration Today*.

Other indicators of usefulness from 2005-06 were:

- extensive media coverage of the 2006 Report on Government Services. There were more than 200 press articles drawing on the report and more than 360 mentions of it in electronic media in the period to 30 June 2006. More than 1650 bound copies of the report were distributed by the Commission; and
- more than 13 400 external requests for the index page of the 2006 Report on Government Services on the Commission's website in 2005-06. The 2005 Report on Government Services continued to be accessed from the website by external parties — with over 12 700 requests during 2005-06. There were more than 53 000 external requests for the index pages of Review publications (excluding the *Overcoming Indigenous Disadvantage* report) in 2005-06.

### *Overcoming Indigenous Disadvantage: Key Indicators*

The key task of the *Overcoming Indigenous Disadvantage* report is to identify indicators that are of relevance to all governments and Indigenous stakeholders and that can demonstrate the impact of program and policy interventions. Evidence of the report's ongoing usefulness is demonstrated by the following feedback:

- The Minister for Immigration, Multicultural and Indigenous Affairs welcomed the 2005 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)

- 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 that 'the reports of the Productivity Commission are critically important to establish benchmarks for us to be able to measure the impacts' of programs targeting Indigenous disadvantage (Calma 2005, p. 6).
- The Australian, State and Territory governments are incorporating the indicator framework into their own policies, programs and monitoring. Some States and Territories are using the indicator framework to prepare jurisdictional reports on

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Indigenous outcomes for regular publication. (The 2005 report included an appendix summarising how each jurisdiction was using the framework.)

- The report is stimulating improvements in data collection, consistency and quality. Data gaps identified by the Steering Committee are being targeted for action in national information development plans.
- In July 2006 COAG established a working group to develop a detailed proposal for generational change in Indigenous communities, building clearer links between the Overcoming Indigenous Disadvantage framework, the National Framework of Principles for Delivering Services to Indigenous Australians, the COAG Reconciliation Framework and the bilateral agreements between governments. The NT Chief Minister stated that short and medium term targets 'should be tied to Productivity Commission indicators so we can measure our progress' (Martin 2006).
- More than 3500 bound copies of the 2005 report and 5700 overviews have been distributed by the Commission.
- Feedback from broad consultations with both governments and Indigenous people and organisations since the release of the 2005 Report has been strongly supportive.

More specific evidence of the usefulness of the Overcoming Indigenous Disadvantage reports during 2005-06 includes:

- 15 mentions of the report in the Federal Parliament;
- citations in articles in such journals as the *Journal of Indigenous Policy*, *Indigenous Law Bulletin*, *Drug and Alcohol Review*, *Public Administration Today*, *Issue Analysis*, *Trends and Issues in Crime and Criminal Justice*, *Aboriginal and Torres Strait Islander Health Bulletin* and the *Australian Journal of Social Issues*;
- more than 17 600 external requests to the Commission's website for the 2005 Report and its standalone Overview; and
- extensive media coverage, with 50 printed newspaper articles and 64 electronic media articles in 2005-06.

#### *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.

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- State and Territory governments agreed to ongoing involvement in performance monitoring for another three years, furnishing financial data as well as checking factual data and commentary.

- In commenting on the 2006 GTE report, the Treasurer stated:

The research paper provides an independent and comprehensive analysis of the financial performance of various GTEs, most of which are owned by State and Territory Governments (Costello 2006a).

In particular, the Treasurer noted the data on GTE rates of return and their implication for continued reforms to improve GTE performance. He went on to observe that the Commission's findings:

also underscore the need for continued improvement in key infrastructure areas and reaffirm the importance of the COAG commitment to a new National Reform Agenda, particularly in relation to improving productivity, competition and the efficient functioning of markets.

- The Parliamentary Secretary to the Prime Minister has used data on water utilities from the 2006 GTE report (Turnbull 2006).
- The Australian Government presentation on governance reforms to the OECD Working Group on Privatisation and Corporate Governance of State Owned Assets in January 2006 discussed the Commission's findings and circulated the chapter from the 2005 GTE report, 'External Governance of GTEs'.
- The NSW Auditor-General (2005) cited the Commission's work on the external governance of GTEs in its 2005 report as an authoritative source in a performance audit report on the oversight of state owned electricity corporations.
- A number policy analysts and commentators have written substantive articles in the Australian Financial Review supporting the findings of the Commission's work on external governance.
- A report for Commerce Queensland on the role of government drew on the GTE financial performance monitoring results and supported the Commission's findings on the need for greater transparency in the external governance role of ministers and for public scrutiny of the rationale for public ownership of enterprises (Moore 2005).

The reports on the financial performance of GTEs attracted media attention through the year, were mentioned in three editorials in major metropolitan newspapers and in 2005-06 there were more than 10 300 external requests for the website pages of the 2005 and earlier reports.

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## 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 2005-06*.

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 2005-06 were:

- 17.9 staff years; and
- \$2.8 million on an accrual basis.

On 15 August 2006 the Treasurer announced a number of decisions in response to recommendations made in the Report of the *Taskforce on Reducing Regulatory Burdens on Business* (Costello 2006c). As part of the Australian Government's new regulatory reform agenda, the Office of Regulation Review will have its role and responsibilities enhanced and become the Office of Best Practice Regulation.

The Office of Best Practice Regulation will have a central role in facilitating the Government's strengthened RIS processes which will include, where appropriate, a requirement for enhanced cost-benefit and risk analysis. The Office of Best Practice Regulation will provide departments and agencies with assistance, advice and training regarding the new arrangements, including the application of cost-benefit and risk analysis of regulatory proposals. Responsibility for the Government's Business Cost Calculator, which is used to estimate regulatory compliance burdens on business, is to be transferred from the Department of Industry, Tourism and Resources to the Office of Best Practice Regulation. The new arrangements are to be introduced from October 2006.



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## Activities in 2005-06

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

In 2005-06 the Australian Government introduced 149 Bills and 2497 disallowable instruments into Parliament. In the same period, the ORR received 948 new RIS queries (compared to 851 queries in 2004-05). Of these, the ORR advised that RISs were required in 128 cases.

As shown in table B.9, the number of RIS queries received has been rising since 2003-04, but there has been a steady decline in the number of proposals requiring a RIS and, as a proportion, from 20 per cent of queries in 2003-04 to 16 per cent in 2004-05 to 14 per cent in 2005-06.

While there has been a downward trend in the number of RISs required for proposals finalised each financial year, it was not followed this year. Ninety-six RISs were required at the decision-making stage for proposals that were finalised in 2005-06. (Proposals are finalised when introduced into Parliament or made into law. RISs for these proposals may have been assessed in the 2005-06 or in previous reporting periods.) In 79 cases, RISs were prepared and commented on/assessed by the ORR.

### 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 2005-06 the ORR provided formal training on RISs and regulatory best practice to 367 officials from a wide range of departments and agencies. This compares with 415 officials trained in 2004-05. RIS training was provided to 289 Australian Government officials, 56 officials assisting Ministerial Councils and national standard-setting bodies, and 22 others (including foreign government officials).

In advising Ministerial Councils and national standard-setting bodies on regulatory best practice, the ORR reported on 34 RISs which were to be considered by these decision-making bodies in the twelve months ending 31 March 2006 (compared to 24 RISs in the twelve months ending 31 March 2005). 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).

In monitoring and contributing to regulatory reform developments more broadly throughout Australia and internationally during 2005-06, the Head of the ORR:

- delivered a presentation on regulatory impact analysis to graduate students in the Masters course on Contemporary Theories for Industry Policy at the Australian National University;

**Table B.9 Australian Government regulatory and RIS activities, 2001-02 to 2005-06**

	2001-02	2002-03	2003-04	2004-05	2005-06
	no.	no.	no.	no.	no.
<b>Regulations introduced</b>					
Bills	207	174	150	172	149
Disallowable instruments <sup>a</sup>	1711	1615	1538	2458	2497
<b>Total introduced</b>	<b>1918</b>	<b>1789</b>	<b>1688</b>	<b>2630</b>	<b>2646</b>
<b>RIS workload</b>					
Total number of new RIS queries received by the ORR	709	861	845	851	948
– of which, the ORR advised a RIS was required	175	132	169	134	128
<b>Proposals finalised in 2005-06<sup>b</sup></b>					
RISs required <sup>c</sup>	145	139	114	85	96
RISs prepared <sup>c</sup>	130	120	109	71	79

<sup>a</sup> The large numbers of disallowable instruments reported in 2004-05 and 2005-06 relate, in part, to the commencement of the *Legislative Instruments Act 2003* on 1 January 2005. For example, of the 2857 disallowable instruments tabled in 2005, 365 (12 per cent) were instruments that revoked and remade 11,185 Airworthiness Directives to assist with the back-capturing of these directives under the new rule-making regime introduced under the *Legislative Instruments Act 2003*. <sup>b</sup> Proposals introduced into Parliament or made into law in 2005-06. <sup>c</sup> RISs required and prepared at the decision-making stage.

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- delivered a presentation to the Economic Society of Australia on cost-benefit analysis;
  - delivered a presentation on ‘Best Practice Regulation’ to the Civil Aviation Safety Authority; and
  - attended and delivered presentations to the annual meeting of State, Territory and New Zealand regulation review units in Perth, Western Australia, in December 2005.

The ORR also:

- delivered a presentation on *Improving Australia's Business Environment through Good Regulatory Process* at an international conference on regulatory reform organised by the Korean Development Institute held in Seoul, Republic of Korea on 4 May 2006;
- participated in the selection of consultants to develop a good regulatory practice model for environmental regulations impacting on farmers;
- met with a delegation of officials from the Chinese Government to discuss cost-benefit analysis and its application to the development of Australian transport legislation;
- met periodically with officials from the Regulatory Impact Analysis Unit, Ministry of Economic Development, of the New Zealand Government to discuss regulatory matters of mutual interest;
- provided guidance material on regulatory best practice to the Sustainable Development Unit of the Hong Kong Special Administrative Region Government and to the Regulatory Reform Bureau of the Republic of Korea; and
- met with delegations of officials from the Indonesian Government (Departments of Industry, Trade and Finance), the Brazilian Ministry of Development, Industry and Foreign Trade, and Ofcom, the UK’s independent regulator and competition authority for the communications industry, to discuss a variety of regulatory issues.

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. The report for 2004-05, which was released in October 2005, reported in detail on compliance by Australian Government departments and agencies with the Australian Government’s RIS requirements and compliance by Ministerial Councils and national standard-setting bodies with the COAG requirements. It also discussed perceptions about Australia’s regulatory system, what governments are doing to improve the quality of regulations, and ways to improve regulation making processes. *Regulation and its Review* fulfils the

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Productivity Commission's and the ORR's obligation to report annually on compliance with the Government's regulation review and reform requirements.

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 2005-06 the ORR continued its 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 132 evaluation forms and received 67 responses, a response rate of 51 per cent (compared to 46 per cent in 2004-05). Eighteen respondents (27 per cent) rated the quality of the ORR's written and oral advice as 'excellent' while 34 (51 per cent) rated it as 'good'. Fifteen respondents (22 per cent) considered the ORR's service as 'satisfactory'. Sixteen respondents offered specific suggestions on how the ORR could improve the quality of its advice, including:

- looking to substance more than form when commenting on RISs;
- having a better understanding of the background to issues; and
- making its expectations clearer earlier in the process (for example, not making comments on later iterations of a draft RIS that should have been made on the first or second drafts).

As in previous years, the ORR surveyed the 289 Australian Government officials who received training in regulatory best practice in 2005-06 and 178 responses were received — a response rate of 49 per cent. The responses indicate that the ORR training was well received, with 91 per cent rating the training as either 'excellent' or 'good'

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## 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 issues/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 that the required adequacy criteria are met. In 2005-06 the ORR provided formal feedback (comments on the first draft of the RIS) to departments and agencies, on average, six working days after RISs were received. The ORR provided comments on 92 per cent of all (first draft) RISs received within two weeks.

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 2005-06.

The ORR has delivered all other outputs in a timely manner. For example, it prepared a report to the National Competition Council on compliance with the COAG *Principles and Guidelines for National Standard Setting and Regulatory Action by Ministerial Councils and Standard-Setting Bodies*. This report, which covered compliance for the 12 months to the end of March 2006, 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 96 RISs were required at the decision-making stage in 2005-06, 79 were prepared. Of these, 68 were assessed as adequate (71 per cent

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- compliance). This compares to RIS compliance rates of 80 per cent in 2004-05 and 92 per cent in 2003-04.
- Compliance at the tabling stage was 86 per cent (down from 89 per cent in 2004-05 and 95 per cent in 2003-04).
  - In 2005-06 eight RISs were required at the decision-making stage for regulatory proposals that the ORR identified as having a more significant impact on business and/or the community. In seven cases, RISs were prepared. In each case, the RIS prepared was assessed against the Government's criteria as inadequate. While comparisons of RIS compliance for more significant and less significant proposals over time should be treated with caution, due to the relatively small number of more significant proposals in some years, in only one of the past five years (2003-04), has compliance for more significant proposals exceeded that for less significant ones.
  - RISs tabled in the Parliament with explanatory memoranda or 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 individuals and organisations appearing before parliamentary committees have drawn on the content of RISs.
  - The need for, and content of, RISs were raised in parliamentary discussions on 22 occasions in 2005-06. The mentions covered rules of origin in free trade agreements; the operational separation of Telstra; the quarterly superannuation guarantee regime; heavy vehicle pricing determinations; possible extensions to country of origin labelling of food; terrorist financing; the regulation of national tenancy databases; changes to vessel safety regulation; illegal overseas workers; the Petroleum Retail Legislation Repeal Bill; the Therapeutic Goods Amendment Bill 2005; Financial Services Regulations; and the Treasury Department's RIS compliance in 2004-05.
  - State and Territory government officials contacted the ORR on three occasions during 2005-06 to identify whether proposals complied with COAG RIS requirements, before proceeding with legislation in their State/Territory.

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

- The Commission's Regulation and its Review report received more than 70 mentions in press and electronic media in 2005-06 and was cited in three editorials in major newspapers.
- Approximately 1500 printed copies of *Regulation and its Review 2004-05* were distributed (including copies distributed to each Member of the Parliament).

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- The ORR also provides information on regulatory best practice via the Productivity Commission's website. In 2005-06, there were nearly 18 000 external requests for the ORR home page and more than 3000 requests for *Regulation and its Review 2004-05*. There were 4380 requests for *A Guide to Regulation* and 2330 requests for the *COAG Principles and Guidelines*. The RIS training package (1280 requests) and example RISs (2250 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 2005-06 were:

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

### **Activities in 2005-06**

#### *Complaints activity*

The AGCNCO received four formal complaints during 2005-06 (table B.10). One complaint was carried forward from 2004-05. Details of complaints, including the action taken in relation to these complaints, is reported in appendix D.

**Table B.10 Formal competitive neutrality complaints, 2001-02 to 2005-06**

<i>Activity</i>	<i>2001-02</i>	<i>2002-03</i>	<i>2003-04</i>	<i>2004-05</i>	<i>2005-06</i>
Written complaints received	2	1	9	4	4
Action:					
New complaints formally investigated	1	–	1	–	–
Complaints investigated but not proceeding to full report <sup>a</sup>	1	–	1	–	4 <sup>c</sup>
Complaints not investigated	–	1	6	3	1
Reports completed	5 <sup>b</sup>	–	1	1	–
Complaints on hand (30 June)	–	–	1	1	–

<sup>a</sup> Includes: complaints subject to initial investigation but suspended because on further consideration they did not warrant full investigation and report; and complaints investigated and resolved through negotiation. <sup>b</sup> 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. <sup>c</sup> Two complaints related to the same matter — the pricing of aviation rescue and firefighting services by Airservices Australia.

### *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 2005-06 the AGCNCO provided advice around four times a week, on average, to government agencies or private sector queries either over the telephone or in *ad hoc* meetings.

The AGCNCO provides advice on all aspects of the implementation of competitive neutrality. However, in response to requests over the past year, the Office provided a significant amount of advice to agencies implementing competitive neutrality as part of market-testing exercises. In addition, the Office provided advice to the Departments of Finance and Administration and the Treasury in relation to claims by several government businesses of net disadvantage in areas such as employee entitlements and tax payments.

In December 2005 the Australian Competition and Consumer Commission sought the AGCNCO's advice on possible competitive neutrality issues raised by a draft price notification for Airservices Australia's aviation rescue and firefighting services.

The Office also provided advice to a significant number of private sector parties on the arrangements in place for competitive neutrality complaints at the State, Territory and local government levels.



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## **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 previously, 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.

## **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 nation-wide competitive neutrality policy.

In response to its advice on implementing competitive neutrality as part of market-testing exercises, the AGCNCO understands that agencies adjusted the estimation of their in-house cost bases in line with the Office's advice.

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The Office's report of 2000, *Customs Treatment of Australia Post*, found that aspects of the Customs arrangements did breach competitive neutrality principles and recommended that the value thresholds for formal screening by the Australian Customs Service of *incoming* and *outgoing* postal and non-postal items be aligned. The dollar thresholds for outgoing postal and couriered items were aligned through the *Customs Legislation Amendment and Repeal (International Trade Modernisation) Act 2001*. However, import thresholds on incoming items remained unchanged. Customs Notice No. 2005/57 advised that from 8 October 2005, the value threshold of goods imported by sea and air would be aligned with those imported into Australia by post.

The AGCNCO continues to receive 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. During 2005-06 there were more than 11 000 external requests to the website for AGCNCO investigation reports and more than 800 external requests for 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 2005-06 were:

- 38.6 staff years; and
- \$6.8 million on an accrual basis.

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## Activities in 2005-06

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 2004-05, tabled in Parliament on 31 October 2005, which focused on some determinants of productive reform in Australia's federal system and discussed how cooperative federalism is set to assume greater significance because of the growing interjurisdictional content of the reform task facing Australia; and
  - two companion publications on regulatory developments in 2004-05 and on trade and assistance issues, released in November 2005 and April 2006, respectively;
- a Commission Research Paper on the role of non-traditional work in the Australian labour market;
- the publication of the proceedings two conferences convened by the Commission — on productive reform in a federal system and on quantitative tools for microeconomic policy analysis — as well as the provision of access through its website to presentations made at the *2006 Productivity Perspectives Conference*;
- publication of the Chairman's presentation to the IMF, World Bank and the OECD, *Structural Reform Australian-Style: Lessons for Others?*, as well as six other presentations made by the Chairman and posted on the Commission's website;
- the Richard Snape Lecture, *Will Asian Mercantilism Meet its Waterloo?*, delivered by Martin Wolf, associate editor and chief economics commentator at the Financial Times, on 14 November 2005 and subsequently published;
- five Staff Working Papers on water policy issues, the link between R&D and productivity and trade modelling framework issues;
- two consultancy reports; 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 Martin Wolf was the third in a series of lectures in memory of Professor Richard Snape, the former Deputy Chairman of the Commission and Professor of Economics at Monash University, who 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

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audience. Previous lectures have been delivered by Professor Max Corden and Anne Krueger, First Deputy Managing Director of the IMF.

Consistent with its intention to ensure economic models and frameworks assist the Commission and other researchers analyse major policy proposals, in November 2005 supporting research resources were committed to updating the Monash Multi-Regional Forecasting (MMRF) model. The resources and urgency accorded the project were significantly upgraded following COAG agreement in February 2006 to a substantial new National Reform Agenda embracing human capital, competition and regulatory reform streams and a request that the Commission report to COAG Senior Officials on the potential economic and revenue impacts of the National Reform Agenda by 30 November 2006. The Commission is also collaborating with the COAG Energy Reform Implementation Group on modelling the potential impacts of further reforms.

The Commission's supporting research resources also provided case studies on structural adjustment in Australia's automotive and TCF industries and drew together lessons learned from Australia's experience with broad-based reform as input to the OECD project on Trade and Structural Adjustment. The Commission's contributions were published by the OECD in October 2005 in *Trade and Structural Adjustment: Embracing Globalisation*.

The research publications produced in the supporting research program in 2005-06 are listed in box B.4. Supporting research proposals in 2005-06 were considered against the intention, as outlined in chapter 2, to focus research on the sustainability of Australia's productivity growth, where sustainability is broadly conceived to include fiscal, economic and environmental aspects. Research projects underway at the end of the year are shown in box B.5.

The Commission sees value in the public good aspect of its research and promotes dissemination of its work through publications, internet access and presentations. Summary findings from supporting research publications and details of the 94 presentations given by the Chairman, Commissioners and staff in 2005-06 are provided in appendix E.

## **Quality indicators**

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

For example, the project on econometric modelling of R&D and Australia's productivity was assisted throughout by a reference group comprising representatives of the four Australian Government departments (Treasury; the Department of Communications, Information Technology and the Arts; the

Department of Education, Science and Training; and the Department of Industry, Tourism and Resources), the ABS, the Australian Taxation Office, CSIRO and academics from the ANU and the Australian Defence Force Academy. The reference group provided external expertise and feedback on the project and commented on the Staff Working paper before it was finalised. In addition, Dr Trevor Breusch, an econometrics expert from the ANU, advised on modelling strategy and implementation.

Research projects can involve consulting with key interested parties on the issues they view as important and obtaining access to information. For example, Commission staff consulted interested parties in conducting the studies on irrigation externalities and stranded assets, and sought comments on drafts of papers from experts, CSIRO, the Murray–Darling Basin Commission and the National Water

**Box B.4 Supporting research and annual reporting publications, 2005-06**

***Annual report suite of publications***

Annual report 2004-05	Regulation and its review 2004-05
Trade & assistance review 2004-05	

***Commission research papers***

The role of non-traditional work in the Australian labour market

***Conference/workshop proceedings***

Quantitative tools for microeconomic policy analysis	Productive reform in a federal system
Productivity Perspectives 2006	

***Chairman's published speech***

Structural reform Australian-style: lessons for others?

***Staff working papers***

The Armington Model	Irrigation externalities: pricing and charges
Armington elasticities and terms of trade effects in global CGE models	Econometric modelling of R&D and Australia's productivity
Stranded irrigation assets	

***Consultants' reports***

Quantitative modelling at the Productivity Commission	Measuring the contributions of productivity and terms of trade to Australia's economic welfare
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***2005 Richard Snape Lecture***

Will Asian mercantilism meet its Waterloo?  
(Martin Wolf)

Commission. The Commission visited the Australian Council of Trade Unions, the Australian Chamber of Commerce and Industry, the Australian Government Department of Employment and Workplace Relations and IR Victoria during the course of its study on the role of non-traditional work. The analysis of Armington elasticities drew on the expertise of Visiting Researcher Dr Peter Lloyd, as well as contact with other academic experts.

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, helpful comments were received on a draft of the Commission Research Paper on the role of non-traditional work in

**Box B.5 Supporting research projects underway at 30 June 2006**

Technological and organisational complementarities in firm-level innovation	Modelling of the potential benefits of the National Reform Agenda
ICT and productivity: a sensitivity analysis	Water use in Australian agriculture and farm performance *
Knowledge transfer: the links between overseas R&D and Australia's productivity performance	Australia's productivity gaps: international differences in productivity levels and potential for further catch-up
Influence of infrastructure on productivity	Modelling urban water demand and trade
Experimental measures of productivity change in the education sector	Men not at work (males outside the workforce)
Using the Labour Input Loss Index to inform policy choices	Measuring productivity in health service delivery
Splitting global trade data into homogenous and differentiated products	An alternative to the Armington assumption for models of world trade
Economic modelling for Australia and the USA (ARC Linkage Grant) *	Updating the Monash Multi-Regional Forecasting (MMRF) modelling framework used by the Commission
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](http://www.pc.gov.au).

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the Australian labour market from two experts. Responding to referees' comments enhanced the quality of final research outputs.

Further evidence of the quality and standing of the Commission's supporting research program this year is found in the publication of papers by staff in refereed Australian journals on input-output tables (Gretton 2005), productivity estimates (Parham and Zheng 2006) and productivity analysis (Parham 2005a, b), and in international journals on data envelopment analysis (Salerian and Chan 2005) and on productivity (Parham 2005c).

## Timeliness

The Commission's annual report for 2004-05, including its theme chapter on productive reform in a federal system, was completed on schedule and tabled in Parliament on 31 October 2005. The annual report companion volume, *Regulation and its Review 2004-05*, the Chairman's speech on structural reform and the 2005 Richard Snape Lecture were also published on schedule. Other supporting research publications listed in box B.4 were subject to varying delays in meeting the original completion schedule set by the Commission.

Servicing government projects takes priority and the Commission allocates its resources accordingly. For example, completion of the 2004-05 Trade & Assistance Review was delayed by the secondment of key staff to the secretariat of the Government's Taskforce on Reducing Regulatory Burdens on Business, as well as data availability issues. The priority accorded government-commissioned projects means that a lower priority supporting research project can take longer than anticipated, even though it is delivered within the original budget. Research projects which are not strongly time sensitive can be resourced intermittently.

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. However, the Commission was able to draw on the Staff Working Papers — on irrigation externalities and on stranded assets — in its own research study for the Government, *Rural Water Use and the Environment: the Role of Market Mechanisms*. And although completion of the Staff Working Paper, *Econometric Modelling of R&D and Australia's Productivity*, took longer than originally anticipated, it was finalised in time to inform the current government-commissioned study being undertaken by the Commission on science and innovation.

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## Indicators of usefulness

Evidence of the usefulness of the Commission's supporting research and annual reporting activities in contributing to policy making and to public awareness of microeconomic reform 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 Minister for Finance and Administration commended the discussion of federalism in the Commission's 2004-05 annual report in the following terms:

In proclaiming my commitment to federalism, may I commend the Productivity Commission on its outstanding Chapter on our Federal System of Government in its latest Annual Report.

In an essay entitled 'Productive Reform in a Federal System', the Productivity Commission describes the many virtues of federalism and debunks the centralists' argument that federalism is a barrier to improving the performance of the Australian economy.

As the Productivity Commission so rightly says about Australia '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.' (Minchin 2005)

- The findings from the 2006 Commission Research Paper, *The Role of Non-Traditional Work in the Australian Labour Market*, and the 2001 Staff Research Paper, *Self-Employed Contractors in Australia: Incidence and Characteristics*, were cited by the Government in its regulation impact statement for the package of reforms contained in the Independent Contractors Bill 2006 and the Workplace Relations Legislation Amendment (Independent Contractors) Bill 2006. The 'myth busting' nature of the Commission's findings on the role of non-traditional employment is evident from the two editorials and other newspaper commentary on the Research Paper, and positive support from groups such as the ACCI and the peak industry body, the Recruitment and Consulting Services Association.
- The continuing usefulness of the Commission's stream of research on Australia's productivity performance is demonstrated by widely based references to it. The OECD Economics Department Working Paper, *Product Market Competition and Economic Performance in Australia*, cited 12 different supporting research reports and papers on productivity (Ziegelschmidt et al. 2005). Other examples during the year include reference to Commission analysis of ICT and productivity in the BCA (2006b) innovation report and use of



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Commission productivity analysis by the Australian Industry Group (AiG 2006). The Commission's productivity studies were cited in federal parliamentary debate during the year and in policy papers (for example, Macklin 2006).

- *Trade & Assistance Review*, part of the Commission's suite of annual reporting, is used widely in discussion of industry assistance and trends. For example, around 30 mentions in the WTO *World Trade Report 2006* drew extensively on the assistance data, methodology and coverage issues in the Commission's Review (WTO 2006). The WTO also noted that detailed and comprehensive information on subsidies, easily accessible to the general public, is available only for Australia (the Commission's *Trade & Assistance Review*), Germany (a Ministry of Finance report) and the European Commission (the *State Aid Scoreboard*). The Commission's assistance estimates for tourism and agriculture were used in two NSW Parliamentary Library Briefing Papers (Wilkinson 2005, 2006). Other examples of citations from the past year include an editorial in the Australian Financial Review (May 2006) and by the Agriculture and Food Policy Reference Group (2006).
- The report by the Agriculture and Food Policy Reference Group (2006) to the Minister for Agriculture, Fisheries and Forestry made numerous mentions to findings in the 2005 Commission Research Paper, *Trends in Australian Agriculture*, as well as referring to other supporting research outputs such as the Chairman's speeches. The Australian Treasury's submission to the Reference Group also drew on findings in the Commission Research Paper, the Trade & Assistance Review and Commission research on the links between microeconomic reform and productivity. The National Farmers' Federation (2006) submission to the Australian Fair Pay Commission drew on findings in the Research Paper and it was also cited in four papers presented at the 50<sup>th</sup> AARES Conference in February 2006.
- The recent BCA (2006d) paper, *Water Under Pressure: Australia's man-made water scarcity and how to fix it*, drew extensively on the 2006 Staff Working Paper, *Stranded Irrigation Assets*, in its discussion of barriers to water trading. Staff Working Papers on water trade modelling were cited by the National Water Commission (Thompson 2005), the NCC (2005), CSIRO (Young et al. 2006), the Victorian Department of Treasury and Finance (2005) and the Natural Edge Project during the past year.
- The Commission's trade-related work, especially on measuring barriers to services trade, continued to be used in the work of the Trade Directorate of the OECD during 2005-06 and by other researchers to illustrate the potential for services trade liberalisation. It was also used extensively in analysis published by Sweden's National Board of Trade (Kommerskollegium 2005). The methodology developed in the 1997 Staff Research Paper, *Service Trade and Foreign Direct*

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*Investment*, was used in the work of two OECD Directorates (Food, Agriculture and Fisheries; and Financial and Enterprise Affairs) in 2005-06.

- The 2006 OECD Economic Survey of Australia cited a number of supporting research publications including the federalism chapter in the Commission's 2004-05 annual report, and staff papers on the econometric modelling of R&D and productivity (2006) and directions in State tax reform (1998).
- The Chairman's speeches receive media and editorial coverage and are used by others in policy analysis and debate including in parliament and, for example, by the National Reform Initiative Working Group (2005), the OECD (2006a), the Agriculture and Food Policy Reference Group (2006) and ABARE (Davidson et al. 2005). The Chairman's presentation to seminars at the IMF, World Bank and OECD on the Australian structural reform experience was subsequently made available in published form to assist its dissemination.
- 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. To 30 June 2006, for the reports listed in box B.4, there were more than 22 300 external requests for the index pages on the Commission's website. There were more than 10 700 external requests for speeches given by the Commission's Chairman in 2005-06.



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## C Government commissioned projects

**The nature and breadth of the public inquiries and research studies 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 2005-06 and previous years. It also reports on commissioned projects received since 30 June 2006.

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 2004-05 annual report and indicates where relevant information can be found.

Changes to the procedures for safeguard inquiries by the Productivity Commission are included at attachment C1.

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

<i>Date received</i>	<i>Title</i>	<i>For terms of reference see</i>	<i>Stage of completion</i>	<i>Major findings/ recommendations</i>	<i>Government response</i>
<b>Inquiries</b>					
23-4-04	Review of National Competition Policy Reforms	AR 03-04	Report No. 33 signed 28-2-05	AR 04-05	page 170
13-6-03	Review of the Gas Access Regime	AR 02-03	Report No. 31 signed 11-6-04	AR 03-04	page 167
23-6-04	Review of Part X of the <i>Trade Practices Act 1974</i> : International Cargo Liner Shipping	AR 03-04	Report No. 32 signed 23-2-05	page 168	page 169
31-8-04	The Private Cost Effectiveness of Improving Energy Efficiency	AR 03-04	Report No. 36 signed 31-8-05	page 156	page 157
6-4-05	Conservation of Australia's Historic Heritage Places	AR 04-05	Report No. 37 signed 6-4-06	page 164	na
20-10-05	Waste Management	page 148	In progress	na	na
23-2-06	Road and Rail Freight Infrastructure Pricing	page 150	In progress	na	na
21-3-06	Tasmanian Freight Subsidy Arrangements	page 152	In progress	na	na
6-4-06	Price Regulation of Airport Services	page 152	In progress	na	na

**Other commissioned projects**

29-6-04	Australian and New Zealand Competition and Consumer Protection Regimes	AR 03-04	Report completed 16-12-04	AR 04-05	page 167
15-3-05	Australia's Health Workforce	AR 04-05	Report completed 22-12-05	page 158	page 160
16-3-05	Review of the Australian Consumer Product Safety System	AR 04-05	Report completed 16-1-06	page 161	page 162
25-7-05	Economic Impacts of Migration and Population Growth	AR 04-05	Report completed 24-4-06	page 163	na
2-2-06	Standard Setting and Laboratory Accreditation	page 149	In progress	na	na
10-3-06	Science and Innovation	page 151	In progress	na	
11-8-06	Performance Benchmarking of Australian Business Regulation	page 154	In progress	na	na

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na not applicable. Note: References are to previous annual reports (AR), inquiry and other commissioned studies of the Productivity Commission.

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## Terms of reference for new projects

This section outlines the terms of reference for commissioned projects received since the Commission's annual report for 2004-05 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.

### Waste management

On 20 October 2005 the Treasurer referred waste generation and resource efficiency in Australia to the Commission for inquiry and report within 12 months.

The objective of the inquiry was to identify policies that will enable Australia to address market failures and externalities associated with the generation and disposal of waste, including opportunities for resource use efficiency and recovery throughout the product life-cycle (from raw material extraction and processing, to product design, manufacture, use and end of life management). The inquiry covered resources associated with solid waste, including: municipal waste — for example, household collections, electrical and consumer items — commercial and industrial waste, and construction and demolition wastes. Wastes that exhibit hazardous characteristics and pose an immediate and unacceptable risk of harm to human beings or the environment were not included.

The Commission was to examine ways in which, and make recommendations on how, resource efficiencies can be optimised to improve economic, environmental and social outcomes. This included an assessment of opportunities throughout the product life cycle to prevent and/or minimise waste generation by promoting resource recovery and resource efficiency.

The Commission was to examine and report on current and potential resource efficiency in Australia, having particular regard to:

- the economic, environmental and social benefits and costs of optimal approaches for resource recovery and efficiency and waste management, taking into account different waste streams and waste related activities;
- institutional, regulatory and other factors which impede optimal resource efficiency and recovery, and optimal approaches to waste management, including barriers to the development of markets for recovered resources;
- the adequacy of current data on material flows, and relevant economic activity, and how data might be more efficiently collected and used to progress optimal approaches for waste management and resource efficiency and recovery;

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- the impact of international trade and trade agreements on the level and disposal of waste in Australia; and
  - strategies that could be adopted by government and industry to encourage optimal resource efficiency and recovery.

The Commission was also requested to report on: the effectiveness of performance indicators to measure efficiency of resource recovery practices; the effect of government and commercial procurement practices on optimal resource recovery; and the impacts of government support to production and recovery industries.

### **Standard setting and laboratory accreditation**

On 2 February 2006 the Treasurer requested that the Commission undertake, in the context of Australia's need for an effective and internationally recognised and harmonised standards and conformance infrastructure, a research study reviewing the Australian Government's relationship with Standards Australia Limited and the National Association of Testing Authorities, Australia.

The Commission is to examine and make recommendations on:

- the efficiency and effectiveness of standards setting and laboratory accreditation services in Australia;
- the appropriate role for the Australian Government in relation to standard setting and laboratory accreditation;
- the appropriate terms for Memoranda of Understanding between the Australian Government and its agencies and Standards Australia Limited and the National Association of Testing Authorities, Australia; and
- the appropriate means of funding activities of Standards Australia Limited and the National Association of Testing Authorities, Australia, which are deemed to be in the national interest.

In preparing the report, the Commission is to have regard to:

- the history of the relationship between the Australian Government and bodies that prepare standards and accredit laboratories;
- the cost impact on and benefits to business and the wider community of standards, including in regulation; and
- models in operation overseas.

The Commission has been asked to report within nine months.



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## Road and rail freight infrastructure pricing

On 23 February 2006 the Treasurer referred the economic costs of freight infrastructure and efficient approaches to transport pricing to the Commission for inquiry and report by December 2006.

The purpose of the review is to assist COAG to implement efficient pricing of road and rail freight infrastructure through consistent and competitively neutral pricing regimes, in a manner that optimises efficiency and productivity in the freight transport task and maximises net benefits to the community.

The Commission is to:

- estimate the full financial costs of providing and maintaining freight transport infrastructure on major road and rail networks;
- assess the full economic and social costs of providing and maintaining road and rail freight infrastructure, if it judges this to be feasible;
- investigate options for transport pricing reform, including moving to mass, distance and location charging of freight transport. In considering distance based charging regimes the Commission is to:
  - consider principles and practical options for the structure of the different pricing regimes;
  - estimate the impact of charging regime options, including on transport operators and users and specific locations;
  - consider options for implementing any new pricing regime, including the practical costs and benefits of alternative technology options; and
  - provide advice on options for the design of and timeframes for implementing mass distance location based charging regimes, taking into account adjustment issues. The Commission is not address fiscal implications which will be assessed by governments following the review's completion; and
- identify any other competition, regulatory and access constraints on the economically efficient pricing and operation of road and rail freight transport and related infrastructure networks and assets, including access to and competition between intermodal facilities, and make recommendations on the options for removing these impediments and increasing efficiency.

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## Science and innovation

On 10 March 2006 the Parliamentary Secretary to the Treasurer requested that the Commission undertake a research study on public support for science and innovation in Australia and to report within 12 months. The study complements the ongoing and planned reviews of the Backing Australia's Ability programs.

The Commission is to:

- report on:
  - the economic impact of public support for science and innovation in Australia and, in particular, its impact on Australia's recent productivity performance; and
  - whether there are adequate arrangements to benchmark outcomes from publicly supported science and innovation and to report on those outcomes as measured by the benchmarks;covering all key elements of the innovation system, including research and development, taking into account interaction with private support for science and innovation, and paying regard to Australia's industrial structure;
- identify impediments to the effective functioning of Australia's innovation system including knowledge transfer, technology acquisition and transfer, skills development, commercialisation, collaboration between research organisations and industry, and the creation and use of intellectual property, and identify any scope for improvements;
- evaluate the decision-making principles and program design elements that:
  - influence the effectiveness and efficiency of Australia's innovation system;
  - guide the allocation of funding between and within the different components of Australia's innovation system;
  - and identify any scope for improvements and, to the extent possible, comment on any implications from changing the level and balance of current support; and
- report on the broader social and environmental impacts of public support for science and innovation in Australia.

Although the Commission has not requested to review individual programmes, it can, where necessary, undertake case studies of particular types of public support for science and innovation. It is also to draw on relevant international experience.

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## **Tasmanian freight subsidy arrangements**

On 21 March 2006 the Parliamentary Secretary to the Treasurer referred the current arrangements for subsidising containerised and bulk shipping between the mainland and Tasmania to the Commission for inquiry and report within nine months. The Government wished to undertake an independent review of the Tasmanian Freight Equalisation Scheme and the Tasmanian Wheat Freight Subsidy Scheme to consider the extent of the continuing benefits as well as costs of these schemes.

The Commission has been asked to report on the merits and weaknesses of the current arrangements for subsidising containerised and bulk shipping between the mainland and Tasmania and provide recommendations on an appropriate future approach and/or arrangements.

In making its assessments, the Commission is to:

- report on the characteristics of the freight task for containerised and bulk goods between Tasmania and the mainland of Australia, including a comparison with the freight task between regional centres and metropolitan centres on the mainland and related costs;
- quantify any comparative freight cost disadvantage for goods eligible under the Tasmanian Freight Equalisation Scheme and the Tasmanian Wheat Freight Subsidy Scheme, identify its primary causes and assess the impact of that freight cost disadvantage on Tasmanian business in terms of the cost of business inputs and access to markets on the mainland;
- assess the effectiveness of the current scheme arrangements as a mechanism for addressing any freight cost disadvantage, including identification of the costs and benefits, the impact on stakeholders, and any unintended consequences or distortionary effects of the current arrangements; and
- identify any alternative mechanisms that could more effectively address any freight cost disadvantage, including assessing the full economic costs and benefits of any alternative mechanisms.

## **Price regulation of airport services**

On 6 April 2006 the Treasurer referred current price regulation arrangements for airport services to the Commission for inquiry and report within nine months.

In 2002 the Government introduced a light-handed approach to price regulation of airport services with market power in line with recommendations made by the Commission in its 2002 report, *Price Regulation of Airport Services*. The purpose

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of this inquiry is to examine the effectiveness of the current regulatory regime for airport pricing and to advise on any changes to the regime.

The Commission is to report on whether airport operators have acted in a manner consistent with the Government's Review Principles and on effectiveness of the current form of prices regulation of airports having regard to the objectives that the regulatory regime should:

- promote the economically efficient operation of airports;
- minimise compliance costs on airport operators and the Government; and
- facilitate commercially negotiated outcomes in airport operations, benchmarking comparisons between airports and competition in the provision of services within airports (especially protecting against discrimination in relation to small users and new entrants).

In undertaking its assessment, the Commission is to have regard to the Government's Review Principles which are that:

- At airports without significant capacity constraints, efficient prices broadly should generate expected revenue that is not significantly above the long-run costs of efficiently providing aeronautical services (on a 'dual-till' basis). Prices should allow a return on (appropriately defined and valued) assets (including land) commensurate with the regulatory and commercial risks involved.
- Price discrimination and multi-part pricing that promotes efficient use of the airport is permitted. This may mean that some users pay a price above the long-run average costs of providing aeronautical services, whereas more price-sensitive users pay a price closer to marginal cost.
- At airports with significant capacity constraints, efficient peak/off-peak prices may generate revenues that exceed the production costs incurred by the airport. Such demand management pricing practices should be directed toward efficient use of airport infrastructure and, when not broadly revenue neutral, any additional funding that is generated should be applied to the creation of additional capacity or undertaking necessary infrastructure improvements.
- Quality of service outcomes should be consistent with users' reasonable expectations, and consultation mechanisms should be established with stakeholders to facilitate the two way provision of information on airport operations and requirements.
- It is expected that airlines and airports will primarily operate under commercial agreements and in a commercial manner, and that airport operators and users will negotiate arrangements for access to airport services.

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The Commission is to review aeronautical asset revaluation practices and dispute resolution mechanisms at each of the price monitored airports and advise on improvements that would be consistent with the Government's Review Principles.

In making its recommendations on future price regulation arrangements for airport services, the Commission is to:

- have regard to its findings on the behaviour of airport operators and airlines and the effectiveness of the existing prices and quality of service monitoring of airports;
- identify relevant alternatives to the current arrangements and the extent to which these alternatives would better achieve the Government's objectives in privatising the airports and moving to a light-handed pricing regulatory regime; and
- analyse and, as far as practical, quantify the benefits, costs (including compliance costs) and economic and distributional impacts of the current arrangements and identified alternatives.

To the extent applicable the Commission is to have regard to:

- the Australian Competition Tribunal's decision of 9 December 2005 to declare the airside services at Sydney Airport and subsequent consideration of this matter by the Federal Court; and
- the outcomes of the COAG's 2005 review of national competition policy.

## **Performance benchmarking of Australian business regulation**

On 11 August 2006 the Treasurer requested that the Commission undertake a study on performance indicators and reporting frameworks across all levels of government to assist the COAG to implement its in-principle decision to adopt a common framework for benchmarking, measuring and reporting on the regulatory burden on business.

*Stage 1: Develop a range of feasible quantitative and qualitative performance indicators and reporting framework options*

In undertaking this study, the Commission is to:

- develop a range of feasible quantitative and qualitative performance indicators and reporting framework options for an ongoing assessment and comparison of regulatory regimes across all levels of government.

In developing options, the Commission is to:

- 
- consider international approaches taken to measuring and comparing regulatory regimes across jurisdictions; and
  - report on any caveats that should apply to the use and interpretation of performance indicators and reporting frameworks, including the indicative benefits of the jurisdictions’ regulatory regimes;
  - provide information on the availability of data and approximate costs of data collection, collation, indicator estimation and assessment; and
  - present these options for the consideration of COAG. Stage 2 would commence, if considered feasible, following COAG considering a preferred set of indicators.

The Stage 1 report is to be completed within six months of commencing the study.

*Stage 2: Application of the preferred indicators, review of their operation and assessment of the results*

It is expected that if Stage 2 proceeds, the Commission will:

- use the preferred set of indicators to compare jurisdictions’ performance;
- comment on areas where indicators need to be refined and recommend methods for doing this; and
- provide a final report within 12 months and which incorporates the comments of the jurisdictions on their own performance. Prior to finalisation of the final report, the Commission is to provide a copy to all jurisdictions for comment on performance comparability and relevant issues. Responses to this request are to be included in the final report.

In undertaking both stages of the study, the Commission is to:

- have appropriate regard to the objectives of Commonwealth, State and Territory and local government regulatory systems to identify similarities and differences in outcomes sought; and
- consult with business, the community and relevant government departments and regulatory agencies to determine the appropriate indicators.

A review of the merits of the comparative assessments and of the performance indicators and reporting framework, including, where appropriate, suggestions for refinement and improvement, may be proposed for consideration by COAG following three years of assessments.

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## 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 18 October 2006. It includes terms of reference for those projects commenced and completed in that period and, where available, government responses.

### The private cost effectiveness of improving energy efficiency

Inquiry Report No. 36 signed 31 August 2005, report released 21 October 2005.

The Commission's main findings and recommendations were that:

- Firms and households generally do not deliberately waste energy. But energy has been cheap and is only a small percentage of total outlays for most Australian firms and households. Energy efficiency has not been a high priority for them.
- Compared to other OECD countries, Australia has a relatively high level of energy consumption per unit of output. However, such comparisons can be misleading because of significant differences between countries in climate, energy prices and the size of energy-intensive industries. Australia must achieve the right level of energy efficiency for its own circumstances.
- Many governments see energy efficiency improvements as a low-cost means of reducing emissions of greenhouse gases. However, the scope for achieving environmental gains through increasing the uptake of only those energy efficiency improvements that are privately cost effective appears to be modest at current and expected energy prices.
- The most important barriers to the adoption of privately cost-effective energy efficiency improvements appear to be:
  - a failure in the provision of information; and
  - the different incentives facing those who take decisions about installing energy-efficient products and those who might benefit from using them.
- Some government intervention to address these problems is appropriate. The Commission favours light-handed regulatory responses and information provision, rather than more prescriptive and intrusive approaches:
  - mandatory labelling can be an appropriate way of providing information, but other mandatory measures — such as minimum performance standards — may not be privately cost effective; and

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- a sufficient case has not been made for the imposition of a national energy efficiency target and tradeable obligations.
  - The Ministerial Council on Energy has improved the coordination of energy efficiency programs. Elements of the National Framework for Energy Efficiency Stage One could result in further improvement, particularly if there is:
    - greater clarity as to the objectives of government intervention;
    - more emphasis on priority setting; and
    - rigorous evaluation of past policies and programs including in particular the energy efficiency regulations in the Building Code of Australia.
  - The various educative, suasive and regulatory approaches to encourage or mandate greater energy efficiency continue to conflict with the signals given to energy users by Australia's relatively low energy prices.
  - Some energy efficiency measures may not be privately cost effective, and yet may generate net public benefits because of their environmental outcomes. Those measures may prove to be sound public policy, but they should be considered against other means of achieving those environmental objectives.

### *Government response*

On 28 February 2006 the Australian Government announced agreement with all the Commission's recommendations and that it would work with the States, through the Ministerial Council on Energy, to consider the Commission's findings and analysis (Campbell and Macfarlane 2006).

In brief, the Government:

- agreed that private cost effectiveness would not be a rationale for requiring firms to implement any recommendations arising from the Energy Efficiency Opportunities Assessments;
- agreed that future regulation impact assessments of appliance and equipment regulatory measures would include comprehensive analysis:
  - the Government would ask the Equipment Energy Efficiency program, through the Ministerial Council on Energy, to consider and report on the issues raised by the Commission in its ongoing consideration of process improvements; and
  - the general issues raised by the Commission, regarding the need for more comprehensive analysis in regulation impact assessments of appliance minimum performance standards would be addressed in the Government's response to the report of the Taskforce on Reducing the Regulatory Burden on Business;



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- agreed in principle, following the development of an appropriate methodology and when a sufficient number of building case studies and data are available for evaluation, to commission an independent ex-post evaluation of building energy efficiency standards to determine their effectiveness in reducing actual (not simulated) energy consumption and whether the financial benefits to individual producers and consumers have outweighed the associated costs;
  - supported the investigation of the feasibility of introducing congestion pricing where it is likely to improve the economic efficiency of road use and noted initiatives agreed by COAG on 10 February 2006;
  - agreed that the Australian, State and Territory governments and the Australian Building Codes Board should examine ways to prevent local governments from creating variations in minimum energy efficiency standards for buildings;
  - agreed, in principle, that Stage One proposals of the National Framework for Energy Efficiency that expand the scope of existing programs (to new jurisdictions or products) should only proceed after the net social benefits of those programs has been established and a convincing case can be made for their expansion;
  - agreed that the case for a national energy efficiency target has not been made;
  - noted the Commission's recommendation that any mandated roll out of 'smart' metering devices should be subject to a comprehensive benefit-cost analysis and that it had requested the Ministerial Council on Energy to agree on common technical standards for smart meters and implement the roll-out from 2007 in accordance with an implementation plan that has regard to costs and benefits and takes account of different market circumstances in each State and Territory.

## **Australia's health workforce**

Research Report completed 22 December 2005, report released 19 January 2006.

The Commission's main findings and recommendations were that:

- Australia is experiencing workforce shortages across a number of health professions despite a significant and growing reliance on overseas trained health workers. The shortages are even more acute in rural and remote areas and in certain special needs sectors.
- With developing technology, growing community expectations and population ageing, the demand for health workforce services will increase while the labour market will tighten. New models of care will also be required.

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- Expenditure on health care is already 9.7 per cent of GDP and is increasing. Even so, there will be a need to train more health workers. There will also be benefits in improving the retention and re-entry to the workforce of qualified health workers.
  - It is critical to increase the efficiency and effectiveness of the available health workforce, and to improve its distribution.
  - The Commission's objectives were, therefore, to develop a more sustainable and responsive health workforce, while maintaining a commitment to high quality and safe health outcomes. It proposed a set of national workforce structures designed to:
    - support local innovations, and objectively evaluate, facilitate and drive those of national significance through an advisory health workforce improvement agency;
    - promote more responsive health education and training arrangements through: the creation of an independent advisory council; and a high-level taskforce to achieve greater transparency (and appropriate contestability) of funding for clinical training;
    - integrate the current profession-based accreditation of health education and training through an over-arching national accreditation board that could, initially at least, delegate functions to appropriate existing entities, based on their capacity to contribute to the objectives of the new accreditation regime;
    - provide for national registration standards for health professions and for the creation of a national registration board with supporting professional panels; and
    - improve funding-related incentives for workforce change through: the transparent assessment by an independent committee of proposals to extend Medical Benefits Schedule coverage beyond the medical profession; the introduction of (discounted) Medical Benefits Schedule rebates for a wider range of delegated services; and addressing distortions in rebate relativities.
  - Those living in outer metropolitan, rural and remote areas and in Indigenous communities, and others with special needs, would benefit from these system-wide initiatives.
    - Integration of these groups into mainstream health workforce frameworks will further improve outcomes, but targeted initiatives will also be required.
    - There is a need for better evaluation of various approaches to service delivery in these areas and across the health system more generally.

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### *Government response*

In its communiqué of 10 February 2006, COAG stated its support for the key directions outlined by the Commission and asked Senior Officials to undertake further work on the recommendations and related issues and report in mid-2006.

The COAG communiqué of 14 July 2006 announced substantial agreement with the measures proposed by the Commission and provided a detailed response to the Commission's recommendations (in attachment A). In summary, COAG responded as follows:

- COAG agreed with the Commission's recommendations for enhancing the National Health Workforce Strategic Framework and requested that the Treasurer have the Commission review the effectiveness of reforms and progress against the Strategic Framework by July 2011.
- In response to the Commission's recommendation that an advisory health workforce improvement agency be established to evaluate and, where appropriate, facilitate major health workforce innovation possibilities on a national, systemic and timetabled basis, COAG agreed to establish a taskforce on the national health workforce to undertake studies and advise the Australian Health Ministers' Conference on workforce innovation and reform.
- COAG agreed with the Commission's recommendation that the Australian Government develop an agreement with the States and Territories for the allocation of places for university-based education and training of health professionals within each jurisdiction. The taskforce on the national health workforce would provide advice on opportunities to improve education and training approaches and related issues. COAG also agreed to request that health ministers consider further the Commission's proposal that a taskforce be established to inform understanding of the operation of the clinical training regime and make recommendations to facilitate more transparent, coordinated and contestable clinical training arrangements.
- Consistent with the Commission's recommendations, COAG agreed to establish by 1 July 2008 a single national accreditation scheme for health professional education and training. COAG also agreed that the national scheme assume responsibility for accreditation functions for overseas trained health professionals currently carried out by existing profession-based entities.
- COAG agreed that health professional registration be on the basis of uniform national standards for the profession and, consistent with the Commission's recommendations, agreed that a national registration scheme for health professionals be established by July 2008, commencing with the nine

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professions currently registered in all jurisdictions but possibly extending to other professional groups (for example, Aboriginal Health Workers) over time.

- The Australian Government agreed with the Commission recommendation to extend the range of services for which a rebate is payable when provision is delegated by a practitioner to another suitably qualified health professional. From 1 May 2007, the Government will introduce a new Medicare item for practice nurses, nurse practitioners and registered aboriginal health workers providing ongoing support for patients with a chronic disease for, and on behalf of, general practitioners. However, the Government did not accept the Commission's recommendations for a single independent standing review committee to advise publicly on coverage and rebates under the Medical Benefits Schedule and to review, as a priority, the bias in Medical Benefits Schedule rebates towards procedural medicine that can distort provider behaviour, career choices and location decisions.
- COAG also endorsed Commission recommendations to achieve better focused and more streamlined projections of future workforce requirements; more effective approaches to improving outcomes in rural and remote areas, with the Australian Health Ministers' Conference asked report to COAG by mid-2007 on ways to improve rural and remote health service delivery; and to assist groups with special needs including Indigenous Australians, people with mental health illnesses, people with disabilities and those requiring aged care.

## **Review of the Australian consumer product safety system**

Research Report completed 16 January 2006, report released 7 February 2006.

The Commission's main findings and recommendations were that:

- The current regulatory system plays a necessary and important role in identifying and removing unsafe products through recalls, bans and standards. Overall, the regulatory system in combination with other mechanisms — the market, the product liability regime, media scrutiny and consumer advocacy — deliver a reasonable level of product safety, as expected by Australian consumers.
- Nevertheless, there is considerable scope to make the regulation of consumer product safety more efficient, effective and responsive.
- A strong case exists for national uniformity in the regulation of consumer product safety. Current differences create inefficiencies in a resource constrained environment, including duplication of effort and inconsistent approaches to similar risks and hazards. The preferred model is to have one national law, the

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Trade Practices Act, and a single regulator, the Australian Competition and Consumer Commission.

- If this is not achievable, jurisdictions should harmonise core legislative provisions, including a changed requirement that permanent bans and mandatory standards should only be adopted on a national basis.
- There is also merit in the following legal reforms:
  - including ‘reasonably foreseeable use’ in the definition of ‘unsafe’;
  - ensuring that services related to the supply, installation and maintenance of consumer products are covered by all jurisdictions; and
  - requiring suppliers to report products which are associated with serious injury or death.
- The Commission also proposed a number of administrative reforms, including:
  - consistently making hazard identification and risk management more central to policy making, standard setting and enforcement;
  - improving the focus and timelines for the development of mandatory standards;
  - providing better regulatory information to consumers and businesses through a ‘one-stop shop’ internet portal; and
  - establishing a national clearinghouse for gathering information and analysis from existing sources to provide an improved hazard identification system.
- Efforts to improve the safety of consumer products would also benefit from:
  - conducting a comprehensive baseline study of consumer product-related accidents; and
  - reviewing product recall guidelines.

### *Government response*

The COAG communiqué of 14 July 2006 noted the Commission’s findings and COAG requested the Ministerial Council on Consumer Affairs to develop options for a national system for product safety regulation, without increasing the regulatory burden, and to report back with a recommended approach by the end of 2006.

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## Economic impacts of migration and population growth

Research Report completed 24 April 2006, report released 17 May 2006.

The Commission's principal findings were that:

- Migration has been an important influence on Australian society and the economy affecting the size, composition and geographic location of the population and workforce.
- Recent changes to Australia's migration program include a greater emphasis on skills, increased numbers of temporary immigrants, and more diversification in the country of origin.
- The number of Australians leaving this country, permanently and long term, has risen markedly in recent years. But the number has been considerably smaller than those coming to Australia.
- Economic effects of migration arise from demographic and labour market differences between migrants and the Australian-born population, and from migration-induced changes to population growth.
- However, the Commission considered it unlikely that migration will have a substantial impact on income per capita and productivity because:
  - the annual flow of migrants is small relative to the stock of workers and population and
  - migrants are not very different in relevant respects from the Australian-born population and, over time, the differences become smaller.
- Some effects of migration are more amenable to measurement and estimation than others. Effects that cannot be reliably measured or estimated might still be significant.
  - Positive effects from additional skilled migrants arise from higher participation rates, slightly higher hours worked per worker and the up-skilling of the workforce.
  - Some of the economy-wide consequences lower per capita income, such as capital dilution and a decline in the terms of trade.
  - The overall economic effect of migration appears to be positive but small, consistent with previous Australian and overseas studies.
- In terms of the selection criteria of the Migration Program:
  - the greater emphasis on skills has been associated with better labour market outcomes for immigrants
  - English language proficiency stands out as a key factor determining the ease of settlement and labour market success of immigrants.

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## Conservation of historic heritage places

Inquiry Report No. 37 signed 6 April 2006, released 21 July 2006.

The Commission's main findings and recommendations were that:

- Historic heritage places provide important cultural benefits to the wider community, in addition to the use and enjoyment they provide to their owners and users.
  - To enhance the provision of these benefits, governments at all levels own and manage heritage sites. They also identify, list and provide strong regulatory protection for non-government (privately-owned) heritage places.
- Governments are the custodians of the vast majority of the most significant or 'iconic' heritage places. They also own a very large number of less significant places.
  - Information about the nature and condition of these, and the cost of their conservation, is inadequate. Arrangements for their conservation are often deficient.
  - There is significant scope for governments to improve how they identify and fund the conservation of government-owned places.
- For privately-owned places, the existing arrangements are often ineffective, inefficient and unfair. The system is not well structured to ensure that interventions only occur where there is likely to be a net community benefit.
  - Relying primarily on regulation to protect listed heritage places has resulted in insufficient account being taken of the costs of conserving heritage places when selecting places for listing and insufficient incentives for their active conservation.
  - While the regulations impose few, if any, added costs for many owners, for others, there are significant costs that would not otherwise be incurred, especially for the conservation of redundant structures and where there would otherwise be valuable development options.
  - The most appropriate time to consider the added costs of conservation and to assess net community benefit would be after the assessment of heritage significance and before regulatory control is applied.
- The Commission considered that negotiated conservation agreements should be used for obtaining extra private conservation where the existing systems would impose unreasonable costs on private owners. This should be achieved by providing owners with an additional right to appeal statutory listing which occurs during their period of ownership on the grounds of unreasonable costs.

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## **Rural water use and the environment: the role of market mechanisms**

Research Report completed 11 August 2006, released 25 August 2006.

On 13 December 2005 the Treasurer requested that the Commission undertake a research study to assist jurisdictions in implementing their commitments under the Intergovernmental Agreement on a National Water Initiative (NWI). The NWI sets out objectives, outcomes and actions for the ongoing process of national water reform, and timelines to achieve this reform. This terms of reference relates to the study described in clause 61 (iii) of the NWI.

In undertaking the study the Commission was to:

- assess and report on the feasibility of establishing workable market mechanisms:
  - to provide practical incentives for investment in rural water-use efficiency and water related farm management strategies; and
  - for dealing with rural water-management related environmental externalities;
- take into account relevant practical experiences in other areas, such as with establishing tradeable salinity and pollution credits;
- recognise that the purpose of the study is to support the parties in achieving the water markets and trading outcomes and actions under the NWI; and
- consult with signatories to the NWI (including through the inter-jurisdictional water trading group) and the National Water Commission.

The Commission was to report initially within six months. However, the reporting date was subsequently extended by the Government to 11 August 2006.

The Commission's main findings and recommendations were that:

- Markets are already making a significant contribution to increasing rural water-use efficiency. But further reform is needed to ensure that water continually moves to its highest value uses (including environmental uses).
- Market mechanisms to address environmental externalities need to be targeted to location and scale — no 'one size' fits all. Poorly designed programs can impose high costs that may outweigh potential gains.
- Appropriate arrangements for environmental managers should be established as soon as is practical based on a comprehensive review of different institutional structures. They need clearly defined objectives, good coordination processes and adequate resources. They need to enter markets to source water and to



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access the full range of water and water-related products on the same terms and conditions as other market participants.

- ‘Saving’ water via major infrastructure works is often costly compared with other options and may reduce water available for other uses.
- Subsidies that seek to improve the uptake of particular technologies or practices solely to increase the productivity of water use are likely to be inefficient.
- The Living Murray Initiative could be implemented more effectively if current efforts to source water ‘permanently’ are supplemented with additional water products (such as seasonal allocations, leases and options contracts). Appropriate institutional arrangements should be put in place to establish an agency specifically charged with purchasing a portfolio of water products to suit the needs of environmental management in the River Murray.
- Using administrative arrangements to allocate water for environmental purposes conceals the opportunity cost of meeting environmental targets. Market mechanisms are usually a more efficient means of re-allocating resources.
- Climate change, farm dams, vegetation and land-use changes, groundwater extraction, and changes to irrigation water management, have the potential to reduce stream flows substantially. In the Murray–Darling Basin, such reductions undermine efforts to achieve environmental goals and can affect the reliability of existing entitlements. Priority should be given to refining and clarifying existing property rights, undertaking further research on water systems and improving water accounting.
- There are opportunities to improve entitlement regimes through unbundling of water entitlements and water-use approvals, and facilitating efficient intertemporal water-use decisions. Separating delivery entitlements from water entitlements may also be beneficial where there is congestion in water delivery.
- A number of impediments to water trade reduce economic efficiency and should be removed. In particular, governments should:
  - enable other participants to trade in water markets
  - open up interdistrict water entitlement trade, and remove exit fees.

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## **Government responses to reports from previous years**

### **Review of the gas access regime**

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

On 9 May 2006 the Ministerial Council on Energy announced its support for the key recommendations made by the Commission (MCE 2006). Legislative amendments to the Gas Access Regime are to include the introduction of an overarching objects clause to clarify the objectives of the Regime, alignment with the National Access Regime and the introduction of a light-handed regulatory option. An option of a full regulatory exemption from regulation for 15 years, in the form of a binding no coverage ruling for proposed pipelines that do not meet the coverage criteria, will also be introduced to provide an incentive for greenfields pipelines. The Commission's 2004 report preceded or was concurrent with broader reforms in the energy sector. Although endorsing the broad themes in the Commission's report, the Ministerial Council adopted some variants of specific Commission recommendations, in part, to achieve a national approach to energy access across electricity and gas transmission and distribution. The Ministerial Council did not respond to the Commission's recommendations specifically about modifying regulations governing the application of price regulation, instead referring them to an expert panel (which reported in April 2006). The Ministerial Council has announced that its response to the expert panel's recommendations will be addressed through the explanatory material accompanying the release of the exposure draft of the National Electricity Law and National Gas Law, expected later this year.

### **Australian and New Zealand competition and consumer protection regimes**

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

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).

The Memorandum of Understanding Between the Government of New Zealand and the Government of Australia on Coordination of Business Law signed in February 2006 explicitly referred to the Commission's report. The accompanying review prepared by officials noted that, consistent with the Commission's recommendations:

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officers and regulators continue to work towards further integration of the two regimes; a single track procedure for those businesses requiring competition authority approval in both jurisdictions was being progressed; and the Australian Treasury and the New Zealand Ministries of Economic Development and Consumer Affairs have agreed to regular meetings to keep abreast of consumer and competition policy initiatives in each country. Progress in implementing Commission recommendations to improve the information-sharing powers of the respective regulators (the ACCC and the NZ Commerce Commission) and examine the scope for cross-appointments and greater cooperation between the regulators was also noted.

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

Inquiry Report No. 32 signed 23 February 2005, released 5 October 2005.

Part X of the Trade Practices Act gives immunity to ocean carriers which provide liner cargo shipping services to Australian shippers (exporters and importers) to form agreements for the joint supply and pricing of such shipping services. Designated shipper bodies are also given immunity to consult and negotiate collectively with carriers.

The Commission's main findings and recommendations were that:

- The immunities provided under United States and European Union regulations have recently been narrowed in scope as part of a move to more pro-competition arrangements.
- The wide variety of agreements registered under Part X have varying potential to provide a net public benefit for Australia, depending on the nature of the agreement and their impact on competition in the trade routes on which they operate.
  - Agreements on operational matters, such as joint scheduling and use of shipping assets, can, in principle, offer significant cost savings and pose little anticompetitive risk.
  - Agreements which fix prices and control the supply of shipping to a trade route pose the greatest anticompetitive risks.
- Evaluation and selective registration of agreements is therefore necessary if Australia is to be confident that only those that provide a net public benefit are allowed to operate.

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- The Commission considered that the most effective way to introduce selective approval of carrier agreements would be to repeal Part X and, as occurs for other industries, rely on authorisation under Part VII of the Trade Practices Act. Under Part VII, agreements would be assessed individually on the basis of their net public benefit by the Australian Competition and Consumer Commission.
  - Authorisation under Part VII was the Commission's preferred option. With a four-year transitional arrangement, repeal of Part X should not disrupt the provision of liner cargo shipping services to or from Australia. It is clear from overseas experience that the industry is capable of adapting effectively to new rules.
  - If Part X was not repealed, the current arrangements could be improved by either:
    - (i) selectively registering only agreements that do not contain provisions to discuss or set prices and/or limit capacity offered on a trade route, and by revoking registration for those that do; or
    - (ii) excluding from registration, and by revoking the registration of, 'discussion agreements', together with providing for the protection of confidential individual service contracts between carriers and shippers.
  - If no selectivity were introduced for the registration of agreements under Part X, some improvement to current arrangements could be made by providing for the protection of confidential individual service contracts between carriers and shippers.

### *Government response*

On 4 August 2006 the Government announced that it had decided to retain Part X but to amend it in a manner consistent with recommendations in the Commission's report (Costello and Truss 2006). In particular, the Government supported Commission recommendations to:

- clarify the principal objectives of Part X;
- remove discussion agreements from its scope;
- protect from disclosure confidential individual service contracts between carriers and shippers; and
- include a net public benefit requirement in the review of registered agreements, introduce penalties for breaches of the procedural provisions of Part X and limit the use of undertakings.

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The Commission's preferred policy option — to repeal Part X and subject the liner cargo shipping industry to the general provisions of the Trade Practices Act, albeit with transitional arrangements — was not supported by the Government. Nor did the Government agree to remove the scope for Ministerial discretion in cancelling the registration of an agreement under Part X.

## **Review of national competition policy reforms**

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

When releasing the report, the Government indicated that the response to the Commission's recommendations would be made through COAG's own subsequent review of national competition policy.

In June 2005 COAG agreed to Senior Officials reviewing the effectiveness of the existing national competition arrangements and considering a possible new national reform agenda. The review was to draw from, but not be limited by, the Commission's report. The influence of the Commission's report can be seen in the way the papers prepared for COAG drew on Commission analysis of the benefits of, and lessons learned from, national competition policy and the key elements needed in a future reform program (NCP Review Working Group 2006 and the National Reform Initiative Working Group 2005).

The COAG communiqué of February 2006 drew on the Commission's analysis of the benefits of past national competition policy reforms and important elements of COAG's new National reform Agenda reflect the Commission's recommendations and approach. See also chapter 1 of this annual report.

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## Attachment C1

### **Amended procedures for safeguard inquiries by the Productivity Commission**

On 25 June 1998 the Australian Government gazetted general procedures for inquiries by the Productivity Commission into whether safeguard action is warranted under the Agreement establishing the World Trade Organization. The gazetted notice was reproduced in the Commission's annual report for 1997-98 (attachment C1, pp. 121-4).

On 5 October 2005 the Australian Government gazetted amendments to these general procedures in order to comply with the provisions of the Australia-United States Free Trade Agreement, the Singapore-Australia Free Trade Agreement and the Thailand-Australia Free Trade Agreement. The Gazette Notice of 5 October 2005 is attached.

As a consequence of the amendments, the 'Conditions' section of the safeguard inquiry procedures now states:

- 4 The Commission is to report on whether the product under reference is being imported into Australia in such increased quantities, absolute or relative to domestic production, and under such conditions as to cause or threaten to cause serious injury to the domestic industry that produces like or directly competitive products.
- 5 Safeguard measures have to be applied to a product being imported irrespective of its source, except:
  - (a) product determined to be of New Zealand origin pursuant to the Australia New Zealand Closer Economic Relations Trade Agreement, which shall be excluded; and
  - (b) product originating in a developing country Member of the WTO shall be exempted from such measures as long as its share of imports of the product concerned does not exceed 3%, provided that developing country Members of the WTO with less than 3% import share collectively account for not more than 9% of total imports of the product; and
  - (c) product determined to be of Singapore origin pursuant to the Singapore Australia Free Trade Agreement, which shall be excluded; and
  - (d) product determined to be of United States origin pursuant to the Australia United States Free Trade Agreement, which may be excluded

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if those imports are not a substantial cause of serious injury, or threat thereof; and

- (e) product determined to be of Thai origin pursuant to the Thailand Australia Free Trade Agreement, which may be excluded if those imports are not a cause of serious injury or threat thereof or of serious damage or actual threat thereof.



## **Amendment of general procedures for inquiries by the Productivity Commission into whether safeguard action is warranted under the Agreement establishing the World Trade Organization**

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In order to comply with the requirements of the Singapore Australia Free Trade Agreement, the Australia United States Free Trade Agreement and the Thailand Australia Free Trade Agreement, this notice amends the General procedures for inquiries by the Productivity Commission into whether safeguard action is warranted under the Agreement establishing the World Trade Organization Instrument.

*Note* The general procedures were published in Commonwealth *Gazette* No S 297 of 25 June 1998, and notified to the World Trade Organization. The general procedures relate to inquiries into safeguard action by the Productivity Commission in respect of a reference under Parts 2 and 3 of the *Productivity Commission Act 1998*.

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## Amendments

(section 3)

**[1] Paragraph 5 (a)**

*omit*

which shall be excluded from the inquiry; and

*insert*

which shall be excluded; and

**[2] Paragraph 5 (b)**

*omit*

imports of the product.

*insert*

imports of the product; and

**[3] After paragraph 5 (b)**

*insert*

- (c) product determined to be of Singapore origin pursuant to the Singapore Australia Free Trade Agreement, which shall be excluded; and
- (d) product determined to be of United States origin pursuant to the Australia United States Free Trade Agreement, which may be excluded if those imports are not a substantial cause of serious injury, or **threat thereof**; and
- (e) product determined to be of Thai origin pursuant to the Thailand Australia Free Trade Agreement, which may be excluded if those imports are not a cause of serious injury or **threat thereof or of serious damage or actual threat thereof**.



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## 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 2005-06. Details of the action taken in relation to these complaints, and complaints on hand from the previous year, are summarised in this appendix.

### Complaints on hand from 2004-05

#### 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.

Following initial investigation and consultation with interested parties, the AGCNCO determined that, while COMCAR charges for its services, it nevertheless has no discretion to refuse to supply 'Guest of Government' transport services up to certain limits, or to vary its price for doing so (COMCAR's charging structure is set by the Government). COMCAR's activities in this area were therefore found to fail the business activity test and the complaint did not proceed to full investigation and report.

However, in considering the complainant's specific concern that they were prevented from competing with COMCAR for 'Guest of Government' work, advice received from the Department of the Prime Minister and Cabinet was that the policy on such work is that, the Australian Government covers expenses for a maximum of

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four vehicles for visits to Australia by Heads of Government and Heads of State, and for a maximum of two vehicles for visits by Ministers. Beyond this there are *no* restrictions on the source of vehicle supply. The provision of cars for ‘Guest of Government’ work beyond these mandated levels is therefore fully contestable, with the only issue being that additional vehicles must be placed after government supplied vehicles in a motorcade for security reasons. The complainant and the Departments of Finance and Administration and Prime Minister and Cabinet, were advised of this outcome.

## **Complaints received in 2005-06**

### **ACT College of Natural Therapies**

The AGCNCO received a written complaint from the ACT College of Natural Therapies in July 2005 asking that it investigate the commercial activities of the Canberra Institute of Technology (CIT). The complainant alleged that the CIT were offering courses in natural therapies in direct competition with private sector providers at unrealistically low prices and that this represented a breach of competitive neutrality. Following initial inquiries, the AGCNCO found that the CIT is a statutory authority established under the *ACT Institute of Technology and Further Education Act 1987*, and that its activities therefore fall under the jurisdiction of the ACT Government rather than the Australian Government. The complainant was therefore referred to the Independent Competition and Regulatory Commission in the ACT.

### **Australian Mayoral Aviation Council**

In August 2005 the AGCNCO received a complaint from the Australian Mayoral Aviation Council (AMAC) alleging a lack of neutrality between the regulatory regime applying to commercial land on airports and surrounding land subject to local council requirements.

In examining this complaint, the Office assessed whether the leasing arrangements for Commonwealth land constitute a business activity. It found that the 99 year leases for airport land are more appropriately characterised as a sale of land subject to a regulatory regime, rather than the Department operating a business activity. The AGCNCO therefore found that, as the airports in question were privately operated and the Australian Government did not have a business entity in leasing airport land, the activities in question did not meet the criteria for full investigation.

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While the complaint did not proceed to full investigation, the Office considered that it raised a number of significant broader public policy matters, including that:

- Airport Lessee Companies are effectively the developer, assessor and approver for developments on airport land; and
- since privatisation, airports appear to be undertaking developments on adjacent land that may not be consistent with local council planning and land use legislation.

These matters were drawn to the attention of the Department of Transport and Regional Services and the Parliamentary Secretary to the Treasurer for further consideration.

### **Greyhound Australia**

In March 2006 the AGCNCO received a complaint from Greyhound Australia requesting that it investigate the pricing of aviation rescue and firefighting services (ARFF) by Airservices Australia. The complainant claimed that the pricing structure introduced by Airservices on 1 January 2006 (as approved by the Australian Competition and Consumers Commission) for the provision of ARFF services represented a breach of competitive neutrality. Specifically, Greyhound Australia alleged that the new pricing structure introduced for ARFF services acted to reduce the cost of airline operations in regional Australia and impaired its ability to compete on regional routes in providing bus services.

Following consultation with the relevant parties, the AGCNCO found that the activities of Airservices Australia can be separated into two categories:

- regulated monopoly services (including ARFF services and Air Traffic Control) which operate in non-contestable markets; and
- other commercial business activities which (in most cases) operate in a competitive environment.

Under the current regulatory arrangements, the provision of ARFF services is restricted by Government policy — Airservices is a monopoly provider of ARFF services. As such, the provision of ARFF services by Airservices Australia failed the business test criteria which requires that there be actual or potential competitors.

A further related concern raised by Greyhound Australia was that the current cost allocation and pricing methodology for network-based ARFF charges did not conform to the pricing principles recommended by the AGCNCO. In relation to this issue the AGCNCO noted that a key issue for compliance with competitive neutrality, as set out in the Office's 1998 *Cost Allocation and Pricing* paper, is that

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the prices set by a stand-alone government business, over all of its products and services, generate sufficient revenue to cover all relevant costs and yield a commercially acceptable rate of return. The AGCNCO noted that the paper does not deal with product or location-specific pricing issues. The complainant, Airservices Australia and the Parliamentary Secretary to the Treasurer were advised of this outcome.

### **Board of Airlines Representatives of Australia**

In March 2006 the Board of Airline Representatives of Australia (BARA) also placed a complaint with the Office concerning the pricing of ARFF services by Airservices Australia. BARA claimed that Airservices Australia had breached its competitive neutrality obligations, alleging that Airservices were charging below the incremental cost of providing ARFF services at regional locations. Also, that Airservices' current charges exceeded the stand alone cost of providing these services at major airports. BARA alleged that 'in effect, international airlines are now required to subsidise the activities of airlines operating at regional locations'.

As with the complaint lodged by Greyhound Australia, the BARA complaint did not proceed to full investigation and report. In responding to this complaint, the Office considered the current regulatory arrangements described above for the provision of ARFF services and noted the current lack of contestability in the market for the provision of ARFF services due to Government policy. BARA, Airservices Australia and the Parliamentary Secretary to the Treasurer were advised of this outcome.

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## E Supporting research and related activities

The Commission's supporting research program encompasses a range of activities. This appendix provides brief summaries of Commission Research Papers, Conference Proceedings, Staff Working Papers and consultancy reports released in the year. It also lists the presentations given by the Chairman, Commissioners and staff to parliamentary committees, conferences and industry and community groups in 2005-06, as well as briefings to international visitors.

### **Commission research papers**

#### **The role of non-traditional work in the Australian labour market**

*May 2006*

The Commission found that, contrary to conventional wisdom, the growth of non-traditional employment in recent years has been in step with that of the workforce in general. Drawing on the HILDA survey, this study also demonstrated the diversity of circumstances of those in non-traditional jobs and the dangers of making generalisations about their job satisfaction or wellbeing. The major forms of non-traditional work considered in this paper were casual employees, fixed-term employees, labour hire employees and self-employed contractors. Key points from the paper were:

- Around 3.3 million people were engaged in non-traditional work in 2004, representing approximately one third of all employed people. Overall, this number had grown since 1998, but non-traditional work's share of the total workforce remained largely unchanged.
  - Casual employment is the largest non-traditional form of employment (1.9 million in 2004 or 20 per cent of all employed persons). Growth was rapid between 1998 and 2001, but has slowed since, resulting in a stable share of the employed population.

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- Self-employed contractors (0.8 million in 2004), fixed-term employees (0.6 million) and labour hire employees (0.3 million) are less common forms of non-traditional work. Their total number grew between 1998 and 2001, but has subsequently levelled off. Their combined share of the total workforce fell between 2001 and 2004.
  - There are significant differences between non-traditional workers:
    - Some, like fixed-term employees, closely resemble ongoing employees in many respects, such as education and skills. Casuals, by contrast, are typically less skilled.
    - Fixed-term employees, and students and mothers employed as casuals, mostly declare themselves to be satisfied with their employment circumstances. Prime working age males, a small proportion of all casual employees, are often recorded as less satisfied.
  - Non-traditional work is mostly a temporary or transitory experience, except for a few groups of casual employees, such as women with children. For many people who are not currently employed, non-traditional work provides a means of gaining employment and a stepping stone to ongoing employment.
    - There is merit in encouraging those outside the labour force to seek non-traditional work, if they cannot obtain ongoing work. However, particular attention should be paid to ‘at risk’ groups, so that they do not revert to unemployment or exit the labour force.
  - For one in four families, non-traditional work is the main source of wage income. Such families are found in all income deciles, indicating that reliance on non-traditional work for wage income is not synonymous with low family income.
    - Families which receive most of their wage income from non-traditional work tend to be less reliant on wage income than other families. Their income is supplemented by government transfers (lowest two deciles) or non-government, non-wage income (other deciles). This suggests that any wage differentials between traditional and non-traditional workers are only partly reflected in total income differences between their families.
  - Whether non-traditional work is associated with lower worker wellbeing needs to be assessed in relation to the personal circumstances of individuals in particular socio-demographic groups, and over the course of time.

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## Conference/workshop proceedings

*Note: The views expressed in conference and workshop proceedings do not necessarily reflect the views of the Productivity Commission.*

### Quantitative tools for microeconomic policy analysis

*Conference proceedings, September 2005*

The Commission held a two day conference on quantitative tools for microeconomic policy analysis in November 2004 and this volume contains the 13 conference papers. The aim of the conference was to explore how new modelling techniques can improve policy analysis and decision making.

Policy modelling has played an important role in the work of the Productivity Commission and its predecessors over the years. Reform can be disruptive and costly to some. Gaining some assurance that the beneficial impacts will justify such costs is critical to developing and selling proposals for policy change. Quantitative models cannot replicate reality, but they can provide us with a better understanding of the ramifications of policy changes. Over time, increased access to and understanding of sophisticated quantitative modelling have improved the basis for policy decisions.

The six conference sessions covered:

- estimating policy effects — computable general equilibrium models;
- labour markets and human capital — discrete choice models;
- evaluating microeconomic policies — experimental techniques;
- productivity measurement;
- assessing health and ageing policies using micro simulations; and
- trade and welfare modelling.

### Productivity perspectives 2006

*Conference papers, March 2006*

The Australian Bureau of Statistics and the Productivity Commission held a one-day productivity conference in Canberra in March 2006. The program examined Australia's productivity performance from a mix of analytical, measurement and policy perspectives. Conferences in the Productivity Perspectives series are held

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about 18 months apart. They provide a forum for analysts, statisticians, policymakers and economic commentators to be briefed on, and to discuss, recent trends in Australia's productivity performance, the factors affecting productivity performance and the implications for the welfare of Australians.

The 2006 presentations covered international economic developments from the perspectives of productivity, competitiveness and employment creation; explored recent trends in Australia; and canvassed the outlook for productivity growth and future directions in measurement and analysis.

Conference presentations and associated materials were made available on the Commission's website.

## **Productive reform in a federal system**

### *Roundtable proceedings, April 2006*

The federal structure of Australia's political system significantly influences many areas of public policy and their implementation. The current state of federalism and the scope for improving the operation of Australia's federation have been prominent and, at times, controversial topics of debate.

The Commission hosted a roundtable in October 2005 on productive reform in a federal system. The roundtable provided an opportunity for key issues bearing on national reform to be discussed in the lead-up to the COAG meeting in February 2006 which sought agreement on a post-national competition policy reform agenda.

The roundtable first examined some generic issues associated with federal systems and their operation in principle and practice. The roundtable then explored opportunities for improving outcomes in the key areas of health, the labour market and freight transport. The final session harvested ideas about ways forward.

This publication was prepared to enable wider dissemination and consideration of the ideas and insights that emerged from the roundtable. It included the papers prepared by the speakers as well as the responses of the discussants and panellists and summaries of the general discussion sessions. Also included was an overview covering the key points raised by the speakers and other participants. Roundtable invitees included senior government officials, consultants, academics, and representatives from industry and community groups.



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## 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.*

### The Armington Model

*Peter Lloyd & Xiao-guang Zhang, January 2006*

The Commission developed a research program on the role of Armington elasticities in quantitative models that are commonly used to analyse trade issues. Armington elasticities specify the degrees of substitution in demand between similar products produced in different countries. They are critical parameters which, along with model structure, data and other parameters, determine the results of policy experiments. Especially when many tariffs are small, trade liberalisation simulations can produce positive or negative welfare outcomes depending on the values assumed for Armington elasticities.

The research program was designed to improve the effectiveness of models used in analysing various options for unilateral, bilateral and multilateral liberalisation. The purpose of this paper was to explore how models adopting the Armington formulation differ from traditional models, in their quantitative properties and underlying theory of trade. The key points of the paper were:

- Multi-country computable general equilibrium models used to analyse tariff and trade policy changes typically incorporate the Armington structure which differentiates commodities by their country of origin (national product differentiation), and assumes them to be imperfect substitutes for each other.
- In contrast to the well-known Heckscher-Ohlin model, relatively little is known about ‘Armington models’ and their properties despite their wide acceptance among model builders and policymakers. This makes it difficult to interpret the trade and welfare results that might arise from trade liberalisation simulations that are based on Armington models.
- Introducing the Armington structure changes fundamentally the properties of a trade model regardless of the values assumed for the elasticities of substitution between imported and domestically produced goods. In particular:
  - there is no comparative advantage and hence no gains from trade due to product specialisation;
  - the number of products is fixed and hence there are no gains from trade due to increased product variety; and
  - large terms of trade effects tend to offset other gains from trade.

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- As a consequence of these properties, Armington models tend to understate the gains from tariff and trade policy liberalisation.
  - A numerical, 3-good, 3-country modification of the Global Trade Analysis Project model was used to illustrate these properties. Compared to a Heckscher-Ohlin model, a unilateral across-the-board cut in tariffs in an Armington model results in:
    - a larger shift in consumption from domestically produced goods to imported goods;
    - a larger decline in terms of trade; and
    - a smaller resource reallocation across industries.

The paper also indicated possible future directions for methodology and practice.

### **Armington elasticities and terms of trade effects in global CGE models**

*Xiao-guang Zhang, January 2006*

The purpose of this paper was to illustrate the effects of the Armington assumption on one of the main factors that affects welfare outcomes, namely, the terms of trade. The key points from the paper were:

- Multi-country computable general equilibrium (CGE) models are important tools for analysing tariff and trade policy changes and most such models incorporate the ‘Armington assumption’.
- The Armington assumption differentiates commodities by their country of origin. It takes the products of an industry which come from different countries to be imperfect substitutes for each other. This model structure enables the construction of complex models based on existing world trade statistics.
- The choice of the Armington assumption is an important one as it impacts on the outcomes of policy shocks introduced to CGE models. This is due to both the Armington structure itself and the size of the substitution elasticities, which can have a large effect on the terms of trade (the ratio of export to import prices).
- This paper illustrated the complex relationship between the Armington assumption and the terms of trade. In particular, it demonstrated that:
  - the terms of trade effect of a tariff is positively related to the home country’s elasticity of substitution between domestic and imported goods;
  - the terms of trade effect of a tariff is negatively related to the elasticity of substitution between domestic and imported goods in foreign countries and to all foreign countries’ elasticities of substitution between import sources;

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- increasing proportionally all elasticities of substitution, starting in the range of typical Global Trade Analysis Project (GTAP) default values, does not reduce terms of trade effects much, because these opposing effects approximately offset each other; however, reducing proportionally all elasticities of substitution below unity increases the terms of trade effect sharply.
  - The results on the relationship between Armington elasticities and terms of trade were robust. They were not affected by the size of the tariff-imposing country relative to the rest of the world, nor by the dimension and structure of the model. The results held for large sophisticated models of global trade, as well as for scaled-down versions.
  - The results highlighted the importance of understanding how the Armington assumption affects simulation results and the importance of having reliable, model-consistent and empirically sound estimates for Armington elasticities in any model that is used to simulate the effects of changes in trade policies.

### **Irrigation externalities: pricing and charges**

*Gavan Dwyer, Robert Douglas, Deborah Peterson, Joanne Chong & Kate Maddern, March 2006*

This paper is part of a larger suite of water policy research conducted by the Commission, including modelling of regional economic impacts of changes in water trade within the southern Murray–Darling Basin. The paper discussed the nature and causes of environmental change related to rural water use, and provided a taxonomy of the many diverse types. It also examined the possible role of a charge imposed by rural water utilities in managing externalities that may emerge.

Key points were:

- Externalities associated with irrigation water supply and use are complex and the links between these sources of environmental change and their effects are not always well understood or measured.
- Many factors influence the extent to which a charge or tax on water use would actually change water use, including the volume of water available to irrigators, the extent to which trade can occur, the size of the tax, the price responsiveness for irrigation water, and the existing mechanisms to address externalities.
  - Where there is water trade and where restrictions on water allocations result in scarcity rents, a charge will only reduce water use (and consequent environmental costs) if it exceeds the scarcity rents. If water use does not change, there will be no short run improvement in economic efficiency from such a charge, although it might encourage long run efficiency improvements.

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- Scarcity rents will vary within and between irrigation seasons, as well as between irrigation districts.
  - When assessing new policies to manage environmental externalities, care should be taken to define adequately the externality, and not simply identify instances of environmental change. Governments should carefully consider the potential benefits and costs in assessing such new policies.
  - An externality tax can make the costs of negative externalities transparent and provide incentives to some relevant economic agents. A tax equal to the marginal external costs at each level of output can improve efficiency and in the longer term may provide an incentive to undertake abatement activities.
  - A tax on water use may increase economic efficiency where external costs are related only to the level of water use. But such a tax is an unsuitable instrument if the government's policy objective is to reduce environmental damage to a predetermined level or to raise a target level of revenue to address the externalities.
  - Challenges in considering and implementing an externality tax include whether such a tax is appropriate for a particular externality, variations in efficiency benefits, interaction with other externalities, difficulties in determining the rate, use of the revenue and legal feasibility.

The Staff Working Paper was released as a complement to the government-commissioned research study, *Rural Water Use and the Environment: the Role of Market Mechanisms*.

## **Econometric modelling of R&D and Australia's productivity**

*Sid Shanks & Simon Zheng, April 2006*

Australia's productivity growth surged in the 1990s, potentially as a result of a sustained increase in business expenditure on R&D. This paper presented the results of a series of modelling exercises to determine to what extent econometric modelling can clarify the relationship between R&D and productivity growth in Australia.

The objectives of the study were to: identify the trends in R&D activity that may have had a significant influence on Australia's economic performance; and quantify the effect of R&D activity on Australia's past economic performance. The study focused mainly on the effects of R&D undertaken in the business sector.

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The study follows a number of Australian studies that have generated estimates of the return to R&D, including earlier work by the Commission's predecessor, the Industry Commission.

The study tested the limits of standard models using many different specifications, and alternative indicators of domestic and foreign knowledge stocks. It also tested simple two-equation models explaining influences on business R&D investment and the effect of that investment on Australian productivity.

At the level of the market sector, the study first presented the results from basic models which have been used in the literature on the relationship between R&D and productivity. These initial tests did not produce satisfactory results. As there were many possible causes of model misspecification, the results of a comprehensive set of tests and extensions were presented. The results from many of these tests could be rejected, but were presented to show 'what didn't work'.

Of the acceptable specifications, a common finding was that productivity could be explained well by other sources of growth, including rising levels of human capital and reductions in industry protection. In preferred specifications, the foreign knowledge stock also had a large positive effect on Australian productivity. Australian business R&D added little to the explanatory power of the models and very wide confidence intervals existed around the implied rate of return to R&D. There was some evidence of changes in the effect and return to business R&D over time.

Across the industry sectors of agriculture, mining, manufacturing, and wholesale and retail trade, the estimated effects of R&D on productivity were positive, and, in some cases, estimated well. The effect appeared to vary widely across industries.

The authors' overall conclusion was that estimates of the effect of R&D on productivity are unreliable. Many problems confront any attempt to precisely estimate a relationship, including that the changes witnessed in the Australian economy over the last 30 years may have involved important changes in the relationship between R&D and productivity.

The paper complements the research study on public support for science and innovation, commissioned by the Government in March 2006. It is also part of a stream of Commission studies designed to explain productivity trends and improve understanding of the role of innovation.

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## Stranded irrigation assets

*Heather Roper, Chris Sayers & Andrew Smith, June 2006*

The over-riding rationale for water reform in Australia is to ensure that scarce water is allocated to where it is valued the most. To this end, governments have established tradeable water entitlements and are introducing initiatives to increase the effectiveness of water markets. There is a concern, however, that when restrictions on the sale of water entitlements are relaxed and net permanent outward trade takes place, some irrigation infrastructure assets — weirs, delivery and drainage channels, pipes, pumps and flow measurement devices — will become under-utilised or ‘stranded’. Specifically, remaining irrigators utilising that infrastructure would have to bear increased charges and be financially disadvantaged, unless compensated by those who sell their entitlements.

This Staff Working Paper presented the results of research on the options to address the perceived adverse financial consequences of stranded irrigations assets. The key points of the paper were:

- Despite significant concern, it is not certain that proposals under the National Water Initiative to relax restrictions on permanent water trading will necessarily result in widespread stranded irrigation assets.
- Prior to the National Water Initiative, sales did not always reach restriction levels, suggesting that there are other factors influencing the volume of permanent trade;
  - two such factors could be the differential tax treatment of temporary, leased and permanent water trades and the option value of holding entitlements in the presence of uncertainty about the level and volatility of future prices.
- Stranded assets do not necessarily represent an impediment to the efficient use of infrastructure, the allocation of entitlements, or the use of water.
- Current proposals to manage the adverse financial impact of stranded assets — such as the ongoing payment of annual access fees, ‘tagging’ and ‘exit’ fees — will reduce the economic gains potentially available from entitlement trading.
- A more efficient approach would be the introduction of full cost recovery infrastructure pricing. This would involve:
  - abandoning charges for renewals annuities predicated on the full replacement of existing assets;
  - revaluing under-utilised assets ‘appropriately’ to reflect their current economic value in use;

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- charging to recover costs fully, as already agreed by governments (having regard for the demand for services); and
  - the introduction of cost-differentiated charges for individual irrigators within irrigation areas.
  - Action along these lines could be expected to:
    - encourage rationalisation of stranded assets where the provision of infrastructure services can no longer be justified;
    - ensure that the financial consequences of stranded assets on remaining entitlement holders are minimised; and
    - remove current distortions to temporary and permanent water trading caused by large variations in the level of cost recovery across irrigation areas.
  - Where assets are under-utilised or stranded and remaining irrigators are unable to afford the increase arising from entitlement trading, charges should be set at levels that allow irrigators to continue using the assets, as long as they are sufficient to cover the costs that would be avoided by withdrawing the service.

The paper was released as a complement to the government-commissioned research study, *Rural Water Use and the Environment: The Role of Market Mechanisms*.

## Consultancy papers

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

### Quantitative modelling at the Productivity Commission

*Philippa Dee, published December 2005*

This paper was commissioned from Dr Phillipa Dee — Visiting Fellow, Australia–Japan Research Centre at the ANU and formerly Assistant Commissioner at the Productivity Commission — as a background paper for the Commission’s conference on quantitative tools for microeconomic policy analysis.

The paper noted that modelling is the tool that economists use in the absence of being able to organise controlled experiments, in which two different real world outcomes would be generated — one with, and one without, the policy change in question. The policy conclusions drawn from such modelling exercises often hinge on the sign and magnitude of the difference between the factual and counterfactual — that is, the deviation from control.

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The first part of the paper elaborated on some of the methodological issues to do with constructing the counterfactual, with the intention of explaining to a non-technical, policy audience why modellers do what they do.

The second part of the paper discussed the types of policy insights gained from the Commission's modelling exercises, and speculated on the extent to which they have influenced either the policy agenda or policy outcomes.

Dr Dee also canvassed directions for further modelling research.

### **Measuring the contributions of productivity and terms of trade to Australia's economic welfare**

*W. Erwin Diewert & Denis Lawrence, March 2006*

The Commission engaged the consultants to undertake research that would:

- identify and implement improvements in practical welfare measurement beyond the conventional average income or GDP per capita measure; and
- gauge the welfare contributions of productivity and the terms of trade.

The main conclusion emerging from this study was that, taken over long time periods of several decades, changes in the terms of trade have relatively little impact on Australian welfare. Welfare benefits from improvements in the terms of trade in one period tend to be offset by losses from subsequent deteriorations in the terms of trade. Over the last four and a half decades changes in the terms of trade have increased real income by less than 5 per cent in aggregate. Over the same period, real income has increased by almost four fold. Productivity improvements were the largest single source of improvements in real income followed by labour force increases and capital stock increases. This finding is consistent with previous Industry Commission research which found little overall impact from terms of trade changes in the two and a half decades to 1993-94.

There is evidence, however, that terms of trade changes can have a more important, albeit usually transitory, impact over shorter periods of time. In particular, improvements in the terms of trade over the decade to 2003-04 led to an increase in real income of 7.5 per cent. The total increase in real income over the same period was 47 per cent with higher productivity growth accounting for almost half this increase.

The other major conclusion to emerge from this study was that it makes a big difference whether the market sector gross domestic product or net domestic product framework is used in analysis. The latter framework is the more relevant



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one for looking at the sources of real income growth generated by the market sector. Traditional gross domestic product measures tend to overstate the level of real income as they treat investment to cover depreciation as part of real output when only net investment increases sustainable final consumption possibilities. In a net domestic product framework, the role of capital deepening as an explanatory factor for improving living standards is reduced and the role of technical progress (or total factor productivity growth) and labour growth is increased.

The paper also identified priorities for further research in this area.

**Table E.1 Speeches and presentations by the Chairman, Commissioners and staff, 2005-06**

<i>Organisation/event</i>	<i>Topic</i>	<i>Date</i>
<b>Gary Banks, Chairman:</b>		
Australian Centre of Regulatory Economics Seminar, Public Lecture Series, ANU, Canberra	Regulation-making in Australia: Is it broke? How do we fix it?	July 2005
RBA Conference: The Changing Nature of the Business Cycle, Sydney	Comments on microeconomic reform and macro stability	July 2005
ANZSOG, Sydney	Economic perspectives on regulation	Aug 2005
HREOC Workshop, Sydney	Key findings of the Overcoming Indigenous Disadvantage Report	Sept 2005
CEDA Forum, Adelaide	Indigenous Disadvantage: Are we making progress?	Sept 2005
Australian Institute of Company Directors, Sydney	From 'the Bad and the Ugly' to 'Good' regulation: ways forward	July 2005
House of Representatives Standing Committee on Employment, Workplace Relations and Workforce Participation briefing, Parliament House, Canberra (with Robyn Sheen)	Overcoming Indigenous Disadvantage: Key Indicators	Nov 2005
Australian Financial Review Ageing Population Summit, Sydney	Policy implications of an ageing Australia: an illustrated guide	Sept 2005
ANZSOG Conference: Schooling in the 21st Century: Unlocking Human Potential, Sydney	Comparing school systems across Australia	Sept 2005
Australian Securities and Investment Commission Summer School, Sydney	Deep impact: can regulatory analysis save us?	Feb 2006
BCA & The Australian Critical Issues Conference, Melbourne	Over-regulated and over it?	Feb 2006
Politics and Public Policy Review, Canberra	The structural reform agenda and the Productivity Commission	Mar 2006
Victorian Consumer Affairs Conference, Melbourne	Reducing the regulatory burden on business	March 2006
International CEO Forum, Melbourne	Rethinking regulation — a report to the Prime Minister and Treasurer	April 2006

CRA International Freight Infrastructure Seminar, Canberra	Road and rail pricing: some early observations ... and more questions	April 2006
Monash Centre for Regulatory Studies, Inaugural Public Lecture, Melbourne	Reducing the regulatory burden: the way forward	May 2006
Australian Services Roundtable, Melbourne	Getting rid of red tape?	May 2006
MCA Minerals week 2006, Canberra	Reducing the regulatory burden — the key issues	May 2006
New Zealand Business Roundtable Seminar, Wellington, New Zealand	Rethinking regulation in Australia	May 2006
Victorian Government Regulatory Review Forum, Melbourne	Rethinking (financial) regulation — an overview	June 2006
<b>Commissioners:</b>		
Council of Social Services of NSW and Institute of Sustainable Futures, Window on Economics Seminar Series, Sydney (Helen Owens)	The economics of health and an ageing population	July 2005
National Conservation Incentives Forum, Latrobe University, Melbourne (Neil Byron)	How can we achieve conservation outcomes more effectively?	July 2005
Monash University, Depts of Management, Business & Economics Melbourne, Managing Across Boundaries, Melbourne (Philip Weickhardt)	Agendas and forums for effective and continuing reforms	July 2005
3 <sup>rd</sup> Australasian Conference for Safety & Quality in Health Care, Adelaide (Helen Owens)	Can revolutionary new technology be used to effect safety improvements	July 2005
Northern Rivers University Department of Health Workshop, Murwillumbah NSW (Mike Woods)	Commission's issues paper on Australia's health workforce	July 2005
Australian Institute of Building NSW Chapter , Sydney (Tony Hinton)	The building sector and public policy	July 2005
Australian College of Health Services Executives National Congress, Adelaide (Mike Woods)	Towards a more effective and efficient health workforce system	Aug 2005
Academy Technological Sciences & Engineering Crawford Fund Conference, Canberra (Neil Byron)	Forests, woods and livelihoods: summary address	Aug 2005

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Table E.1 (continued)

<i>Organisation/event</i>	<i>Topic</i>	<i>Date</i>
National Aged Care Alliance Forum, South Melbourne (Mike Woods)	Aged care costs and funding options	Aug 2005
Academy of Social Sciences in Australia, Brisbane (Philip Weickhardt)	Intra-organisation communication within a multinational corporation	Aug 2005
Partnerships Queensland CEOs' Committee, Brisbane (Robert Fitzgerald & Robyn Sheen)	Key findings of the Overcoming Indigenous Disadvantage Report	Aug 2005
Aged & Community Services Australia National Conference 2005, Canberra (Robert Fitzgerald)	Agenda for Aged and Community Services	Sept 2005
Australian Productivity Council, Forum, Melbourne (Tony Hinton)	Market failure, government intervention and getting the incentive right	Sept 2005
DCITA Seminar, Canberra (Robert Fitzgerald)	Overcoming Indigenous Disadvantage	Oct 2005
Business and Sustainability Summit 2005, Melbourne (Neil Byron)	Competition policy, competitive neutrality and eco-system services	Oct 2005
Northern Territory Government Officials Forum, Darwin (Robert Fitzgerald)	Overcoming Indigenous Disadvantage	Nov 2005
House of Representatives Standing Committee on Health and Ageing briefing, Parliament House, Canberra (Mike Woods and Robert Fitzgerald)	Australia's health workforce	Nov 2005
COAG Working Group on Health Reform briefing Melbourne (Mike Woods)	Briefing on health reform	Nov 2005
Australian Healthcare Reform Alliance Workshop on Healthcare Reform, Adelaide (Mike Woods)	The Commission's position paper on Australia's health workforce	Nov 2005
EdHealth Conference, Terrigal, NSW (Mike Woods)	Developing a flexible and responsive health workforce	Nov 2005
ACS Conference: Succeeding in Business & Care, Adelaide (Robert Fitzgerald)	Ageing, aged care and the aged care workforce	Nov 2005
Innovation Theme Table meeting: Smart Regulation – Innovation, Productivity and Business Environment, Ottawa, Canada (Tony Hinton)	Recent regulatory reform developments in Australia	Dec 2005

Policy Research Initiative Symposium, Ottawa, Canada (Tony Hinton)	Federal systems: impediments to economic reform	Dec 2005
ANZSOG/PM&C Conference on Project Management and Organisational Change, Canberra (Philip Weickhardt)	Principles and frameworks for evaluating medical technology	Feb 2006
APEC Working group on Investment and Market Access Issues in Preferential Trade, Hanoi, Vietnam (Tony Hinton)	Challenges for bilateral and multilateral investment agreements	Feb 2006
Australian College of Health Services Executive, Canberra (Mike Woods)	Australian health workforce: future reform	Feb 2006
FAO Expert Consultation on Reinventing Forestry Agencies and Establishing an Asia-Pacific Forest Policy Network, Manila, Philippines (Neil Byron)	Challenges in devising, implementing and revising forest policies	Feb 2006
Victorian Consumer Affairs Conference, Melbourne (Robert Fitzgerald)	Reforming consumer product safety in Australia	March 2006
Graduation Address, Faculty of Commerce and Economics, University of NSW, Sydney (Robert Fitzgerald)	Choices and challenges	March 2006
College of Nursing, Sydney (Mike Woods)	An overview of the Commission's health workforce report	March 2006
Australian Council of Deans of Health Sciences Meeting, Canberra (Mike Woods)	Health workforce reforms	March 2006
DITR Innovation Forum, Canberra (Mike Woods & Ralph Lattimore)	R&D and Australian productivity	April 2006
2006 Australian Social & Economic Policy Lecture Series, Canberra (Judith Sloan)	The economic effects of migration and population growth	June 2006
RBA Seminar, Sydney (Mike Woods)	Energy efficiency	May 2006
Australian Physiotherapy Association 2006 National Congress, Melbourne (Mike Woods)	The Productivity Commission report on Australia's health workforce: where to from here?	May 2006
Australian Medical Association National Congress 2006, Adelaide (Mike Woods)	The Productivity Commission report on Australia's health workforce: where to from here?	May 2006

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Table E.1 (continued)

<i>Organisation/event</i>	<i>Topic</i>	<i>Date</i>
Australian Institute of Company Directors Victoria, Melbourne (Judith Sloan)	The economic impact of migration	June 2006
China Health Economics Institute Seminar, Beijing, China (Mike Woods)	Health workforce	June 2006
Chain Reaction Foundation, Sydney (Robert Fitzgerald)	Economic security and social well being – a recipe for social inclusion	June 2006
Chain Reaction Foundation, Melbourne (Robert Fitzgerald)	Economic security and social well being – a recipe for social inclusion	June 2006
Australia's Health 2006 Conference, Canberra (Mike Woods)	Health workforce	June 2006
<b>Staff:</b>		
NCOSS Windows on Economics Workshop, Sydney (Ralph Lattimore & Stuart Wilson)	The economics of health and an ageing population	July 2005
NSW Treasury Seminar, Sydney (Ralph Lattimore & Stuart Wilson)	Implications of an ageing Australia	July 2005
Civil Aviation Safety Authority, Canberra (Stephen Rimmer)	Best practice regulation, RISs, risk analysis and performance based regulation	July 2005
OECD/IIST Tokyo Forum on Services, Trade and Structural Adjustment, Japan (Lisa Gropp)	Globalisation, trade and structural adjustment – the policy options from an Australian perspective	July 2005
Annual Conference of the American Agricultural Economics Association, Rhode Island, USA (Gavan Dwyer)	Third-party effects of water trading	July 2005
National Employment Services Association Annual Conference 2005, Sydney (Ralph Lattimore)	Implications of an ageing Australia	July 2005
Department of Education, Science and Training Seminar, Canberra (Ralph Lattimore)	Implications of an ageing Australia	Aug 2005
Commonwealth Grants Commission Seminar, Canberra (Jonathan Pincus)	Fiscal equalisation: some questions of design'	Aug 2005
NZ Treasury Workshop on Benchmarking, New Zealand (Robyn Sheen)	Insights on performance monitoring and reporting	Aug 2005

USB Investment Bank Strategic Issues Forum, Sydney (Ralph Lattimore)	Growth prospects in an ageing Australia	Aug 2005
Hunter Valley Research Foundation Seminar, Newcastle (Ralph Lattimore)	Implications of an ageing Australia	Sept 2005
ANU Graduate Program Seminar, Canberra (Ralph Lattimore & Stuart Wilson)	Demographic and growth effects of an ageing Australia	Sept 2005
ANU Graduate Program Seminar, Canberra (Ralph Lattimore & Stuart Wilson)	Effects of an ageing Australia on health and ageing spending	Sept 2005
Tasmanian Treasury Productivity Workshop, Hobart (Dean Parham)	Policy lessons from five decades of Australia's productivity performance	Sept 2005
34 <sup>th</sup> Annual Conference of Economists, Melbourne (John Salerian)	Risk and regulatory truncation	Sept 2005
34 <sup>th</sup> Annual Conference of Economists, Melbourne (Paul Gretton)	The restrictiveness of rules of origin in preferential trade agreements	Sept 2005
Industry Economics Conference 2005, Melbourne (Paul Gretton)	Assistance conferred by preferential trade agreements – case study of the Australian-New Zealand CER Trade Agreement	Sept 2005
Department of Agricultural and Resource Economics, University of Sydney Contemporary Issues Seminar, Sydney (Paul Gretton)	Water use and farm performance	Oct 2005
Australian Private Hospitals Association 25 <sup>th</sup> National Congress, Melbourne (Lisa Gropp)	The impacts of advances in medical technology in Australia	Oct 2005
Occupational Health and Safety and Human Resources Conference, Sydney (Stuart Wilson)	Ageing, aged care and the aged care workforce	Nov 2005
OECD Workshop on Agriculture and Water: Sustainability, Markets and Policies, Adelaide and Barmera – South Australia (Deborah Peterson)	Integrating rural and urban water markets in south east Australia: a general equilibrium approach	Nov 2005
Economic Development, Growth Economics & Sustainability 2005 Workshop, ANU, Canberra (Paul Gretton)	Four decades of Australia's productivity growth	Nov 2005

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Table E.1 (continued)

<i>Organisation/event</i>	<i>Topic</i>	<i>Date</i>
Local Government Planning for an Ageing Population, Bateman's Bay NSW (Ralph Lattimore)	Effects of an ageing Australia	Nov 2005
Economic Society of Australia (South Australia), Adelaide (Jonathan Pincus)	Productive reform in a federal system	Nov 2005
Paediatric Workforce Forum, Westmead Hospital, Sydney (Ian Gibbs)	The Commission's position paper on Australia's health workforce	Nov 2005
Victorian Commercial Teachers' Association Annual Conference, Melbourne (Lisa Gropp)	Why Australia needs more microeconomic reform	Nov 2005
Treasury Seminar, Canberra, (John Salerian)	Economic impacts of migration and population growth	Feb 2006
IQPC Conference on Performance Measures for Service Delivery, Canberra (Lawrence McDonald)	Measuring the comparative performance of governments: the approaches of the Report on Government Services and the Overcoming Disadvantage Report	March 2006
Office for an Ageing Australia, Canberra (Ralph Lattimore)	Implications of an ageing Australia	March 2006
Korea Development Institute International Conference, Seoul, Korea (Darrell Porter)	Improving Australia's business environment through good regulatory process	May 2006
SA Treasury Seminar, Adelaide (Jonathan Pincus)	Horizontal Fiscal Equalisation Grants	June 2006
Vienna Conference: Efficiency, Environment & Employment 2006, Vienna, Austria (Michael Kohlhaas)	Policies for the integration of economic, social and environmental issues	June 2006
Land and Water Australia Seminar, Canberra (Deborah Peterson & Annette Weier)	Precaution: principles and practice in Australian environmental and natural resource management	June 2006



**Table E.2 Visits from international organisations and foreign delegations, 2005-06**

<i>Organisation/delegation</i>	<i>Briefing/discussion purpose of visit</i>	<i>Date and location</i>
Indonesian Study Tour	Regulation impact statement processes	Aug 2005 (C)
NZ Department of Labour	Productivity research and issues	Aug 05 (M)
Kobe Law School, Japan (Prof Norio Komuro)	Rules of origin and preferential trading agreements	Sep 2005 (C)
Chinese journalists	Australia's reform processes	Oct 2005 (M)
Korean Bureau of Regulatory Reform	The Commission's work, the role of the ORR, regulation impact statement process and related matters	Nov 2005 (C)
Ofcom (UK)	Regulatory issues	Nov 2005 (C)
China Free Trade Agreement delegation	Trade policy issues	Nov 2005 (C)
Kyoto University, Japan (Prof Kagatsume)	Agricultural, environment and trade policy in Australia	Nov 2005 (M)
Vietnamese Institute for Agricultural Economics	Commission's role and operations	Nov 2005 (C)
Indonesian officials	Regulation impact statement requirements and the role and operations of the ORR	Dec 2005 (C)
Korean Institute for Industrial Economics and Trade	Environmental regulation	Dec 2005 (C)
New Zealand Delegation (led by the NZ Minister for Commerce)	Regulatory issues	Feb 2006 (M)
OECD Mission to Australia	Reform issues and recent Commission work	Mar 2006 (C)
French Mission Economique	Commission's role and functions	Mar 2006 (C)
Chinese National Development Reform Commission	Structural reform in Australia	Apr 2006 (C)
Japanese Economic and Fiscal Policy Council member	Australia's reform program	Apr 2006 (C)
Korean Development Institute	Regulatory reform	May 2006 (C)
Malaysian Institute of Gerontology delegation	Population ageing in Australia	May 2006 (C)
IMF Article IV team	Reform agenda and productivity growth	Jun 2006 (M)
APEC delegation	The Commission's role, functions and activities	Jun 2006 (M)
Korean Development Institute	The Commission's role and functions, and research issues	Jun 2006 (C)
European Commission Directorate General for Trade	Respective work programs	Jun 2006 (M)

(C) Canberra (M) Melbourne

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## F Publications

This appendix provides a list of Commission inquiry and research reports and major speeches by the Chairman in 2005-06. It also lists conference proceedings, staff working papers and consultancy reports, in which the views expressed 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 studies — draft and interim reports

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

- *Review of Australia's Consumer Product Safety System*, Discussion Draft, 9 August 2005
- *Australia's Health Workforce*, Position Paper, 29 September 2005
- *Conservation of Australia's Historic Heritage Places*, Draft Report, 9 December 2005
- *Economic Impacts of Migration and Population Growth*, Draft Research Report, 17 January 2006
- *Waste Management*, Draft Report, 23 May 2006
- *Rural Water Use and the Environment: The Role of Market Mechanisms*, Discussion Paper, 15 June 2006

#### Inquiries and commissioned studies — final reports

Upon release by the Australian Government, copies of final reports can be obtained from the Commission's publications agent, Pirion/JS McMillan and the Commission's website. The dates listed are signing dates.

- 
- *The Private Cost Effectiveness of Improving Energy Efficiency*, Inquiry Report No. 36, 31 August 2005
  - *Impacts of Advances in Medical Technology in Australia*, Research Report, 31 August 2005
  - *Australia's Health Workforce*, Research Report, 22 December 2005
  - *Review of Australia's Consumer Product Safety System*, Research Report, 16 January 2006
  - *Conservation of Australia's Historic Heritage Places*, Inquiry Report No. 37, 6 April 2006
  - *Economic Impacts of Migration and Population Growth*, Research Report, 24 April 2006

## 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 2005-06 and many Secretariat reports from previous years are also available on compact disk.

- *Overcoming Indigenous Disadvantage: Key Indicators 2005* (July 2005)
- *Overcoming Indigenous Disadvantage: Key Indicators 2005 Overview* (July 2005)
- *Feedback on the Report on Government Services 2004*, Secretariat Paper (August 2005)
- *Review of Patient Satisfaction and Experience Surveys Conducted for Public Hospitals in Australia* (August 2005)
- *Report on Government Services 2006*, Volume 1: Education, Justice, Emergency Management (January 2006)
- *Report on Government Services 2006*, Volume 2: Health, Community Services, Housing (January 2006)
- *Report on Government Services 2006: Indigenous Compendium* (May 2006)

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## Other performance reporting

- *Financial Performance of Government Trading Enterprises 1999-00 to 2003-04* (July 2005)

## Competitive neutrality complaints

No competitive neutrality complaint reports were published in 2005-06. Copies of previous investigations are available from the Commission and the websites of the Australian Government Competitive Neutrality Complaints Office (AGCNCO) and Productivity Commission.

## 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 2004-05* (October 2005)
- *Regulation and its Review 2004-05* (October 2005)
- *Trade & Assistance Review 2004-05* (April 2006)

### Commission research papers

- *The Role of Non-Traditional Work in the Australian Labour Market* (May 2006)

### Chairman's speeches

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

- *Regulation-making in Australia: Is it broke? How do we fix it?* (July 2005)
- *Structural reform Australian-style: lessons for others?* (August 2005, published also)\*
- *Indigenous disadvantage: are we making progress?* (September 2005)

- 
- *Policy implications of an ageing Australia: an illustrated guide* (September 2005)
  - *Comparing school systems across Australia* (September 2005)
  - *Road and rail pricing: some early observations ... and more questions* (April 2006)
  - *Reducing the regulatory burden: The way forward* (May 2006)

### **Richard Snape Lecture**

The third Richard Snape Lecture was held on 14 November 2005. Lectures reflect the views of the authors and not necessarily those of the Commission.

- *Will Asian Mercantilism meet its Waterloo?*, Martin Wolf (November 2005)\*

### **Conference/workshop proceedings**

Papers contained within these proceedings reflect the views of the authors and not necessarily those of the Commission.

- *Quantitative Tools for Microeconomic Policy Analysis*, Conference proceedings (October 2005)
- *Productivity Perspectives 2006*, (March 2006, website only)
- *Productive Reform in a Federal System*, Conference proceedings (April 2006)

### **Staff working papers**

Copies of these 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.

- *The Armington Model*, Peter Lloyd & Xiao-guang Zhang (February 2006)
- *Armington Elasticities and Terms of Trade Effects in Global CGE Models*, Xiao-guang Zhang (February 2006)
- *Irrigation Externalities: Pricing and Charges*, Gavan Dwyer, Robert Douglas, Deborah Peterson, Joanne Chong & Kate Maddern (March 2006)
- *Econometric Modelling of R&D and Australia's Productivity*, Sid Shanks & Simon Zheng (April 2006)
- *Stranded Irrigation Assets*, Heather Roper, Chris Sayers & Andrew Smith (June 2006)

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## Consultancy papers

- *Quantitative modelling at the Productivity Commission*, Philippa Dee (December 2005)
- *Measuring the contributions of productivity and terms of trade to Australia's economic welfare*, W. Erwin Diewert & Denis Lawrence (March 2006)

## Other publications

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

- *Supporting Research Program 2005* (July 2005)
- *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 29, July 2005, Issue 30, September/October 2005; Issue 31, December/January 2006 (including Publications in 2005 insert); Issue 32, March/April 2006)



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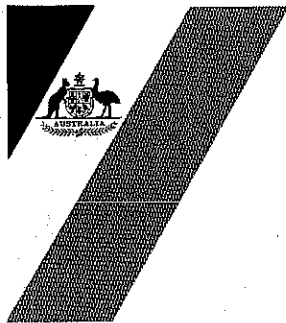
## G Financial statements

**This appendix presents the audited financial statements for the Productivity Commission for 2005-06. The statements have been prepared on an accrual accounting basis.**

### **Contents**

Independent audit report	208
Certification	210
Income statement	211
Balance sheet	212
Statement of cash flows	213
Statement of changes in equity	214
Schedule of commitments	215
Notes to the financial statements	216





## INDEPENDENT AUDIT REPORT

To the Treasurer

### *Scope*

#### *The financial statements and Chairman's responsibility*

The financial statements comprise:

- Statement by the Chairman and Chief Finance Officer;
- Income Statement, Balance Sheet and Statement of Cash Flows;
- Statement of Changes in Equity;
- Schedules of Commitments; and
- Notes to and forming part of the Financial Statements

of the Productivity Commission for the year ended 30 June 2006.

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 the Finance Minister's Orders made under the *Financial Management and Accountability Act 1997* and Accounting Standards and other mandatory financial reporting requirements in Australia. 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* and 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 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***

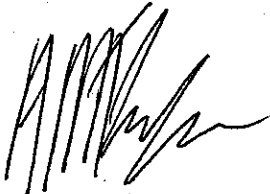
In conducting the audit, I have followed the independence requirements of the Australian National Audit Office, which incorporate the ethical requirements of the Australian accounting profession.

### ***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 2006 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

4 August 2006

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## Statement by the Chairman and Chief Finance Officer

### Certification

In our opinion, the attached financial statements for the year ended 30 June 2006 have been prepared 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

Brian Scammell  
Chief Finance Officer

4 August 2006

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## Income Statement

For the year ended 30 June 2006

		<b>2006</b>	<b>2005</b>
	<i>Note<sup>a</sup></i>	<b>\$'000</b>	<b>\$'000</b>
<b>Income</b>			
<b>Revenue</b>			
Revenues from government		<b>28,449</b>	28,293
Goods and services	5A	<u>47</u>	<u>314</u>
<b>Total Revenue</b>		<b><u>28,496</u></b>	<b><u>28,607</u></b>
<b>Gains</b>			
Resources received free of charge		<b>38</b>	34
Net gains from disposal of assets	5B	<u>9</u>	<u>4</u>
<b>Total Gains</b>		<b><u>47</u></b>	<b><u>38</u></b>
<b>Total Income</b>		<b><u>28,543</u></b>	<b><u>28,645</u></b>
<b>Expenses</b>			
Employees	6A	<b>21,045</b>	19,492
Suppliers	6B	<b>6,173</b>	6,173
Depreciation and amortisation	6C	<b>626</b>	604
Finance costs	6D	<b>22</b>	–
Write-down of assets	6E	<u>5</u>	<u>4</u>
<b>Total Expenses</b>		<b><u>27,871</u></b>	<b><u>26,273</u></b>
<b>Operating Result</b>		<b><u>672</u></b>	<b><u>2,372</u></b>

<sup>a</sup> The above statement should be read in conjunction with the accompanying notes.

## Balance Sheet

As at 30 June 2006

		2006	2005
	Note <sup>a</sup>	\$'000	\$'000
<b>ASSETS</b>			
<b>Financial assets</b>			
Cash		172	210
Receivables	7	<u>7,580</u>	<u>6,346</u>
<b>Total financial assets</b>		<u>7,752</u>	<u>6,556</u>
<b>Non-financial assets</b>			
Buildings	8A	1,296	1,645
Plant and equipment	8A	624	535
Intangibles	8B	34	29
Prepayments		<u>337</u>	<u>186</u>
<b>Total non-financial assets</b>		<u>2,291</u>	<u>2,395</u>
<b>Total Assets</b>		<u>10,043</u>	<u>8,951</u>
<b>LIABILITIES</b>			
<b>Payables</b>			
Suppliers		<u>147</u>	<u>187</u>
<b>Total payables</b>		<u>147</u>	<u>187</u>
<b>Provisions</b>			
Employees	9	7,363	6,925
Leasehold make-good		<u>722</u>	<u>700</u>
<b>Total provisions</b>		<u>8,085</u>	<u>7,625</u>
<b>Total Liabilities</b>		<u>8,232</u>	<u>7,812</u>
<b>Net Assets</b>		<u>1,811</u>	<u>1,139</u>
<b>EQUITY</b>			
Contributed equity		1,711	1,711
Reserves		1,172	1,172
(Accumulated deficits)		<u>(1,072)</u>	<u>(1,744)</u>
<b>Total Equity</b>		<u>1,811</u>	<u>1,139</u>
<b>Current assets</b>		<b>8,089</b>	6,742
<b>Non-current assets</b>		<b>1,954</b>	2,209
<b>Current liabilities</b>		<b>6,910</b>	6,648
<b>Non-current liabilities</b>		<b>1,322</b>	1,164

<sup>a</sup> The above statement should be read in conjunction with the accompanying notes.

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## Statement of Cash Flows

For the year ended 30 June 2006

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		2006	2005
	Note <sup>a</sup>	\$'000	\$'000
<b>OPERATING ACTIVITIES</b>			
<b>Cash received</b>			
Appropriations		27,300	24,588
Cash transferred from the Official Public Account (OPA)		–	1,000
Goods and services		47	345
Net GST received from ATO		<u>625</u>	<u>678</u>
<b>Total cash received</b>		<b><u>27,972</u></b>	<b><u>26,611</u></b>
<b>Cash used</b>			
Employees		20,721	19,028
Suppliers		<u>6,922</u>	<u>8,143</u>
<b>Total cash used</b>		<b><u>27,643</u></b>	<b><u>27,171</u></b>
<b>Net cash from (used by) operating activities</b>	10	<b><u>329</u></b>	<b><u>(560)</u></b>
<b>INVESTING ACTIVITIES</b>			
<b>Cash received</b>			
Proceeds from sale of plant and equipment		<u>11</u>	<u>4</u>
<b>Total cash received</b>		<b><u>11</u></b>	<b><u>4</u></b>
<b>Cash Used</b>			
Purchase of plant and equipment		<u>378</u>	<u>192</u>
<b>Total cash used</b>		<b><u>378</u></b>	<b><u>192</u></b>
<b>Net cash from (used by) investing activities</b>		<b><u>(367)</u></b>	<b><u>(188)</u></b>
<b>Net increase (decrease) in cash held</b>		<b>(38)</b>	<b>(748)</b>
Cash at the beginning of the reporting period		<u>210</u>	<u>958</u>
<b>Cash at the end of the reporting period</b>		<b><u>172</u></b>	<b><u>210</u></b>

<sup>a</sup> The above statement should be read in conjunction with the accompanying notes.

## Statement of Changes in Equity

For the year ended 30 June 2006

Item	Accumulated results		Asset revaluation reserve		Contributed equity		Total equity	
	2006	2005	2006	2005	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Opening Balance</b>	<b>(1,744)</b>	(4,116)	<b>1,172</b>	1,172	<b>1,711</b>	1,711	<b>1,139</b>	(1,233)
Adjustment for changes in accounting policies	—	—	—	—	—	—	—	—)
<b>Adjusted Opening Balance</b>	<b>(1,744)</b>	(4,116)	<b>1,172</b>	1,172	<b>1,711</b>	1,711	<b>1,139</b>	(1,233)
<b>Income and Expense</b>								
Net operating result	<b>672</b>	2,372	—	—	—	—	<b>672</b>	2,372
Adjustment for changes in accounting policies	—	—	—	—	—	—	—	—
<b>Total Income and Expense</b>	<b>672</b>	2,372	—	—	—	—	<b>672</b>	2,372
<b>Closing Balance at 30 June</b>	<b>(1,072)</b>	(1,744)	<b>1,172</b>	1,172	<b>1,711</b>	1,711	<b>1,811</b>	1,139

## Schedule of Commitments

As at 30 June 2006

	Note <sup>a</sup>	2006 \$'000	2005 \$'000
<b>BY TYPE</b>			
<b>Other commitments</b>			
Operating leases		8,337	10,379
Other		<u>764</u>	<u>971</u>
<b>Total other commitments</b>		<b>9,101</b>	<b>11,350</b>
<b>Commitments receivable</b>		<b><u>(827)</u></b>	<b><u>(1,032)</u></b>
<b>Net commitments by type</b>		<b><u>8,274</u></b>	<b><u>10,318</u></b>
<b>BY MATURITY</b>			
<b>Operating lease commitments</b>			
One year or less		1,757	1,818
From one to five years		5,822	6,320
Over five years		<u>—</u>	<u>1,298</u>
<b>Total operating lease commitments</b>		<b><u>7,579</u></b>	<b><u>9,436</u></b>
<b>Other commitments</b>			
One year or less		340	301
From one to five years		355	515
Over five years		<u>—</u>	<u>66</u>
<b>Total other commitments</b>		<b><u>695</u></b>	<b><u>882</u></b>
<b>Net commitments by maturity</b>		<b><u>8,274</u></b>	<b><u>10,318</u></b>

<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.

<sup>a</sup> 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 2006

<b>Note</b>	<b>Description</b>
1	Objectives of the Productivity Commission
2	Summary of Significant Accounting Policies
3	The impact of the transition to AEIFRS from previous AGAAP
4	Events after the Balance Sheet Date
5	Income
6	Expenses
7	Financial Assets
8	Non-financial Assets
9	Provisions
10	Cash Flow Reconciliation
11	Appropriations
12	Reporting of Outcome
13	Remuneration of Executives
14	Remuneration of Auditors
15	Contingencies
16	Act of Grace Payments and Waivers
17	Average Staffing
18	Financial Instruments
19	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 (or FMOs, being the *Financial Management and Accountability Orders (Financial Statements for reporting periods ending on or after 01 July 2005)*);
- Australian Accounting Standards issued by the Australian Accounting Standards Board that apply for the reporting period; and
- Interpretations issued by the AASB and UIG that apply for the reporting period.

The Income Statement and Balance Sheet have been prepared on an accrual basis, and are in accordance with historical cost convention, except for certain assets

which, as noted, are at fair value. Except where stated, no allowance is made for the effect of changing prices on the results or the financial position.

The financial report is presented in Australian dollars and values are rounded to the nearest thousand dollars unless disclosure of the full amount is specifically required.

Unless alternative treatment is specifically required by an accounting standard, assets and liabilities are recognised in the Balance Sheet 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 15).

Unless alternative treatment is specifically required by an accounting standard, revenues and expenses are recognised in the Income Statement 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.

## **2.2 Statement of Compliance**

The financial report complies with Australian Accounting Standards, which include Australian Equivalents to International Financial Reporting Standards (AEIFRS) and is the first financial report prepared under AEIFRS. The impacts of adopting AEIFRS are disclosed in Note 3.

Australian Accounting Standards require the Commission to disclose Australian Accounting Standards that have not been applied, for standards that have been issued but are not yet effective.

The AASB has issued amendments to existing standards, these amendments are denoted by year and then number, for example 2005-1 indicates amendment 1 issued in 2005.

The table below illustrates standards and amendments that will become effective for the Commission in the future. The nature of the impending change within the table, has been out of necessity abbreviated and users should consult the full version available on the AASB's website to identify the full impact of the change. The expected impact on the financial report of adoption of these standards is based on the Commission's initial assessment at this date, but may change. The Commission intends to adopt all of standards upon their application date.

<i>Title</i>	<i>Standard affected</i>	<i>Application date*</i>	<i>Nature of impending change</i>	<i>Impact expected on financial report</i>
2005-4	AASB 139 AASB 132 AASB 1 AASB 1023 AASB 1038	1 Jan 2006	Amends AASB 139, AASB 1023 and AASB 1038 to restrict the option to fair value through profit or loss and makes consequential amendments to AASB 1 and AASB 132.	No expected impact
2005-5	AASB 1 AASB 139	1 Jan 2006	Amends AASB 1 to allow an entity to determine whether an arrangement is, or contains, a lease.  Amends AASB 139 to scope out a contractual right to receive reimbursement (in accordance with AASB 137) in the form of cash.	No expected impact
2005-6	AASB 3	1 Jan 2006	Amends the scope to exclude business combinations involving entities or businesses under common control.	No expected impact.
2005-10	AASB 132 AASB 101 AASB 114 AASB 117 AASB 133 AASB 139 AASB 1 AASB 4 AASB 1023 AASB 1038	1 Jan 2007	Amended requirements subsequent to the issuing of AASB 7.1	No expected impact.
2006-1	AASB7 Financial Instruments: Disclosures	1 Jan 2007	Revise the disclosure requirements for financial instruments from AASB 132 requirements.	No expected impact.

\* Application date is for annual reporting periods beginning on or after the shown date.

## **2.3 Revenue and Receivables**

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 2005-06.

Appropriations receivable are recognised at their nominal amounts.

### *(b) 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.

Receivables for goods and services, which have 30 day terms, 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 collectability of the debt is no longer probable.

## **2.4 Gains**

### *(a) Resources received free of charge*

Services received free of charge are recognised as gains 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.

### *(b) Other gains*

Gains from disposal of non-current assets are recognised when control of the asset has passed to the buyer.

## **2.5 Transactions with the Government as owner**

### *Equity injections*

Amounts appropriated which are designated as 'equity injections' for a year (less any formal reductions) are recognised directly in Contributed Equity in that year.

## **2.6 Employee benefits**

As required by the Finance Minister's Orders, the Commission has early adopted AASB 119 Employee Benefits as issued in December 2004.

Liabilities for services rendered by employees are recognised at the reporting date to the extent that they have not been settled.

Liabilities for 'short-term employee benefits' (as defined in AASB 119) and termination benefits due within 12 months of balance date are 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 liability for long service leave has been determined by use of the Australian Government Actuary's shorthand method using the Standard Commonwealth sector probability profile.

Leave that is not expected to be taken within 12 months of balance date is classified as non-current and is measured at the present value of estimated future cash outflows using market yields as at the reporting date on 'national government bonds'.

### *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 2006.

### *Superannuation*

Staff of the Commission are members of the Commonwealth Superannuation Scheme (CSS) and the Public Sector Superannuation Scheme (PSS) or the PSS accumulation plan (PSSap). The CSS and PSS are defined benefit schemes for the Commonwealth. The PSSap is a defined contribution 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. From 1 July 2005, new employees are eligible to join the PSSap scheme.

The liability for superannuation recognised as at 30 June represents outstanding contributions in respect of accrued pay at 30 June 2006.

## **2.7 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. An operating lease is a lease that is not a finance lease. 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 either the fair value of the lease property, or, if lower the present value of minimum lease payments at the inception of the contract 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.

## **2.8 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.

## **2.9 Financial Risk Management**

The Commission's activities expose it to normal commercial financial risk. As a result of the nature of the Commission's business and internal and Australian Government policies, dealing with the management of financial risk, the Commission's exposure to market, credit, liquidity and cash flow and fair value interest rate risk is considered to be low.

## **2.10 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).

## **2.11 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.

## **2.12 Property, plant and equipment**

### *Asset recognition threshold*

Purchases of property, plant and equipment are recognised initially at cost in the Balance Sheet, except for purchases costing less than \$2 000, which are expensed in



the year of acquisition (other than where they form part of a group of similar items which are significant in total).

The initial cost of an asset includes an estimate of the cost of dismantling and removing the item and restoring the site on which it is located. This is particularly relevant to ‘makegood’ provisions in property leases taken up by the Commission where there exists an obligation to restore the property to its original condition. These costs are included in the value of the Commission’s leasehold improvements with a corresponding provision for the ‘makegood’ taken up.

### *Revaluation basis*

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

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

---

Following initial recognition at cost, valuations are conducted with sufficient frequency to ensure that the carrying amounts of assets are not materially different from the assets’ fair values at the reporting date. The regularity of independent valuations depends upon the volatility of movements in market values for the relevant assets.

Revaluation adjustments are made on a class basis. Any revaluation increment is credited to equity under the heading of asset revaluation reserve except to the extent that it reverses a previous revaluation decrement of the same asset class that was previously recognised through profit and loss. Revaluation decrements for a class of asset are recognised directly through profit and loss except to the extent that they reverse a previous revaluation increment for that class.

Any accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the asset restated to the revalued amount.

Under ‘fair value’ assets which are surplus to requirements are measured at their net realisable value. At 30 June 2006, the Commission did not have any assets in this situation.

*Impairment*

All property, plant and equipment assets were assessed for impairment at 30 June 2006. Where indications of impairment exist, the asset's recoverable amount is estimated and an impairment adjustment made if the asset's recoverable amount is less than its carrying amount.

The recoverable amount of an asset is the higher of its *fair value less costs to sell* and its *value in use*. *Value in use* is the present value of the future cash flows expected to be derived from the asset. Where the future economic benefit of an asset is not primarily dependent on the asset's ability to generate future cash flows, and the asset would be replaced if the Commission were deprived of the asset, its *value in use* is taken to be its depreciated replacement cost.

No indicators of impairment were found for assets at fair value.

All software assets were assessed for indicators of impairment at 30 June 2006. 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:

	<b>2006</b>	<b>2005</b>
Leasehold improvements	<b>Lease term</b>	Lease term
Plant and equipment	<b>3 to 10 years</b>	3 to 10 years
Intangibles (Computer Software)	<b>5 years</b>	5 years
Leasehold make-good	<b>Lease term</b>	Lease term

The aggregate amount of depreciation allocated for each class of asset during the reporting period is disclosed in Note 6C.

### **2.13 Taxation**

The Commission is exempt from all forms of taxation except fringe benefits tax and the goods and services tax (GST).

### **2.14 Insurance**

The Commission has insured for risks through the Government's insurable risk managed fund, ComCover. Workers' Compensation is insured through ComCare Australia.

### **2.15 Comparative figures**

Comparative figures have been adjusted to conform to changes in presentation in these financial statements where required.

### **2.16 Rounding**

Amounts have been rounded to the nearest \$1,000 except in relation to the following:

- remuneration of executives; and
- remuneration of auditors.

**Note 3 The impact of the transition to AEIFRS from previous AGAAP**

	2005	2004
	\$'000	\$'000
<b>Reconciliation of total equity as presented under previous AGAAP to that under AEIFRS</b>		
Total equity under previous AGAAP	1,112	(1,189)
Adjustments to retained earnings:		
Employee provisions <sup>1</sup>	127	–
'Makegood' assets <sup>2</sup>	<u>(100)</u>	<u>(44)</u>
<b>Total equity translated to AEIFRS</b>	<b><u>1,139</u></b>	<b><u>(1,233)</u></b>
<b>Reconciliation of profit or loss as presented under previous AGAAP to AEIFRS</b>		
Prior year profit as previously reported	<u>2,301</u>	
Adjustments:		
Employee provisions <sup>1</sup>	127	
Depreciation <sup>3</sup>	<u>(56)</u>	
<b>Prior year profit translated to AEIFRS</b>	<b><u>2,372</u></b>	

<sup>1</sup> Discounting of the non-current portions of the annual leave provision

<sup>2</sup> AEIFRS requires the recording of assets reflecting future estimated restoration costs. Amounts for 'makegood' provisions in existing accommodation leases (operating) have been taken up accordingly

<sup>3</sup> The operating result has been adjusted due to the additional depreciation on 'makegood' assets

**Note 4 Events after the balance sheet date**

No significant events requiring disclosure in, or adjustment to, these financial statements have occurred subsequent to balance date.

## Note 5 Income

### Note 5A – Goods and services

	2006	2005
	\$'000	\$'000
Goods	2	13
Services	<u>45</u>	<u>301</u>
<b>Total sales of goods and services</b>	<b><u>47</u></b>	<b><u>314</u></b>
Provision of goods to:		
Related entities	–	–
External entities	<u>2</u>	<u>13</u>
<b>Total sales of goods</b>	<b><u>2</u></b>	<b><u>13</u></b>
Rendering of services to:		
Related entities	18	13
External entities	<u>27</u>	<u>288</u>
<b>Total rendering of services</b>	<b><u>45</u></b>	<b><u>301</u></b>

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

	2006	2005
	\$'000	\$'000
Plant and equipment		
Proceeds from disposals	11	4
Net book value of assets disposed	<u>(2)</u>	<u>–</u>
<b>Net gain or (loss) from disposal of plant and equipment</b>	<b><u>9</u></b>	<b><u>4</u></b>

**Note 6 Expenses***Note 6A – Employee expenses*

	<b>2006</b>	<b>2005</b>
	<b>\$'000</b>	<b>\$'000</b>
Wages and salaries	<b>16,664</b>	15,684
Superannuation	<b>2,801</b>	2,737
Leave and other entitlements	<b>1,092</b>	624
Separation and redundancies	<b>35</b>	–
Other employee expenses	<b>453</b>	447
<b>Total employee expenses</b>	<b><u>21,045</u></b>	<b><u>19,492</u></b>

*Note 6B – Suppliers expenses*

	<b>2006</b>	<b>2005</b>
	<b>\$'000</b>	<b>\$'000</b>
Provision of goods:		
Related entities	<b>4</b>	25
External entities	<b>304</b>	423
Rendering of services:		
Related entities	<b>453</b>	292
External entities	<b>3,485</b>	3,293
Operating Lease rentals	<b>1,813</b>	2,069
Workers' compensation premiums	<b>114</b>	71
<b>Total supplier expenses</b>	<b><u>6,173</u></b>	<b><u>6,173</u></b>

*Note 6C – Depreciation and amortisation*

	<b>2006</b>	<b>2005</b>
	<b>\$'000</b>	<b>\$'000</b>
Depreciation		
– Plant and equipment	489	528
Amortisation		
– Intangibles – computer software	11	20
– Leasehold make-good	<u>126</u>	<u>56</u>
<b>Total depreciation and amortisation</b>	<b><u>626</u></b>	<b><u>604</u></b>

*Note 6D – Finance costs*

	<b>2006</b>	<b>2005</b>
	<b>\$'000</b>	<b>\$'000</b>
Unwinding of discount on make-good provision	<u>22</u>	–
<b>Total finance cost expense</b>	<b><u>22</u></b>	<b><u>–</u></b>

*Note 6E – Write-down of assets*

	<b>2006</b>	<b>2005</b>
	<b>\$'000</b>	<b>\$'000</b>
Non-financial assets		
Plant & equipment – write-down on disposal	<u>5</u>	<u>4</u>
<b>Total write-down of assets</b>	<b><u>5</u></b>	<b><u>4</u></b>

**Note 7 Financial assets**

*Receivables*

	<b>2006</b>	<b>2005</b>
	<b>\$'000</b>	<b>\$'000</b>
Appropriations receivable – for existing outputs	7,279	6,130
Goods and services	159	134
GST receivable	<u>142</u>	<u>82</u>
<b>Total receivables</b>	<b><u>7,580</u></b>	<b><u>6,346</u></b>
Receivables (gross) are aged as follows:		
Current	7,580	6,346

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 – Buildings, Plant and Equipment*

	<b>2006</b>	<b>2005</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Buildings</b>		
Leasehold improvements – at fair value	<b>1,969</b>	1,969
Accumulated amortisation	<u><b>(673)</b></u>	<u>(324)</u>
<b>Total buildings</b>	<u><b>1,296</b></u>	<u>1,645</u>
<b>Plant and equipment</b>		
Plant and equipment – at fair value	<b>2,661</b>	2,529
Accumulated depreciation	<u><b>(2,037)</b></u>	<u>(1,994)</u>
<b>Total plant and equipment</b>	<u><b>624</b></u>	<u>535</u>
<b>Total buildings, plant and equipment</b>	<u><b>1,920</b></u>	<u>2,180</u>

*Note 8B – Intangibles*

	<b>2006</b>	<b>2005</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Intangibles</b>		
Computer software at cost	<b>575</b>	559
Accumulated amortisation	<u><b>541</b></u>	<u>(530)</u>
<b>Total intangibles</b>	<u><b>34</b></u>	<u>29</u>



*Note 8C – Reconciliation of the opening and closing balances of buildings (leasehold improvements) and plant and equipment*

<i>Item</i>	<i>Leasehold improvements</i>	<i>Plant and equipment</i>	<i>Intangibles</i>	<i>Total</i>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>As at 1 July 2005</b>				
Gross book value	1,969	2,529	559	5,057
Accumulated depreciation/amortisation	<u>(324)</u>	<u>(1,994)</u>	<u>(530)</u>	<u>(2,848)</u>
Opening net book value	<u>1,645</u>	<u>535</u>	<u>29</u>	<u>2,209</u>
Additions by purchase	–	362	16	378
Depreciation/amortisation expense	(349)	(265)	(11)	(625)
Write-downs	–	(5)	–	(5)
<b>As at 30 June 2006</b>				
Gross book value	1,969	2,661	575	5,205
Accumulated depreciation/amortisation	<u>(673)</u>	<u>(2,037)</u>	<u>(541)</u>	<u>(3,251)</u>
<b>Closing net book value</b>	<u>1,296</u>	<u>624</u>	<u>34</u>	<u>1,954</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*

	<b>2006</b>	<b>2005</b>
	<b>\$'000</b>	<b>\$'000</b>
Salaries and wages	271	328
Annual leave	2,687	2,422
Long service leave	4,380	4,166
Superannuation	<u>25</u>	<u>9</u>
<b>Aggregate employee entitlement liability</b>	<u>7,363</u>	<u>6,925</u>
Current	6,763	6,461
Non-current	600	464

**Note 10 Cash flow reconciliation**

	<b>2006</b>	2005
	<b>\$'000</b>	\$'000
<b>Reconciliation of net surplus to net cash from operating activities</b>		
Operating Result	<b>672</b>	2,372
Depreciation/Amortisation	<b>626</b>	604
Loss (profit) on sale of non-current assets	<b>(9)</b>	(4)
Write-down of assets	<b>5</b>	4
Decrease (increase) in receivables	<b>(1,234)</b>	(2,848)
Decrease (increase) in prepayments	<b>(151)</b>	110
Increase (decrease) in employee liabilities	<b>460</b>	(261)
Increase (decrease) in suppliers liability	<b>(40)</b>	(537)
<b>Net cash from (used by) operating activities</b>	<b><u>329</u></b>	<u>(560)</u>

**Note 11 Appropriations**

*Note 11A – Acquittal of authority to draw cash from the Consolidated Revenue Fund (CRF) for Ordinary Annual Service Appropriations*

	<b>2006</b>	2005
	<b>\$'000</b>	\$'000
Balance carried forward from previous period	<b>6,397</b>	4,358
Appropriation Act (No 1)	<b>28,247</b>	24,588
Appropriation Act (No 3)	<b>202</b>	3,705
Appropriations to take account of recoverable GST (FMAA s 30A)	<b>685</b>	760
Annotations to 'net appropriations' (FMAA s 31)	<b><u>58</u></b>	<u>349</u>
Total appropriations available for payments	<b>35,589</b>	33,760
Cash payments made during the year (GST inclusive)	<b><u>(28,021)</u></b>	<u>(27,363)</u>
<b>Balance of authority to draw cash from the CRF for ordinary annual service appropriations</b>	<b><u>7,568</u></b>	<u>6,397</u>
<i>Represented by:</i>		
Cash at bank and on hand	<b>172</b>	210
GST receivable	<b>142</b>	82
Receivables – appropriations held in the OPA	<b><u>7,254</u></b>	<u>6,105</u>
Total	<b><u>7,568</u></b>	<u>6,397</u>

*Note 11B – Acquittal of authority to draw cash from the Consolidated Revenue Fund (CRF) for other than Ordinary Annual Services Appropriations*

	<b>2006</b>	<b>2005</b>
	<b>\$'000</b>	<b>\$'000</b>
Balance carried forward from previous year	25	25
Appropriation Act (No 4)	<u>—</u>	<u>—</u>
Total appropriations available for payments	25	25
Cash payments made during the year	<u>—</u>	<u>—</u>
<b>Balance of authority to draw cash from the CRF for other than ordinary annual services appropriations</b>	<b>25</b>	<b>25</b>
Represented by:		
Receivables – appropriations held in the OPA	<u><u>25</u></u>	<u><u>25</u></u>

**Note 12 Reporting of outcome**

*Note 12A – Net cost of outcome delivery*

	<b>2006</b>	<b>2005</b>
	<b>\$'000</b>	<b>\$'000</b>
Total expenses	<u><b>27,871</b></u>	<u>26,273</u>
Costs recovered	<u>29</u>	<u>301</u>
Other external revenue		
Goods and services revenue from related entities	18	13
Gains from disposal of assets	<u>9</u>	<u>4</u>
Total external revenues	<u>27</u>	<u>17</u>
<b>Net cost of outcome</b>	<u><b>27,815</b></u>	<u>25,955</u>

	<i>Output 1</i>		<i>Output 2</i>		<i>Output 3</i>		<i>Output 4</i>		<i>Output 5</i>		<i>Total</i>	
	<b>2006</b>	2005	<b>2006</b>	2005	<b>2006</b>	2005	<b>2006</b>	2005	<b>2006</b>	2005	<b>2006</b>	2005
<b>Expenses</b>	<b>\$'000</b>	\$'000	<b>\$'000</b>	\$'000	<b>\$'000</b>	\$'000	<b>\$'000</b>	\$'000	<b>\$'000</b>	\$'000	<b>\$'000</b>	\$'000
Employees	<b>10,563</b>	9,677	<b>3,018</b>	3,143	<b>2,235</b>	2,084	<b>180</b>	80	<b>5,049</b>	4,508	<b>21,045</b>	19,492
Suppliers	<b>3,201</b>	2,977	<b>910</b>	1,022	<b>494</b>	541	<b>37</b>	23	<b>1,531</b>	1,610	<b>6,173</b>	6,173
Depreciation and amortisation	<b>314</b>	300	<b>90</b>	97	<b>66</b>	65	<b>5</b>	2	<b>151</b>	140	<b>626</b>	604
Other	<b>14</b>	<u>2</u>	<b>4</b>	<u>1</u>	<b>3</b>	<u>—</u>	<b>—</b>	<u>—</u>	<b>6</b>	<u>1</u>	<b>27</b>	<u>4</u>
<b>Total expenses</b>	<b><u>14,092</u></b>	<u>12,956</u>	<b><u>4,022</u></b>	<u>4,263</u>	<b><u>2,798</u></b>	<u>2,690</u>	<b><u>222</u></b>	<u>105</u>	<b><u>6,737</u></b>	<u>6,259</u>	<b><u>27,871</u></b>	<u>26,273</u>
<b>Funded by:</b>												
Revenues from government	<b>14,384</b>	13,952	<b>4,105</b>	4,591	<b>2,856</b>	2,898	<b>227</b>	113	<b>6,877</b>	6,739	<b>28,449</b>	28,293
Sales of goods and services	<b>24</b>	155	<b>7</b>	51	<b>5</b>	32	<b>—</b>	1	<b>11</b>	75	<b>47</b>	314
Other non-taxation revenues	<b>24</b>	<u>19</u>	<b>7</b>	<u>6</u>	<b>5</b>	<u>4</u>	<b>—</b>	<u>—</u>	<b>11</b>	<u>9</u>	<b>47</b>	<u>38</u>
<b>Total revenues</b>	<b><u>14,432</u></b>	<u>14,126</u>	<b><u>4,119</u></b>	<u>4,648</u>	<b><u>2,866</u></b>	<u>2,934</u>	<b><u>227</u></b>	<u>114</u>	<b><u>6,899</u></b>	<u>6,823</u>	<b><u>28,543</u></b>	<u>28,645</u>

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 13 Remuneration of executives

The amounts of total remuneration received/receivable by Holders of Public Office and Senior Executive Service staff, where such amounts exceed \$130,000 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.

	2006	2005
The number of executives who received or were due to receive total remuneration of \$130,000 or more:		
\$130,000 to \$144,999	1	1
\$145,000 to \$159,999	1	2
\$160,000 to \$174,999	1	3
\$175,000 to \$189,999	–	6
\$190,000 to \$204,999	6	4
\$205,000 to \$219,999	4	1
\$220,000 to \$234,999	4	1
\$235,000 to \$249,999	2	3
\$250,000 to \$264,999	3	1
\$265,000 to \$279,999	3	–
\$280,000 to \$294,999	–	1
\$310,000 to \$324,999	–	1
\$325,000 to \$339,999	<u>1</u>	<u>–</u>
	<u><b>26</b></u>	<u><b>24</b></u>
<b>Aggregate amount of total remuneration of executives shown above</b>	<b>\$5,783,850</b>	<b>\$4,843,789</b>
<b>Aggregate amount of separation and redundancy payments during the year to executives shown above</b>	<b>\$175,318</b>	<b>\$165,886</b>

### Note 14 Remuneration of auditors

	2006	2005
Financial statement audit services are provided free of charge to the Commission. The value of the services provided was:	<b>\$38,000</b>	<b>\$33,500</b>

No other services were provided by the Auditor-General.

**Note 15 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 16 Specific disclosures**

In both 2005-06 and 2004-05 there were 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 17 Average staffing**

The average staffing level is in respect of all employees of the Commission, including Holders of Public Office.

	<b>2006</b>	<b>2005</b>
Average staffing level numbers	<b>193</b>	192

Further information on staffing levels is provided in Appendix A of the Annual Report.

## Note 18 Financial instruments

### Note 18A – 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 &amp; 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 18B – Interest rate risk*

	Note	Floating Interest Rate		Fixed Interest Rate		Non Interest Bearing		Total		Effective Interest Rate <sup>a</sup>	
		2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000		%
<b>Financial assets</b>											
Cash at bank		–	–	–	–	172	210	172	210		n/a
Receivables	7	–	–	–	–	<u>7,580</u>	<u>6,346</u>	<u>7,580</u>	<u>6,346</u>		n/a
<b>Total financial assets</b>		–	–	–	–	<u>7,752</u>	<u>6,556</u>	<u>7,752</u>	<u>6,556</u>		
Total assets		–	–	–	–	<u>10,043</u>	<u>8,951</u>	<u>10,043</u>	<u>8,951</u>		
<b>Financial liabilities</b>											
Suppliers		–	–	–	–	<u>147</u>	<u>187</u>	<u>147</u>	<u>187</u>		n/a
<b>Total financial liabilities</b>		–	–	–	–	<u>147</u>	<u>187</u>	<u>147</u>	<u>187</u>		
Total liabilities		–	–	–	–	<u>8,232</u>	<u>7,812</u>	<u>8,232</u>	<u>7,812</u>		

<sup>a</sup> Weighted average.



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*Note 18C – 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 18D – 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 Balance Sheet.

The Commission has no significant exposures to any concentrations of credit risk.

**Note 19 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 2000-2006 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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---

# Index

- Aboriginal and Torres Strait Islander Social Justice Commissioner, 122
- Access Economics, 5
- accrual-based outcomes and outputs framework, 54, 83, 84, 90, 217
- ACT College of Natural Therapies, 176
- ageing of Australia's population, 3, 36, 158
- ageing research study, 38, 42, 45, 92, 97, 99, 107, 113, 114
- agriculture research paper, 46, 142
- Airservices Australia, 177, 178
- Allen Consulting Group, 33, 77
- annual review of regulatory burdens, 10, 12, 19
- anti-dumping, 9, 40, 98
- Asia Pacific Economic Cooperation forum (APEC), 46
- audited financial statements, 58, 207–40
- Australia and New Zealand competition and consumer protection regimes research study, 43, 106, 167–8
- Australia–United States Free Trade Agreement (AUSFTA), safeguard inquiries, 25, 171
- Australian Building Codes Board, 42, 107, 158
- Australian Bureau of Statistics (ABS), 34, 36, 37, 120, 137, 181
- Australian Business Limited, 40, 97
- Australian Chamber of Commerce and Industry (ACCI), 52, 89, 114, 139, 141
- Australian Competition and Consumer Commission (ACCC), 89, 133, 162, 168, 169, 177
- Australian Council of Trade Unions, 32, 103, 139
- Australian Customs Service, competitive neutrality complaint, 135
- Australian Government Competitive Neutrality Complaints Office (AGCNCO), 29, 57, 78, 132–5, 175–8
- Australian Industry Group, 121, 142
- Australian Institute of Health and Welfare, 12, 36, 92, 120
- Australian Mayoral Aviation Council, 176
- Australian National Audit Office, 56, 59, 92
- use of Commission outputs, 92
- Australian Workplace Agreements, 60

---

benchmarking, 38, 76, 86, 115, 119, 153  
    Australian business regulation study, 10, 22, 96, 154–5  
Board of Airlines Representatives of Australia, 178  
broadcasting inquiry, 43, 88, 89, 90  
building regulation reform research study, 42, 106  
Business Council of Australia, 5, 32, 40, 97, 103, 114, 141, 142

cabotage, 9  
Canberra Institute of Technology, 176  
CBD Chauffeured Transport, 175  
Centre of Policy Studies, 33, 36, 77, 105  
Certified Agreement, 60, 61, 65  
COAG, 1, 2, 5, 6, 8, 10, 11, 13, 14, 15, 16, 18, 22, 23, 26, 30, 32, 42, 43, 96, 98, 105, 106,  
    116, 118, 123, 124, 127, 137, 150, 154, 155, 158, 160, 161, 162, 170, 182  
    review of national competition policy, 2, 42, 106, 170  
    RIS requirements, 28, 128, 30, 131, 132  
COAG Energy Reform Implementation Group, 8, 30, 137  
COAG Reform Council (CRC), 16, 18, 40, 43, 96  
ComCar, 175  
Commissioners, 30, 37, 51–3, 70, 137, 193–5  
Commissioners, Associate, 53, 70  
competitive neutrality complaints activities, 20, 29, 83, 86, 132–5, 175–8  
compliance index, 81  
conservation of Australia’s historic heritage places inquiry, 20, 23, 32, 38, 88, 100, 103,  
    114, 164  
consumer product safety system study, 20, 22, 24, 33, 34, 40, 101, 103, 105, 107, 161–2  
Council of Australian Governments, *see* COAG  
CSIRO, 34, 137, 138, 142

Department of Finance and Administration, 134, 176  
Department of the Prime Minister and Cabinet, 25, 36, 69, 175, 176  
Department of the Treasury, 25, 36, 51, 52, 85, 126, 131, 133, 134, 137, 142, 168  
*Disability Discrimination Act 1992*, 74  
Disability Discrimination Act inquiry, 39

---

ecologically sustainable development (ESD), 67–8

economic impacts of migration and population growth research study, 20, 24, 32, 33, 45, 47, 77, 101, 103, 105, 113, 114, 163

economic implications of an ageing Australia research study, *see* ageing research study

economic infrastructure, 9, 26, 86, 115

economic modelling, 3, 5, 30, 31, 33, 34, 46, 66, 76, 99, 105, 136, 137, 138, 142, 143, 181, 185, 186, 189–90

    impacts of the National Reform Agenda, 5, 16

economic performance of Australia, 3, 4, 141, 186

education and training outcomes, 12, 13

energy efficiency inquiry, *see* private cost effectiveness of improving energy efficiency inquiry

*Environment Protection and Biodiversity Conservation Act 1999*, 67

environmental sustainability, 30, 137

financial and staffing resources summary, 54

*Financial Management and Accountability Act 1997*, 58, 69, 210, 217, 237, 240

first home ownership inquiry, 91, 107, 114

Freedom of Information, 68, 78–80

*Freedom of Information Act 1982*, 68, 78, 80

gambling inquiry, 34, 38, 43, 44, 88, 89, 113, 114

gas access regime inquiry, 42, 88, 106, 167

Global Trade Analysis Project, 36, 66

government-commissioned projects, 20, 23–5, 83, 85, 86, 88, 99–114, 145–70, 201–2

government trading enterprises, performance, 22, 26–7, 39, 86, 91, 115, 119, 123–4

Greyhound Australia, 177, 178

health care, 12, 13, 18, 121, 159

health outcomes, 12, 13

health workforce research study, 20, 22, 24, 31, 32, 38, 42, 43, 44, 45, 47, 91, 99, 101, 103, 105, 106, 113, 114, 158–61

heritage inquiry, *see* conservation of Australia’s historic heritage places inquiry

Hilmer inquiry (Independent Committee of Inquiry into Competition Policy), 2

House of Representatives Standing Committee on Economics, Finance and Public Administration, 98

---

House of Representatives Standing Committee on Employment, Workplace Relations and Workforce Participation, 45, 91

House of Representatives Standing Committee on Family and Human Services, 91

House of Representatives Standing Committee on Health and Ageing, 44, 45, 91

House of Representatives Standing Committee on Science and Innovation, 92

House of Representatives Standing Committee on Transport and Regional Services, 98

Independent Pricing and Regulatory Tribunal of NSW (IPART), 12

Indigenous Australians, 13, 46, 99, 117, 119, 120, 121, 159, 161

- data compendium, 26, 117, 120
- indicators of disadvantage report, 20, 22, 25, 26, 32, 38, 45, 47, 58, 85, 91, 92, 99, 115, 116, 117, 118–19, 120, 122–3

international liner cargo shipping inquiry, *see* Part X of the Trade Practices Act inquiry

international pharmaceutical price differences research study, 89

interstate bidding wars, 89

labour force participation, 5, 7, 12, 13, 16, 40, 97, 107, 113, 163

- international comparisons, 12–13

Living Murray Initiative, 166

media coverage of the Commission, 41, 46–7, 99, 107, 114, 122, 123, 124, 131, 143

medical technology research study, 24, 33, 42, 101, 103, 104, 113, 114

Melbourne Institute of Applied Economic and Social Research, 36, 37

ministerial councils, 11, 15, 27, 28, 106, 120, 125, 126, 127, 130

- RIS requirements, 27, 28, 128

Ministerial Council on Consumer Affairs, 22, 23, 88, 106, 162

Ministerial Council on Energy, 8, 42, 157, 158, 167

Murray–Darling Basin, 166, 185

Murray–Darling Basin Commission, 138

national access regime inquiry, 44, 91, 113, 114

National Bureau of Economic Research, 37

National Centre for Social and Economic Modelling (NATSEM), 36, 66

National Competition Council, 9, 14, 127, 130, 142

national competition policy, 1–3, 5, 6, 7, 8, 9, 12, 14, 15, 17, 42, 92, 106, 154, 170, 182

national competition policy reforms inquiry, 4, 15, 17, 42, 47, 92, 99, 106, 113, 114, 170

---

National Reform Agenda (NRA), 1, 5, 6–18, 19  
    competition stream, 6, 7–9, 137  
    financial arrangements, 17–18  
    governance arrangements, 14–16  
    human capital stream, 6, 7, 12–14, 137  
    implementation plans, 17  
    modelling, 5, 16, 22, 30, 137  
    regulation stream, 6, 7, 9–12, 137

National Water Initiative, 22, 105, 165, 188

National Water Commission, 104, 138, 142, 165

national workers' compensation and OHS frameworks inquiry, 91

nationally coordinated reform, 4, 6, 18

New Zealand,  
    Commerce Minister, 40, 96  
    Memorandum with Australia on Coordination of Business Law, 43, 106  
    regulation review, 28, 128  
    safeguard inquiry procedures, 171  
    *see also* Australia and New Zealand competition and consumer protection regimes  
        research study

non-traditional work research paper, 30, 47, 136, 139, 141, 179–80

*Occupational Health and Safety (Commonwealth Employment) Act 1991*, 64, 69

OECD, 3, 12, 37, 43, 46, 89, 113, 124, 136, 137, 141, 142, 143  
    project on trade and structural adjustment, Commission contribution, 137

Office of Best Practice Regulation (OBPR), 11, 19, 28, 46, 125

Office of Regulation Review (ORR), 11, 27–8, 46, 47, 53, 56, 86, 91, 125–32

parliamentary committees, 30, 31, 35, 44, 45, 58, 86, 92, 93–4, 131, 143, 179  
    recommendations involving the Commission, 45, 91

Part X of the Trade Practices Act inquiry, 43, 51, 90, 107–7, 168–70

performance benchmarking of Australian business regulation study, 22, 154–5

performance reporting activities, 20, 25–7, 46, 83, 84, 85–6, 115–24, 202–3

pharmacy regulation, 9

price regulation of airport services inquiry, 24, 100, 152–4

private cost effectiveness of improving energy efficiency inquiry, 23, 34, 42, 45, 88, 100, 106, 107, 113, 156–8

---

*Productive Reform in a Federal System*, Commission roundtable proceedings, 6, 22, 30, 34, 136

productivity, 2, 3, 4, 5, 7, 8, 12, 13, 16, 20, 23, 30, 34, 34, 36, 83, 101, 124, 150, 151, 163, 166

research, 30, 33–4, 34, 37, 43, 46, 86, 89, 136, 137, 140, 141–2, 142, 143, 181, 181–2, 186–7, 190–1

#### Productivity Commission

activities in 2005-06, 19, 20–31, 85–7, 100–4, 115–19, 126–9, 132–3, 136–7, 145–70, 175–8, 179–99, 201–5

appointments, 51–3

collaborative research, 35–6

competitive neutrality complaints activities, 20, 29, 83, 84, 86, 132–5, 175–8

conferences, workshops and roundtables, 19, 30, 31, 32, 33, 34, 87, 103–4, 136

consultancies let, 33, 65, 76–7

consultative processes, 31–3, 38, 103–4, 120, 137–9

external and internal scrutiny, 57–9

disability strategy, 65, 73–5

environmental management system, 68

feedback on activities, 26, 31, 32, 39–41, 44, 87, 88, 90–1, 103–4, 119, 121, 122, 123, 129, 134, 138

financial statements, 47, 58, 65, 207–40

governance arrangements, 54–7

government-commissioned projects, 20, 23–5, 31–3, 42–3, 45, 83, 84, 85, 86, 99–114, 145–70, 201–2

project costs, 102, 119

government-commissioned research studies, 23, 24, 31, 32, 42, 45, 85, 90, 99, 100–7, 113–4, 145–70

government responses to reports, 19, 41–43, 88–90, 106–13, 120–4, 135, 141, 157–8, 160–1, 162, 167–70

management of human resources, 59–65

occupational health and safety, 63–4

organisation chart, 52

outcome objective, 20, 41, 54, 67, 83, 217

performance management and pay, 61–2

performance reporting activities, 20, 25–7, 46, 83, 84, 85–6, 115–24, 202–3

program performance, 39–47, 83–143

program performance indicators, 87

---

publications, 21–2, 100, 101, 115–6, 138, 179–91, 201–5

quality assurance processes, 31, 33, 104–5, 119–20, 129, 134, 137–40

references foreshadowed, 19

regulation review activities, 20, 27–9, 46, 83, 84, 86, 125–32

*see also* Office of Regulation Review

role, 51

safeguard inquiry procedures, amendments, 24–5, 171–3

service charters, 57

speeches and presentations, 30–1, 46, 114, 127–8, 136, 140, 142, 192–8, 203–4

staffing statistics, 53, 70–2

supporting research and statutory annual reporting, 20, 29–31, 46, 83, 84, 86–7, 135–43, 179–99, 203–5

training, 62–3

visiting officials, 31, 46, 199

visiting researchers, 35

website, 37, 38–9, 58, 114, 122, 123, 124, 129, 132, 135, 143

workplace diversity, 64–5

*Productivity Commission Act 1998*, 51, 67

*Public Service Act 1999*, 51

references to Commission work

    in Federal Parliament, 43–4, 91, 113, 121, 131, 142

    in House of Representatives and Senate committee reports, *see also* parliamentary committees 45, 91–2, 93–4

    in Parliamentary Library reports, 45, 92, 95–6

    in State and Territory parliaments, 44, 113, 121

    in the media, *see* media coverage of the Commission

reform of building regulation, *see* building regulation reform research study

Regulation Impact Statements (RISs), 10, 27–9, 86, 89, 125–32, 157

    compliance with government requirements, 28, 126, 128–9, 130–1

    reference to RISs in Parliament, 131

regulation review activities, 20, 27–9, 46, 83, 84, 86, 125–32

    feedback survey, 39, 91, 129

Regulation Taskforce, *see* Taskforce on Reducing Regulatory Burdens on Business

Regulatory Institutions Network, 37



---

Report on Government Services, 25–6, 38, 39, 44, 46, 47, 91, 116–18, 119, 120–2  
survey of users and contributors, 39, 121

Review of Government Service Provision, 25, 26, 37, 38, 116, 117, 118, 120, 122

road and rail freight infrastructure pricing inquiry, 8, 20, 22, 23, 40, 42, 53, 96, 98, 100, 150

rural water use and the environment study, 20, 22, 24, 33, 67, 101, 104, 105, 140, 165–6, 186, 189

science and innovation study, 20, 24, 101, 140, 151

Senate Community Affairs Committee, 44

Senate Economics Committee, 40, 44, 57, 58, 89, 91, 114

Senate Environment, Communications, Information Technology and the Arts Committee, 92

Senate Select Committee on the Administration of Indigenous Affairs, 122

service charters, 57

service provision, *see* Review of Government Service Provision

Singapore–Australia Free Trade Agreement, safeguard inquiries, 25, 171

Snape, Professor Richard (former Deputy Chairman), 66, 136  
2005 Richard Snape Lecture, 92, 136, 140

standard setting and laboratory accreditation study, 24, 53, 101, 149

Steering Committee for the Review of Government Service Provision, 25, 26, 39, 56, 78, 85, 88, 91, 115, 120, 121, 123

Steering Committee on National Performance Monitoring of Government Trading Enterprises, 86

supporting research and statutory reporting activities, 20, 29–31, 46, 83, 84, 86–7, 135–43, 179–99, 203–5

Taskforce on Reducing Regulatory Burdens on Business, 9, 10, 11, 12, 19, 24, 25, 28, 46, 125, 140, 157

Tasmanian freight subsidy arrangements inquiry, 24, 100, 152

Tasman Transparency Group, 98

Thailand–Australia Free Trade Agreement, safeguard inquiries, 25, 171

tourism, exploratory assistance estimates, 142

trade modelling framework research, 30, 136, 139, 142–3, 181, 183–4, 184–5

Trade Practices Act, 2, 3, 162, 170  
*see also* Part X of the Trade Practices Act inquiry

---

waste management inquiry, 20, 23, 38, 47, 67, 100, 114, 148–9  
water research, 30, 33, 36, 136, 142, 185–6, 188–9  
wheat marketing arrangements, 9  
World Trade Organisation (WTO), 24, 46, 98, 142, 171  
workers' compensation inquiry, *see* national workers' compensation and OHS frameworks  
inquiry  
workforce participation, *see* labour force participation  
*Workplace Relations Reform Act 1996*, 61